



Economic Regulation Authority

WESTERN AUSTRALIA



Annual Report **2015-2016**



## Statement of compliance

Hon. Dr Mike Nahan MLA  
Treasurer  
13th Floor, Dumas House  
Havelock Street  
West Perth WA 6005

Dear Treasurer

### **ECONOMIC REGULATION AUTHORITY 2015-16 ANNUAL REPORT**

In accordance with section 61 of the *Financial Management Act 2006*, we hereby submit for your information and presentation to Parliament, the annual report of the Economic Regulation Authority for the financial year ended 30 June 2016.

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,

**Stephen King**  
Member

**Steve Edwell**  
Member

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More information about us is available on our website  
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or find us on [LinkedIn](#) and [YouTube](#)

## Accessing the annual report

Our 2015-16 annual report and previous annual reports are available on our website [www.erawa.com.au](http://www.erawa.com.au). 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.
- 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 report can also be made available in alternative formats upon request, including audio, large print and braille.

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*(To assist persons with hearing and voice impairment)*

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# OVERVIEW

## Message from the Governing Body

Regulation in free market economies should be kept to a minimum. However, regulation is an unavoidable part of an effective, customer-focused economy, helping to ensure businesses do the right thing by consumers. In the case of economic regulation, the focus is on ensuring that regulated businesses operate efficiently, provide reliable services and do not earn unreasonably large profits.

As the State's independent economic regulator, the ERA regulates the electricity, gas, water and rail industries. These industries are essential to households and businesses, and underpin the overall performance of the Western Australian economy.

Economic regulation of these industries is crucial because of a lack of competition. Effective economic regulation is a substitute for competition, imposing market discipline on the regulated businesses.

The ERA has a wide range of tools at its disposal to ensure that regulated businesses operate in the best interests of the community.

One of our key responsibilities is regulating access to the transmission pipelines and distribution systems used to transport gas. We determine the default prices, terms and conditions on which third parties can access this infrastructure to transport and receive gas.

This year, we made our final decision on the access prices, terms and conditions for businesses, such as gas retailers, that need to use the Mid-West and South-West Gas Distribution Systems. These gas distribution systems are owned by ATCO Gas Australia and are critical for delivering gas to around 700,000 households and businesses in Western Australia.

We rejected ATCO's proposed access arrangement and instead replaced it with our own. Our determination will result in cumulative savings of around \$200 per annum for an average residential gas customer by 31 December 2019. ATCO has applied to the Australian Competition Tribunal (ACT) for a review of our decision.

We also published our final decisions on the Dampier to Bunbury Natural Gas Pipeline (DBNGP) and the Goldfield Gas Pipeline (GGP) on 30 June 2016. These are Western Australia's two largest transmission pipelines, used to transport gas vast distances to towns, cities and industrial centres. In both cases, we rejected the access arrangement revisions proposed by the pipeline owners, reducing their allowance

for total revenue by \$496 million for DBNGP and \$159 million for GGP. The owners of both pipelines now have an opportunity to apply to the ACT for a review of our decision.

As with gas, our role in rail is to facilitate efficient use of infrastructure. We do this by applying the rail access code and approving regulatory instruments to support third parties seeking access.

This year has seen an increase in our workload associated with regulating the freight and heavy haulage rail networks in Western Australia. We finalised reviews of the rail access code and the methods for calculating the cost of capital for rail networks. Our decisions will help to facilitate better-informed and more autonomous negotiations between railway owners and rolling-stock operators.

The ERA also assumed responsibility for regulating the Roy Hill network in the Pilbara and updated the panel of arbitrators approved to hear access disputes between railway owners and rolling-stock operators.

The wholesale electricity market brings together sellers (generators) and buyers (retailers) of wholesale electricity. We monitor the market to ensure that it is working effectively – including by investigating any unusual behaviour. This year, we completed two investigations into Vinalco Energy – an electricity generator that operates the Muja power station. We found

that, in 2014, Vinalco offered electricity in a way that was 'related to market power'. We have asked the Independent Market Operator to refer the matter to the Electricity Review Board for an order of contravention.

We also monitor the regulatory scheme applying to Synergy and make recommendations about this scheme to the Treasurer. Synergy controls around three quarters of the energy supply in the wholesale electricity market. The regulatory scheme seeks to prevent Synergy from discriminating against its competitors in electricity retailing and generation. We finalised our second annual review of the regulatory scheme on 30 June 2016. We found that excess generation capacity in the market means that third parties are not currently dependent on the protections offered by the scheme. However, we expect reliance will increase as reforms from the electricity market review process take effect and reduce excess capacity in the market, and we have made some suggestions on how the scheme can be improved.

The ERA is responsible for licensing electricity, gas and water utilities. Part of this role involves ensuring licensees have appropriate plans and systems for maintaining their assets and that they are putting these plans into practice. This reduces the risk that licensees will allow the condition of their assets to deteriorate, disrupting and inconveniencing their customers.

We continued to take a strong stance on the compliance of licensees with their asset management requirements. Our inspections revealed issues with two water service providers – the Shire of Dumbleyung and the Shire of Lake Grace. The Shire of Dumbleyung has been served with a rectification notice, requiring it to address deficiencies with asset infrastructure. The Shire of Lake Grace has been given until September 2016 to address problems with its asset management system and the storage ponds at its sewage treatment plant.

In addition to our responsibilities for regulated industries, the ERA provides economic advice to the Treasurer through our inquiry function. This year, we looked at ways to improve the Western Australian prison system.

Good prisons benefit the whole community by helping to reduce offending when prisoners are released. We concluded that public prisons will perform better if they face clearer performance measures and increased public scrutiny. We developed a set of performance measures for individual prisons and the prison system as a whole. These measures provide the basis for a 'league table' of prisons, which will allow the public to see how well prisons are performing in comparison to one another and over time. This was the ERA's first social services inquiry.

We were pleased to see progress on a number of recommendations from our 2014 inquiry into



microeconomic reform. Key amongst these are decisions by the Government to dismantle barriers to competition in the taxi and potato industries from 1 July 2016. The Government is also considering options to lease or sell major assets such as Western Power, Fremantle Port and part of the Keystart loan book. We believe these reforms will improve the performance of these assets, and will reduce risk to Government and hence taxpayers.

### The year ahead

Next year represents a period of major transition for the ERA. At the same time as we welcome Ms Nicky Cusworth as our new chair, many of our regulatory functions will change due to recommendations from the Electricity Market Review process.

Our responsibilities for the wholesale electricity market are being bolstered as a result of this process. We will have increased powers to monitor the behaviour of participants in the electricity market and ensure regulatory compliance. Other reforms arising from the electricity market review process may further affect the functions of the ERA.

This is an exciting period for the electricity market, with the rapid up-take of new technology, such as solar panels and battery storage, creating opportunities and challenges for the industry. The changes will raise some

interesting and difficult questions for economic regulators, and we look forward to engaging in this dynamic area.

It is anticipated that our electricity and gas access functions will be transferred to the Australian Energy Regulator, which will ensure consistent regulation across Australia.

### Acknowledgements

The last year at the ERA has been notable for the broad range of issues we have dealt with as an organisation.

This period has also been marked by a high degree of uncertainty within the ERA, with anticipated changes to our structure and functions. The Authority has also been operating without a full-time chair, putting significant strain on the organisation and decision-making processes. We recognise that this period has been somewhat unsettling for ERA staff.

These challenging circumstances have made the professionalism, commitment and dedication demonstrated by the Secretariat all the more remarkable. They have applied themselves with diligence in the face of uncertainty. We thank Greg and the team for consistently providing us with high quality and timely advice.

**Stephen King** and **Steve Edwell**

**After five and-a-half years, I'm finishing up as a member of the ERA board. I will be commencing a new role as a commissioner with the Productivity Commission. In part, I was motivated to join the Productivity Commission because of my enjoyment of the inquiry work that the ERA undertakes. The opportunity to do more of this type of work, based in my home state of Victoria, was too good to pass up.**

**I'd like to acknowledge fellow member – Steve Edwell. For the last two years, it has just been the two of us working through the excellent, but also sizable, work put forward by the Secretariat. I thank him for his intellect, wisdom, humour and support through both this period and the past five-and-a-half years.**

**Stephen King**

## Key achievements in 2015-16

We deliver regulatory services and economic advice through the following divisions: Access; Economics; and Licensing, Monitoring and Customer Protection. The key achievements of each of these divisions in 2015-16 are set out below.

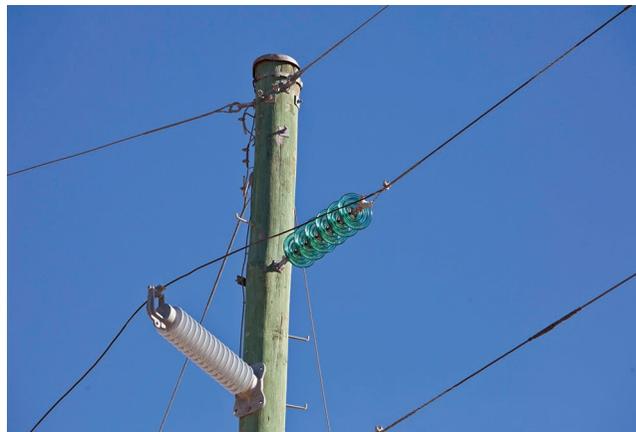
### Access

#### Gas

- We amended our [final decision](#) on the prices, terms and conditions for the Mid-West and South-West Gas Distribution Systems and determined our own prices, terms and conditions.
- We made a [draft](#) and [final decision](#) rejecting the proposed prices, terms and conditions for the Goldfields Gas transmission pipeline and determined our own prices, terms and conditions.



- We made a [draft](#) and [final decision](#) rejecting the prices, terms and conditions for the Dampier to Bunbury Natural Gas Pipeline and determined our own prices, terms and conditions.



#### Electricity

- We assessed applications from Western Power for amendments to, or exemptions from the technical rules for connecting to, and maintaining, the electricity network. One draft and two final [decisions](#) were published and three applications are still under consideration.
- We approved Western Power's price list for 2016-17. The [price list](#) is the upper and lower limits for the tariffs Western Power can set for different types of customers each financial year.



#### Rail

- We completed the third [review](#) of the *Railways (Access) Code 2000* (Rail Code), and made 10 recommendations aimed at making rail access regulation more workable.
- We finalised our [review](#) of the methods for calculating the rate of return that can be earned by regulated rail networks.
- We updated the [panel](#) of people who can act as arbitrators in the event of a dispute between an access seeker (rolling stock operator) and a railway owner.
- We made a [final determination](#) on the arrangements proposed by Brookfield Rail to segregate its functions that support access to its rail network under the Rail Code from its other functions.
- We assumed responsibility for regulating the Roy Hill Infrastructure rail network in the Pilbara.

## Economics

### Energy markets

- We completed [two investigations](#) into Vinalco Energy's pricing behaviour as requested by the Independent Market Operator.
- We consulted with stakeholders and made substantial progress preparing the Wholesale Energy Market Report and the Electricity Generation and Retail Corporation Regulatory Scheme Report for the Minister for Energy.
- We contributed to the [Electricity Market Review](#) process, through participation on a range of working groups and making submissions to public consultation process.
- We approved the 2016 [energy price limits](#), which are the set of caps on the prices at which participants in the wholesale electricity markets can bid for, or offer energy to, the short-term energy market.
- We approved the [maximum reserve capacity price](#) for the 2018-19 capacity year, which is the maximum price that generators can offer for their capacity in an auction.
- We determined the values for payments for a number of ancillary services required to ensure security of the electricity supply including [spinning reserve](#), [load rejection](#) and [system restart services](#).
- We approved [three changes](#) to the retail market rules for the gas retail market.

### Inquiries

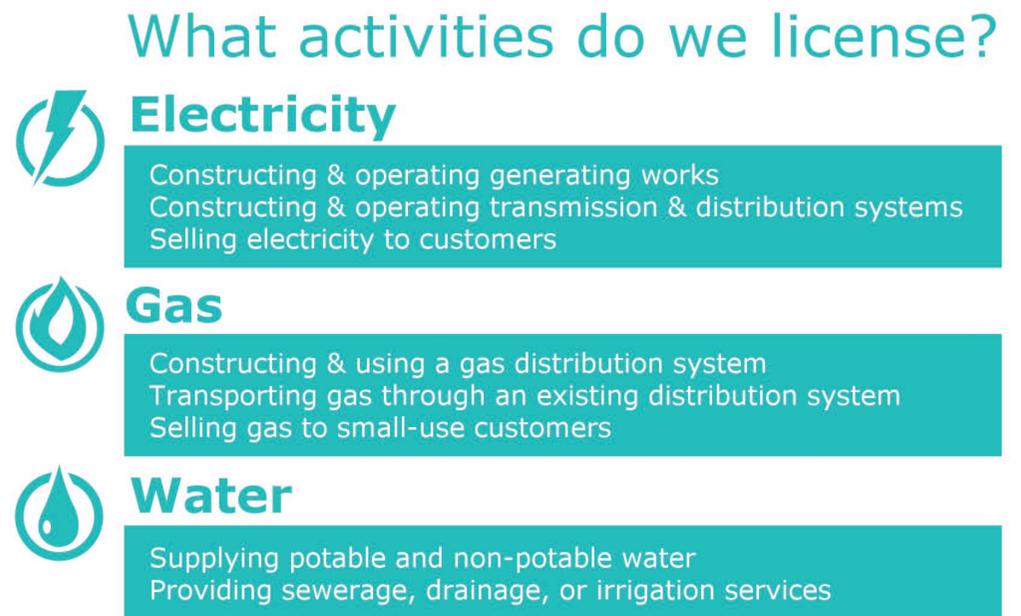
- We completed a major [inquiry](#) into the efficiency and performance of Western Australian prisons.
- We worked with an advisory committee of senior public servants to develop potential inquiry topics for consideration by the Treasurer.

## Licensing, monitoring and customer protection

### Licensing

- As of 30 June 2016, we regulated a total of 88 electricity, gas and water licences (61 electricity, 8 gas, and 19 water) held by 76 licensees.
- We conducted a review of water services licences and approved a [new template](#) water services licence that has replaced existing licenses.
- We revised our licence application [guidelines](#) in order to assist potential licence applicants.
- We granted CleanTech Energy Pty Ltd a licence to sell electricity to large use customers.

Figure 1 Activities licensed by the ERA



- We approved five amendments to electricity licences, including authorising Amanda Energy Pty Ltd and AER Retail Pty Ltd to supply electricity to small use business customers.

### Monitoring

- We completed 24 audits of the compliance of electricity, gas and water licensees with their licence obligations, and increased the period until the next audit for 11 licensees.
- We completed 17 reviews of the asset management systems of electricity, gas and water licensees, and increased the period until the next review for eight licensees.
- We completed two inspections of the asset management systems of two water licensees being the Shire of Dumbleyung and the Shire of Lake Grace. Following these inspections, we decided to:
  - serve a section 31 rectification notice on the Shire of Dumbleyung requiring it to address deficiencies with its water service assets; and
  - give the Shire of Lake Grace until September 2016 to address problems with its asset management system and the storage ponds at its sewage treatment plant.
- We commenced an inspection of the Gascoyne Water Cooperative's asset management system, following an unsatisfactory asset management review.
- We required improvements from a further two small water services licensees that were not complying with their licence conditions to our satisfaction. We decided to:
  - give the Shire of Gnowangerup until November 2016 to address some remaining problems with the storage ponds at its sewage treatment plant; and

- give the Shire of Morawa until April 2016 to address a range of issues with the processes and documentation for their asset management system.

- We published annual performance reports on [energy distributors](#), [energy retailers](#) and [water, sewerage and irrigation service providers](#).

Figure 2 Summary of our licensing activity in 2015-16



### Customer Protection

- We completed the fifth [review](#) of the code of conduct for supplying electricity to small use customers, and made 68 amendments that will come into effect from 1 July 2016.
- We established the [Water Code Consultative Committee](#) to advise us on the inaugural review of the code of conduct for supplying water services.
- We published the [revised financial hardship policies and procedures](#) of electricity and gas licensees.

- We approved two new standard form contracts for electricity retailers AER Retail and Amanda Energy, and approved amendments to the Alinta Sales' standard form contract for gas.

### Stakeholder consultation

- We continued our commitment to consult extensively with stakeholders. Our main mechanism for consultation is the public submission process. We also hold a variety of workshops.
- In addition, our Secretariat held numerous stakeholder meetings with the following organisations: Department of Premier and Cabinet; Department of Treasury; the Department of Finance, including the Public Utilities Office; Horizon Power; Synergy; Western Power; System Management; the Independent Market Operator; Water Corporation; Department of Water; Energy Ombudsmen; Energy Safety; and the Western Australian Council of Social Services.
- We also met with the Treasurer and Minister for Energy, and the Minister for Water.

Figure 3 Stakeholder consultation in 2015-16



## Operational structure

### About us

The ERA is an independent statutory authority established under the [Economic Regulation Authority Act 2003](#).

Our purpose is to benefit the Western Australian community by promoting an efficient and customer focused economy. We have a range of regulatory functions under the *Economic Regulation Authority Act 2003* that are intended to achieve this purpose. These functions include:

- issuing licences to providers of gas, electricity and water services, monitoring and enforcing compliance with licence conditions and associated legislation, and publishing reports on the performance of these industries;
- approving the contracts and service standards that protect residential and small business electricity, gas and water customers and assessing the treatment by utilities of customers experiencing financial hardship;
- approving 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;
- approving the terms and conditions, and costing information that owners of railways are obliged to offer companies wanting to operate trains on particular railways;
- monitoring Western Australia's wholesale electricity market to ensure the market is meeting its objectives, and providing reports to the Minister for Energy on the market;
- approving and monitoring the arrangements that enable customers to choose their gas retailer; and
- making recommendations to government through the inquiries we conduct on economic issues affecting the State.

We deliver these functions through a Governing Body and a Secretariat. The Governing Body makes the required regulatory decisions, controls the affairs and performs the functions outlined in the *Economic Regulation Authority Act 2003*.

The Governing Body is assisted by the Secretariat, which is the initial point of contact for stakeholders. While the Secretariat may provide assistance, the Governing Body has the ultimate responsibility for the regulatory and inquiry functions.

### Our responsible minister

We are independent of direction or control by the State, or a minister or officer of the State, in performing our functions. Under the *Economic Regulation Authority Act 2003*, a relevant minister may provide written directions only on financial and administration matters.

The relevant minister during the reporting year was the Hon Michael Nahan BEc, MS, PhD, MLA. Dr Nahan is both the Treasurer and Minister for Energy.

We also have 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 Water, in relation to water licensing.

### Relevant legislation

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



We perform our functions under the *Economic Regulation Authority Act 2003* and other [Acts of Parliament, Regulations and subsidiary legislation](#) relevant to the regulatory role. These are listed in Appendix 1 of this Annual Report.

Subsidiary legislation consists of the [Economic Regulation Authority \(National Gas Access Funding\) Regulations 2009](#), the [Economic Regulation Authority \(Electricity Networks Access Funding\) Regulations 2012](#) and the *Economic Regulation Authority (Licensing Funding) Regulations 2014*.

We also comply with [other legislation](#) (listed in Appendix 2).

## Organisational structure

Our Secretariat comprises four divisions; Access; Economics; Licensing, Monitoring and Customer Protection; and Corporate Services.

As at 30 June 2016, the Secretariat comprised 52 employees. This included 47 permanent staff and 5 contract staff. In addition to the 52 staff employed at 30 June 2016, two staff were on maternity leave, and one staff member was on leave without pay.

Figure 4 Economic Regulation Authority staff in May 2016



Figure 5 Organisational chart

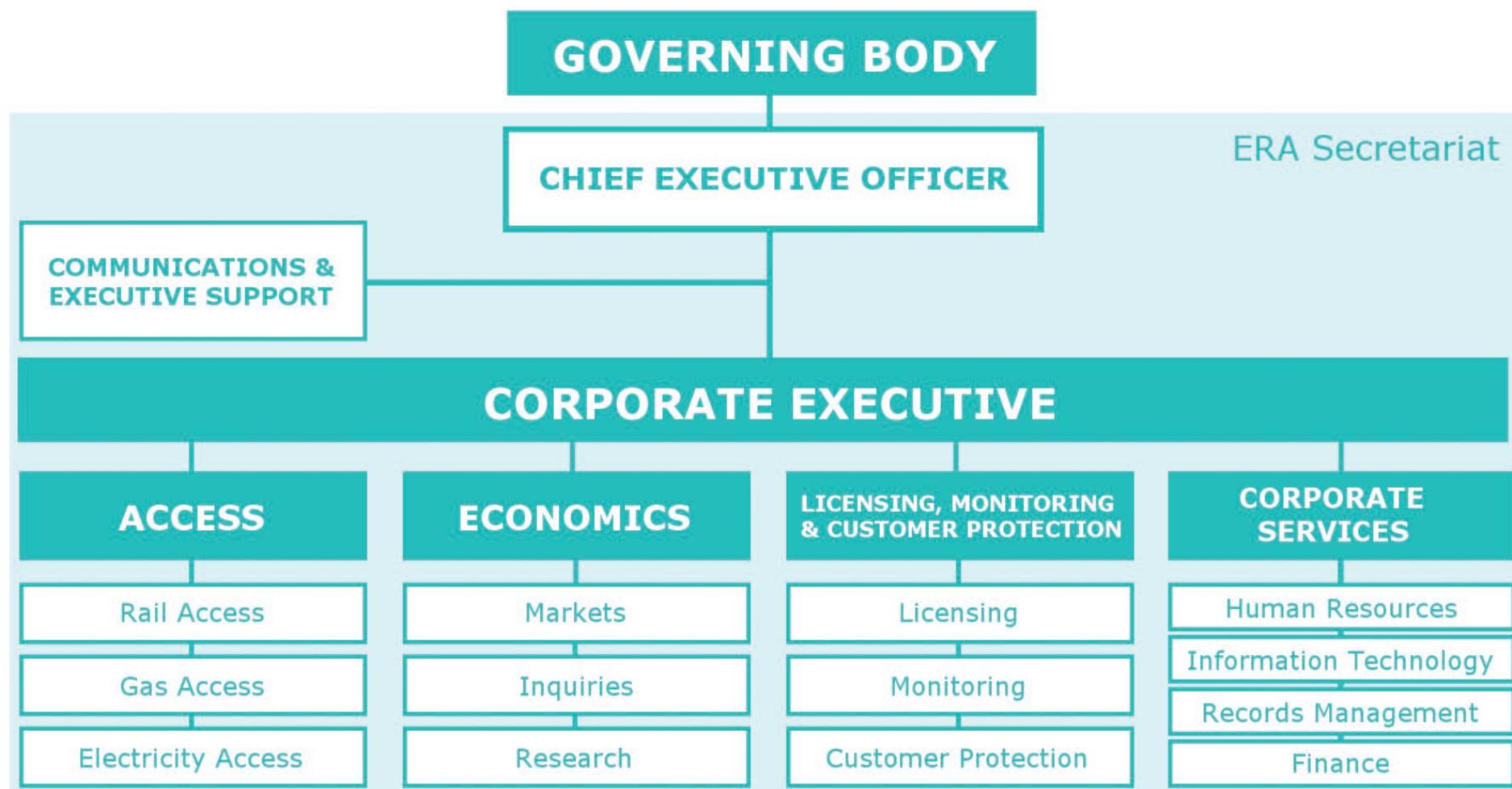


Figure 6 Our structure

|   |                     |   |
|---|---------------------|---|
| <b>Access</b>   | Gas                 | ➤ Regulate access to gas pipelines and networks   |
|   | Electricity         | ➤ Regulate access to Western Power's electricity network  |
|   | Rail                | ➤ Regulate passenger and freight rail networks  |
| <b>Economics</b>  | Markets             | <ul style="list-style-type: none"> <li>➤ Monitor the Wholesale Electricity Market and behaviour of participants</li> <li>➤ Provide annual reports to the Minister for Energy on the market and Synergy</li> <li>➤ Approve and monitor arrangements that allow customers to choose their gas retailer</li> </ul> |
|   | Inquiries           | ➤ Conduct independent inquiries   |
|   | Research            | ➤ Research and calculate regulatory rates of return   |
| <b>LMCP</b>   | Licensing           | ➤ Approve applications and amendments to energy and water licenses  |
|   | Monitoring          | <ul style="list-style-type: none"> <li>➤ Monitor compliance with licence conditions</li> <li>➤ Report on industry performance</li> </ul>  |
|   | Customer Protection | <ul style="list-style-type: none"> <li>➤ Approve contracts and service standards to protect small-use water and energy customers</li> <li>➤ Assess how well utilities treat customers</li> </ul>  |
| <b>Corporate Services, Communications &amp; Executive Support</b> |                     | <ul style="list-style-type: none"> <li>➤ Human resources, information technology, finance, &amp; records</li> <li>➤ Manage media, social media, and web presence</li> <li>➤ Manage internal and corporate communications</li> </ul>   |

## Governing body

The Governing Body met face-to-face every month and conducted weekly teleconference meetings.

The Governing Body met 36 times during the year to consider 159 submissions by the Secretariat.

The Governing Body also makes decisions on matters out-of-session as resolutions without meeting (in the form of submissions circulated via email): 82 submissions were considered out of session in 2015-16.

The total number of submissions the Governing Body considered during the year was 241.



### Dr Stephen King

#### *Alternate Chairman*

(until 24 November 2015)

Professor Stephen King served as Alternate Chairman of the ERA until 24 November 2015, and has been a Governing Body member since 2010. He

was also a Professor of Economics at Monash University from 2009 until June 2016.

Stephen has a wealth of experience and knowledge, particularly in the areas of competition economics, applied microeconomic theory, regulation and industrial organisation. He also 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 also includes papers on telecommunications, electricity markets and regulatory reform.

He was a Member of the Australian Competition and Consumer Commission (ACCC) from 2004-2009.

Stephen resigned from the ERA on 30 June 2016 to take up a position as a full-time Commissioner with the Productivity Commission.



### Mr Steve Edwell

#### *Member*

Steve Edwell is an economist specialising in the reform and regulation of utility services, with particular expertise in the energy sector. Steve has been a Member of the Governing Body since 2006.

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

Steve has undertaken assignments for various State Governments leading the implementation of reforms in energy and water sectors. These projects include the restructure of the Queensland electricity sector; implementation of the Council of Australian Governments water reform agenda in Queensland; and a restructure of State owned electricity businesses in Western Australia and the establishment of a wholesale electricity market.

Steve has recently been involved in various energy projects in the Pilbara and has provided advice to the Western Australian Department of State Development and the Public Utilities Office on a number of major project issues. A current assignment is the reform of the Reserve Capacity Market.

## Corporate executive

The Corporate Executive is our senior management team and its role is to be the decision-making body on matters relating to the Secretariat. The Corporate Executive meets monthly to discuss improving the effectiveness of the Secretariat and monitor progress against strategic goals and key performance targets.



**Mr Greg Watkinson**  
*CEO*

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 CEO of the ERA in 2010.

Prior to his appointment as CEO, he headed our division responsible for undertaking independent inquiries for the Western Australian Government. He previously worked for the Western Australian Department of Treasury and Finance.



**Mr Robert Pulella**  
*Executive Director Access*

Robert Pulella has been employed in access regulation in Western Australia since 1999, when he joined the Office of Gas Access Regulation.

Robert was appointed 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 of Access in 2010.

Robert was part of the executive management team that contributed to the initial strategic direction, planning and development of the ERA, when it was established in 2004.



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

Paul Kelly has almost 30 years' experience at senior and senior executive levels in the public sector.

His previous roles include a seven 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 of the 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 2012 as Executive Director of Economics. Rajat has more than 20 years' experience in the field of economic regulation.

Prior to joining the ERA, Rajat 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 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.

Pam has more than 20 years management experience across the not-for-profit, local, State and Commonwealth government sectors.

Pam has accrued a breadth of knowledge across the finance, compliance, human resources, information technology, recordkeeping and communications functions.

**Fact 1** What staff like about working at the ERA

**“The ERA has one of the healthiest and most collegiate workplace cultures I have ever worked in. There is a commitment to staff needs and a respectful environment demonstrated from the top down.” – Julian**

**“There’s never a dull moment working at the ERA. I like the camaraderie, the variety of work and the opportunity to problem-solve.” – Amy**

**“I enjoy liaising with staff across the organisation, and sharing knowledge.” – Pauline**

**“Working at the ERA entails working with highly knowledgeable and fantastic colleagues towards a common goal that benefits the community. That’s what makes the ERA special.” – Emmanuel**

**“Because we’re a small agency, we have a lot of diversity in our work, as well as many opportunities for on-the-job learning. I also value the flexible work arrangements that let me enjoy a good work/life balance.” – Namita**

**“The ERA is a high-functioning agency that invests in its staff by offering relevant and ongoing professional development opportunities.” – Tracy**



# PERFORMANCE

## 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 to which it contributes.

**Table 1 Relationship to government goals.**

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



## Key performance indicators

For the reasons set out in the disclosures and legal compliance section of this report, we are only required to report on the administrative performance of our Secretariat.

The key performance indicators are the quantity, quality, timeliness and average cost per submission prepared for the Governing Body. The submissions help the Governing Body carry out its functions, including reaching decisions on regulatory matters.

## Key effectiveness indicators

Key effectiveness indicators measure the extent of impact of the delivery of services on the achievement of desired outcomes.

Our key effectiveness indicators are:

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

## Key efficiency indicators

Key efficiency indicators monitor the relationship between the service delivered and the resources used to produce the service.

The key efficiency indicator is the cost per submission made to the Governing Body.

The cost is calculated to include the costs of all staff and other resources involved in preparing submissions to the Governing Body.

## Performance against key performance indicators in 2015-16

We did not meet our target of providing 100 per cent of submissions to the Governing Body by the required deadline. This was because of the complexity and workload associated with making determinations on three access arrangement concurrently. Despite being late, the Governing Body rated the quality of these submissions as 'above expectations'.

The actual cost per submission was less than the target of \$51,395. This was because the overall expenditure of the agency was \$11.469 million instead of the estimate of \$12.335 million.

**Table 2 Comparison between target and actual results for key performance indicators**

|   | 2011-12<br>Actual | 2012-13<br>Actual | 2013-14<br>Actual | 2014-15<br>Actual | 2015-16<br>Actual | 2015-16<br>Target | Variation |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-----------|
| Desired Outcome: The efficient, safe and equitable provision of utility services in Western Australia                     |                   |                   |                   |                   |                   |                   |           |
| Key effectiveness indicators  |                   |                   |                   |                   |                   |                   |           |
| Number of submissions made to the Authority's Governing Body. <sup>(a)</sup>  | 251               | 264               | 236               | 289               | 241               | 240               | 1         |
| Rating by the Authority's Governing Body as to the content, accuracy and presentation of these submission. <sup>(b)</sup> | 4.1               | 4.1               | 4.2               | 4.2               | 4.1               | 4.0               | 0.1       |
| Number (percentage) of submissions provided by the required deadline. <sup>(c)</sup>                                      | 87                | 100               | 96                | 98                | 90                | 100               | (10)      |
| Rating by the Authority's Governing Body as to their perception of the timeliness of submissions. <sup>(b)(d)</sup>       | 4.2               | 4.1               | 4.0               | 4.1               | 4.1               | 4.0               | 0.1       |
| <b>Service\key efficiency indicator</b>   |                   |                   |                   |                   |                   |                   |           |
| Cost per submission made to the Authority's Governing Body.   | \$49,466          | \$38,433          | \$46,784          | \$37,229          | \$47,585          | \$51,395          | (\$3,810) |

(a) The actual number of submissions to the Governing Body approximately met the target. The targets are based on estimates provided by each division on the number of submissions they will need to prepare for consideration by the Governing Body to carry out their regulatory work program for the year. The number of submissions vary on an annual basis in accordance with the cyclical nature of regulation.

(b) Performance is rated as follows by the Governing Body: 1 = well below expectations, 2 = below expectations, 3 = satisfactory, 4 = above expectations, 5 = well above expectations.

(c) This relates only to the submissions on ERA functions that have legislative time limits. Of the 40 submissions with legislative time limits, 36 were completed on, or before, expiry of the time limit.

(d) This relates to all submissions and refers to the internal deadlines for the Secretariat to provide submissions to the Governing Body.

## Financial performance

The following table provides a comparison of our performance against the financial targets set out in our resource agreement with the Treasurer.

Expenditure for our gas and electricity access, wholesale electricity market and licensing functions is funded by industry. The Government provides an appropriation to fund the functions of inquiries, rail access, gas markets and the regulatory scheme relating to the merger of Verve Energy and Synergy.

Target expenditure of \$12.335 million was reduced during 2015-16 to \$11.774 million. This occurred following a review that identified we would spend less than anticipated on supplies and services. Actual expenditure

was \$11.47 million or 97 per cent of the revised budget.

Employee expenses accounted for 65 per cent of actual expenditure. The actual expenditure on salaries was less than expected. This was because the position of Chair of the Governing Body was vacant throughout the year and because we were unable to fill vacant positions in the second half of the year due to the State Government's recruitment freeze. The underspend in salaries was the main factor in the 2015-16 actual being less than the revised budget.

This reduction in expenditure has contributed to the variance between the 2015-16 target and actual net cost of services, as well as the net increase in cash. The large variance in total equity is mainly due to a larger than forecast amount for current receivables.

The ERA is not required to operate within an agreed working cash limit.

## Agency performance

In this section, we provide a detailed discussion of the key activities and achievements, in 2015-16 of the: Access; Economics; Licensing, Monitoring and Customer Protection; and Corporate Services divisions.

### Access

Our access functions relate to the gas, electricity and rail industries. We are responsible for reviewing and making decisions on proposed access arrangements submitted by electricity and gas network operators.

Our access functions for gas and electricity will be transferred to the Australian Energy Regulator in 2016-17, if legislation is passed by the State Parliament. The decision to transfer our access functions to the Australian Energy Regulator arose from a recommendation from the [electricity market review](#) (which is discussed in more detail in the section on the wholesale electricity market).

For rail infrastructure, we are responsible for determining costs and approving the regulatory documents of railway operators. These decisions form the basis on which third parties may negotiate access agreements with the railway owners.

**Table 3 Actual performance compared to resource agreement targets**

|  | 2011-12<br>Actual<br>(\$000) | 2012-13<br>Actual<br>(\$000) | 2013-14<br>Actual<br>(\$000) | 2014-15<br>Actual<br>(\$000) | 2015-16<br>Actual<br>(\$000) | 2015-16<br>Target <sup>1</sup><br>(\$000) | Variation<br>(\$000) |
|--|------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|---|----------------------|
| Total cost of services (expense limit) | 12,416                       | 10,223                       | 11,040                       | 10,759                       | 11,469                       | 12,335                                    | (866)                |
| Net cost of services                   | (8,544)                      | (5,571)                      | (5,899)                      | (3,816)                      | (2,386)                      | (2,921)                                   | (535)                |
| Total equity                           | 7,613                        | 4,189                        | 3,939                        | 4,435                        | 4,721                        | 3,656                                     | 1,065                |
| Net increase/(decrease) in cash held   | 7,292                        | (5,242)                      | (37)                         | (259)                        | 67                           | (351)                                     | 418                  |
| Approved salary expense level          | 5,952                        | 6,380                        | 6,681                        | 6,420                        | 6,495                        | 6,902                                     | 407                  |

<sup>1</sup> As specified in the Budget Statements.

Figure 7 Access staff



Fact 2 Access arrangements

In Australia, governments regulate the prices set by large electricity and gas companies. The kind of regulation applied to energy companies in Western Australia is called incentive based regulation. Incentive based regulation is where a regulator (for example, the ERA) sets the ceiling revenue that a service provider is allowed to earn through its fees and charges. The service provider is then encouraged to ensure that its operating and capital costs are as efficient as possible, in order to maximise the amount of profit that it can retain out of the approved revenue.

The ERA's determinations on allowable revenue for monopoly service providers are translated into tariffs the service providers may charge for a typical service provided using the regulated assets. These tariffs, together with the terms and conditions for this typical service, are included in a document called an access arrangement. An access arrangement for a typical service ensures that monopoly power is not abused and also provides a benchmark for negotiations of different services between the service provider and others wanting to access the infrastructure.

Customers can then opt to contract with the service provider on the basis of the access arrangement that has been approved by the ERA, or under a non-regulated (negotiated) arrangement, which may be better suited to their requirements. Access arrangements are also beneficial to these customers because they establish a fair basis for negotiation.

## Gas access

We regulate one gas distribution system (the Mid-West and South-West Gas Distribution Systems) and three gas transmission pipeline systems in Western Australia (the Dampier to Bunbury Natural Gas Pipeline, the Goldfields Gas Pipeline and the Kalgoorlie to Kambalda Pipeline).

In 2015-16, we:

- amended our [final decision](#) on the access arrangement for the Mid-West and South-West Gas Distribution Systems and wrote and approved a revised [access arrangement](#); and
- made draft and final decisions rejecting the revised proposed access arrangements for the [Goldfields Gas Pipeline](#) and the [Dampier to Bunbury Natural Gas Pipeline](#) and wrote revised access arrangements.

Our decisions on each of these access arrangements are described in more detail below.

### *Mid-West and South-West Gas Distribution System*

ATCO Gas Australia Pty Ltd (ATCO) owns and operates the Mid-West and South-West Gas Distribution Systems. This is the gas network that retailers such as Alinta and Kleenheat use to deliver natural gas to homes and businesses in the Mid-West and South-West of Western Australia.

In our review of ATCO's access arrangement revision proposal for the Mid-West and South-West Gas Distribution Systems, our [final decision](#) was not to accept ATCO's proposed revisions. The revenue that ATCO is allowed to recover, as set out in the final decision, affects the distribution component of a customer's final gas bill. The ERA's final decision means an average residential gas customer should see cumulative gas bill savings of over \$200 in the period from 1 October 2015 to 31 December 2019.

The final decision has reduced ATCO's expected revenue for the period 1 July 2015 to 31 December 2019 from \$1,125 million to \$914 million. The [National Gas Rules](#) required the ERA to prepare an access arrangement

Figure 8 Gas pipelines regulated by the ERA

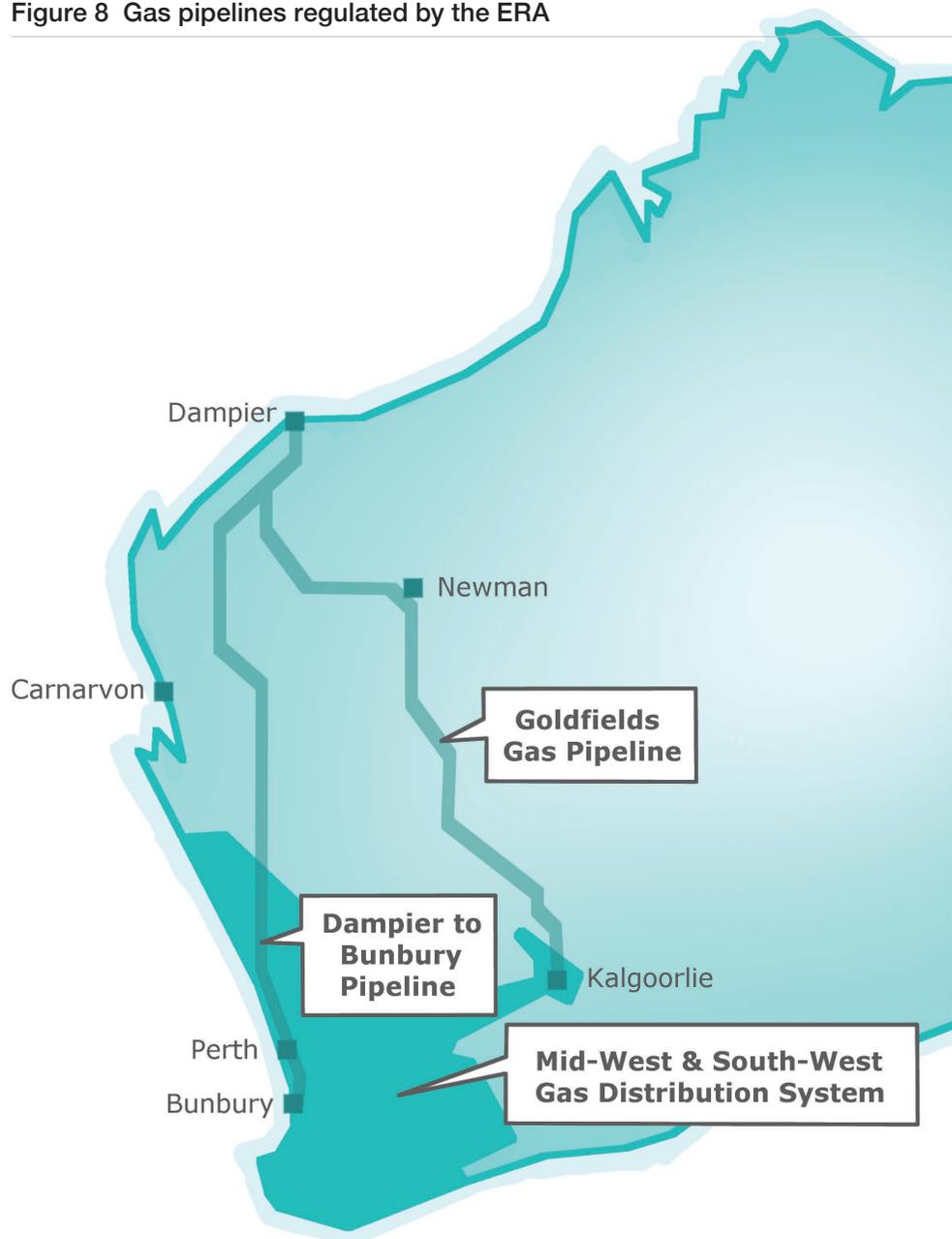
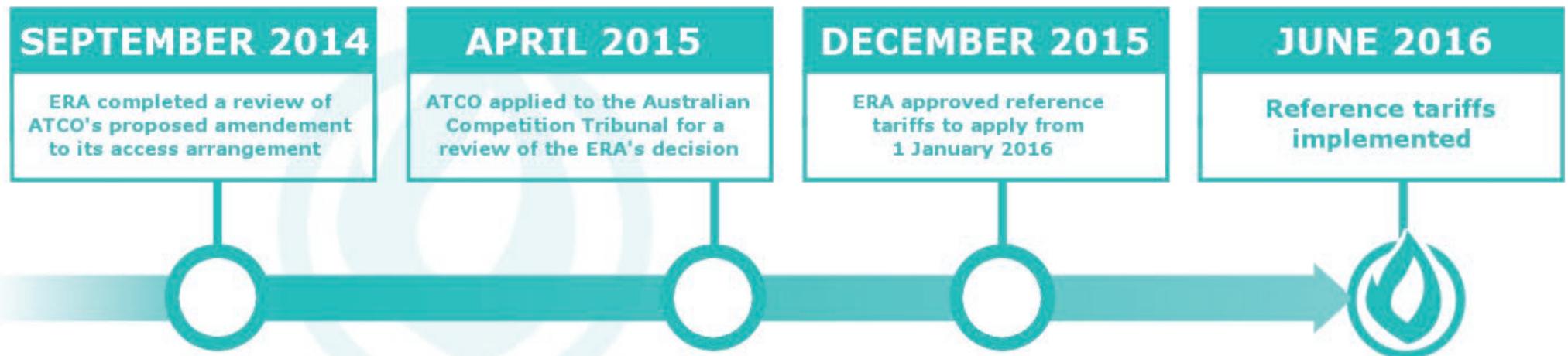


Figure 9 Timeline for the access arrangement decision for the Mid-West and South-West Gas Distribution System



to implement the required amendments noted in the final decision.

We prepared a revised [access arrangement](#), which came into effect in October 2015. ATCO has since applied to the Australian Competition Tribunal of Australia for a merits review of the Access Arrangement Decision. A decision on this review is expected in mid-2016.

### *Goldfield Gas Pipeline*

Goldfields Gas Transmission Pty Ltd (GGT) operates the Goldfields Gas Pipeline (GGP), which extends from Yarraloola to Kalgoorlie.

Users of the GGP are primarily companies with mining and mineral processing operations within the Pilbara, Mid-West and Goldfields-

Esperance regions of Western Australia, producing gold and nickel. Some gas is transported for power generation in regional communities, and a small quantity is delivered into the Kalgoorlie gas distribution system for commercial and residential use in the town.

The ERA did not approve GGT's proposed changes to the access arrangement for the GGP and published a [revised access arrangement and access arrangement information](#) for the GGP that conformed with its [final decision](#). The revised access arrangement will take effect from 1 July 2016 and sets out the terms and conditions, as well as the reference tariffs, for the regulated capacity of the GGP.

The ERA's final decision has approximately halved GGT's revised proposed reference tariffs from 1 July 2016. This reflects the ERA's comprehensive assessment of GGT's forecast reference service revenue for the GGP. GGT initially proposed that it should earn \$394 million for the five year regulatory period. However, the ERA has determined that forecast reference service revenue should be reduced by 40.5 per cent, to \$234 million over five years.

The GGP is mainly used to serve large industrial users. Small gas customers such as households and small businesses in Kalgoorlie and Esperance are unlikely to be significantly affected by the final decision, as the gas transmission cost is a relatively

small component of the retail tariffs to those customers.

GGT now has an opportunity to apply for a review of our decision to the Australian Competition Tribunal.

### *Dampier to Bunbury Natural Gas Pipeline*

The Dampier to Bunbury Natural Gas Pipeline (DBNGP) is the longest gas transmission pipeline in Australia that runs entirely underground, stretching almost 1,600 kilometres, to link the gas fields in the Carnarvon Basin with population centres and industry in the South West. The DBNGP is currently owned and operated by DBNGP (WA) Transmission Pty Ltd (DBP).

The ERA did not approve the revised access arrangement for the DBNGP and published a [revised access arrangement and access arrangement information](#) for the DBNGP that conformed with its [final decision](#). The revised Access Arrangement for the DBNGP will take effect on 1 July 2016 and sets out the terms and conditions as well as the tariffs for the reference services that DBP must offer independent third parties seeking access to the DBNGP.

The ERA's final decision has reduced the reference tariffs originally proposed by DBP by 18 per cent. This reduction is the result of the ERA's comprehensive assessment of DBP's proposal. DBP had proposed a forecast reference service revenue requirement of \$2,341 million for the five year regulatory period,

but the Authority determined this requirement to be \$1,845 million.

As a result of our final decision, the tariff for the DBP's reference service during the fourth access arrangement period will be approximately 4 per cent lower than current reference tariffs.

The DBNGP is vital to the transmission of gas from the Carnarvon Basin to the South West of the State. The ERA's final decision and approved revised access arrangement should have a positive effect on gas users in Western Australia, ranging from the 700,000 households and small businesses that are connected to the Mid-West and South-West Gas Distribution Systems to companies that have substantial industrial and mining operations.

**Figure 10** Timeline for the access arrangement decision for the GGP



Figure 11 Timeline for the access arrangement decision for the DBNGP



### Electricity access

We are responsible for regulating access to Western Australia's main electricity transmission and distribution network – the South-West Interconnected System.

Western Power is the primary licensed distributor of electricity in the South-West Interconnected System, and transports electricity on behalf of several retailers, the largest being Synergy. Western Power is the only regulated electricity network operator in Western Australia.

Our regulatory functions in relation to Western Power include: determining its access arrangement; assessing applications from Western Power for amendments to, or exemptions from, the technical rules for connecting to, and maintaining, the electricity network; and approving Western Power's proposed annual price list.

Horizon Power generates, distributes and sells electricity in the areas outside of the South-West Interconnected System. The Horizon Power network is the North-West Interconnected System. The ERA does not regulate Horizon Power or the North-West Interconnected System.



Figure 12 South West Interconnected System



### Western Power's access arrangement

Our [third access arrangement](#) for Western Power ends in June 2017. The fourth access arrangement has been delayed because the Government proposes to transfer responsibility for regulating electricity networks in Western Australia to the Australian Energy Regulator, which is responsible for energy regulation for the rest of Australia.

### Technical rules

Electricity network technical rules set out the technical requirements that network operators, their customers and any contractors must comply with when connecting to, and maintaining the network. Western Power's requirements are set out in the technical rules.

We are responsible for approving Western Power's [technical rules](#). This is in order to ensure that any rule changes are in the best interests of consumers, as well as taking into account the safe and secure operation of the South-West Interconnected System and any interconnected networks.

We are currently considering three sets of amendments proposed by Western Power. These were submitted in November 2015, March 2016 and April 2016.

- In November 2015, Western Power proposed: changes to the amount of direct current that users are allowed to inject into the network (see case study below); changes to the definitions of some of the terms in the glossary of the technical rules; and the removal of out of date references to an Australian Safety Standard.
- In March 2016, Western Power proposed changes to: the classification of critical contingency events; the treatment of users who are connected to sections of the network who meet the system security criterion; and the maximum amount of time that it can take protection equipment to clear a fault that has been caused by small (less than 10MVA) embedded generators.
- In April 2016, Western Power proposed: changes to the amount of allowable power loss following the unplanned loss of a supply transformer at a substation; the correction of a number of typographical errors; the replacement of a number of out of date references to safety standards; and a number of additions to the glossary.

## Fact 3 Direct current injection amendment

The Western Power network operates on alternating current, which is an electric current that reverses its direction many times a second at regular intervals.

In contrast, direct current is electricity that flows in only one direction. Injecting direct current into the network can interfere with the frequency of the electricity. This can lead to damage to network infrastructure and other equipment, and create supply and safety issues.

The technical rules currently state that no amount of direct current may be injected into the Western Power network. Electricity generators are required to install inverters – to change direct current into alternating current – before they are able to connect to the Western Power network.

Inverters are prohibitively expensive for users with solar photo voltaic (PV) generators that wish to connect to the low voltage network. Western Power currently manages this issue by providing users with PV generators an exemption from the technical rules. Exemptions need to be assessed on an individual basis, and add to the cost of connection for prospective users.

Western Power considers the constraint on direct current injection creates an unfair impost on users with solar PV generators, as they are required to purchase expensive inverters, or pay to have exemptions investigated and processed. In November 2015, Western Power submitted a proposal to lift the limit for direct current injection into the network from zero, to 0.5 (per phase) of a connection point rating.

We published an issues paper outlining Western Power's proposal in February 2016, and opened the matter up to the public for comment. The following were key points made by submitters.

- Any type of equipment connected to a network can inject electricity back into the network (for example, computer power supplies and fluorescent lights). It is therefore probable that connections such as large office buildings also impose some risk of direct current injection that are not taken into consideration by the current technical rules.
- Service providers in other Australian states do not impose any limits on direct current injection, and this has not led to a negative impact on their electricity networks.

On the basis of the feedback from stakeholders, and with the assistance of a technical consultant, we determined that Western Power's proposal did not go far enough to address the issues created by its direct current injection limit.

We published a draft decision in May 2016 and held a workshop with Western Power and stakeholders. Western Power subsequently decided to remove the limit for direct injection, and rely on other sections of the technical rules to address issues arising from high levels of direct current injection.

Public consultation on our draft decision closed on 7 June 2016. We will review the amended proposal from Western Power in conjunction with submissions, and make a final determination on whether to approve the amendments proposed by Western Power.

### *Exemptions from certain requirements of the technical rules*

Under certain circumstances, Western Power can apply to the ERA to exempt itself or its users from some sections of the technical rules. We must determine if the request is reasonable, and if it is, whether granting the request will adversely affect the network or other users. We cannot approve an exemption request if the disadvantages outweigh the advantages. In 2015-16, Western Power made three applications for exemptions.

#### **Wagin Substation**

In May 2015, Western Power requested an exemption to allow it to connect a generator to the Western Power network near the Wagin power station. The Wagin power station is exempt from the technical rules because it pre-dates the rules (as per clause 1.9.4). However, a new generator would need to comply with the technical rules, triggering the need for substantial investment to upgrade the Wagin power station.

After consulting with stakeholders and with assistance from its technical consultant, the ERA [approved](#) Western Power's request for an exemption to the relevant section of the technical rules, allowing Western Power to install the new generator near the Wagin power station.

#### **Newmont Mining Services**

In July 2015, Western Power requested an exemption to allow it to increase the amount of electricity supplied to Newmont Gold Mine in the Goldfields region, between the hours of 10pm and 7am, when the demand for electricity is lower than it is during the day.

Western Power considered it was unable to accommodate Newmont's requirements because the technical rules limits the amount of power that can be transferred through certain equipment. The purpose of the limit is to prevent damage to the equipment if it overloads, and to prevent the resulting loss of electricity supply to connected areas.

After consulting with stakeholders, and with assistance from its technical consultant, the ERA [determined](#) that Western Power did not require an exemption because its proposed solution complied with the technical rules. Western Power could transfer additional electricity to Newmont when lower demand in other parts of the network at night time reduces the risk to Western Power's equipment and users of the network.

#### **Meadow Springs Zone Substation**

In May 2015, Western Power requested an exemption to the Normal Cyclic Rating criterion in Clause 2.5.4(b) of the technical rules. The Normal Cyclic Rating criterion established the maximum allowed loss of power transfer

capacity of a substation in the event that it loses a supply transformer (for example, in case of unexpected damage or malfunction).

Western Power's forecasts showed that, as a result of a planned upgrade to the substation at Meadow Springs, it would exceed the maximum allowed loss of capacity over the financial year. Western Power provided evidence that complying with the technical rules would result in a high level of expenditure that was unnecessary and costly to consumers. Western Power demonstrated that there would be little risk to the network from allowing an exemption to the Normal Cyclic Rating criterion during work on the Meadow Springs substation.

After a period of public consultation, and with the assistance of its technical consultant, we [approved](#) Western Power's request for an exemption to Clause 2.5.4(b) of the technical rules. This exemption allows Western Power to temporarily exceed the normal allowable loss of capacity at the Meadow Springs substation during work to upgrade the substation.

#### *Price list determination*

The access arrangement for Western Power must establish upper and lower limits for the tariffs Western Power can set for different types of customer each financial year. The resulting approved list of tariffs is called a price list.

Each April, Western Power submits its proposed price list to us for the forthcoming financial year. Western Power also provides us with a comprehensive outline of how its proposed tariffs were calculated, as evidence that it has complied with the limits set out in its access arrangement.

In May 2016, we [approved](#) Western Power's proposed price list, noting that it would result in a 4.8 per cent increase for distribution network tariffs, and a 9.4 per cent reduction for transmission network tariffs.

### *Service standard performance report*

As part of its access arrangement, Western Power is required to meet a number of service standards relating to system security, safety, reliability and customer service. The access arrangement includes a service standard adjustment mechanism, which ensures that Western Power is incentivised to maintain service standards and only incur expenditure to improve service standards where the improvement is of value to customers. Not reaching its targets means that Western Power will be penalised in terms of the amount of revenue it is allowed to recover through its tariffs in the next access arrangement period.

In December 2015, Western Power's [report](#) to us indicated that it had met or exceeded all of its service standard benchmarks for the 2014-15 period.

### **Rail access**

We are responsible for regulating the rail networks that are identified in Schedule 1 of the [Rail \(Access\) Code 2000](#) (code). These rail networks are:

- Brookfield Rail's freight network in the south-west of Western Australia;
- The Pilbara Infrastructure rail network in the Pilbara region of Western Australia;

- The Roy Hill Infrastructure rail network, also in the Pilbara; and
- The Public Transport Authority's urban rail network in the Perth metropolitan area.

The aim of our rail regulatory function is to ensure that third parties that want to operate trains on a rail network owned by another company can do so on fair terms and conditions. The owners of trains are known as above-rail operators, and the owners of railways are known as below-rail owners.

**Figure 13 Above and below rail operators**



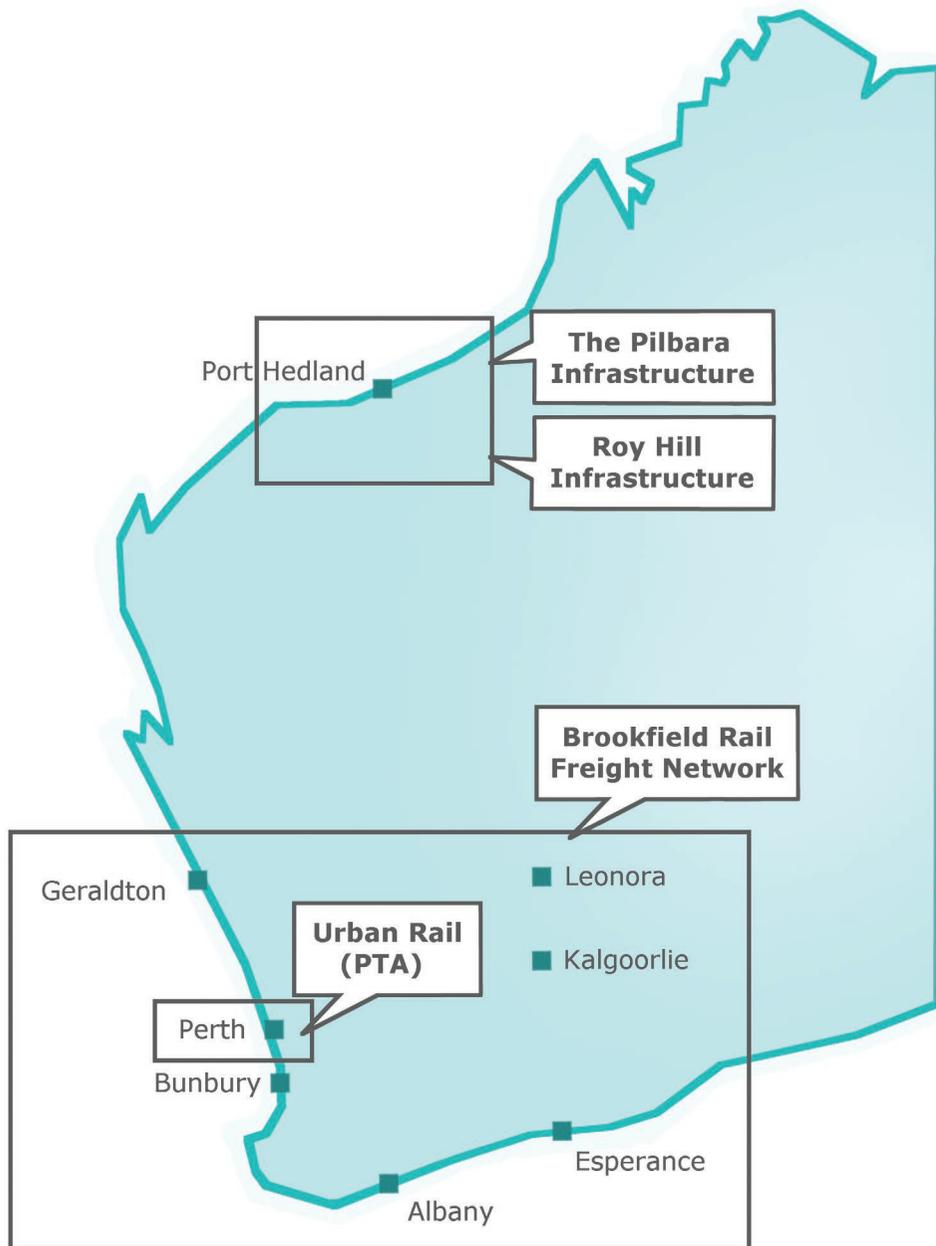
## **Above Rail**

The 'rolling stock': trains and other vehicles that run on the rails.

## **Below Rail**

The railway lines and other rail infrastructure and facilities on the ground.

Figure 14 Railway networks regulated by the ERA



The [Railways \(Access\) 1998 Act](#) and the [code](#) (which is established under the Act) requires us to undertake certain statutory functions.

- We are required to review the code every five years, with the most recent review completed in December 2015.
- We have to approve or determine segregation arrangements. Segregation arrangements set out controls and procedures to ensure that above rail operators are not disadvantaged by below rail owners.
- We have to approve regulatory instruments defined in Part 5 of the code. Part 5 instruments determine the rules for the safe running of trains on a railway network, ensuring that railway capacity is allocated fairly to all users, and establishing a basis for calculating the cost to access a railway network.

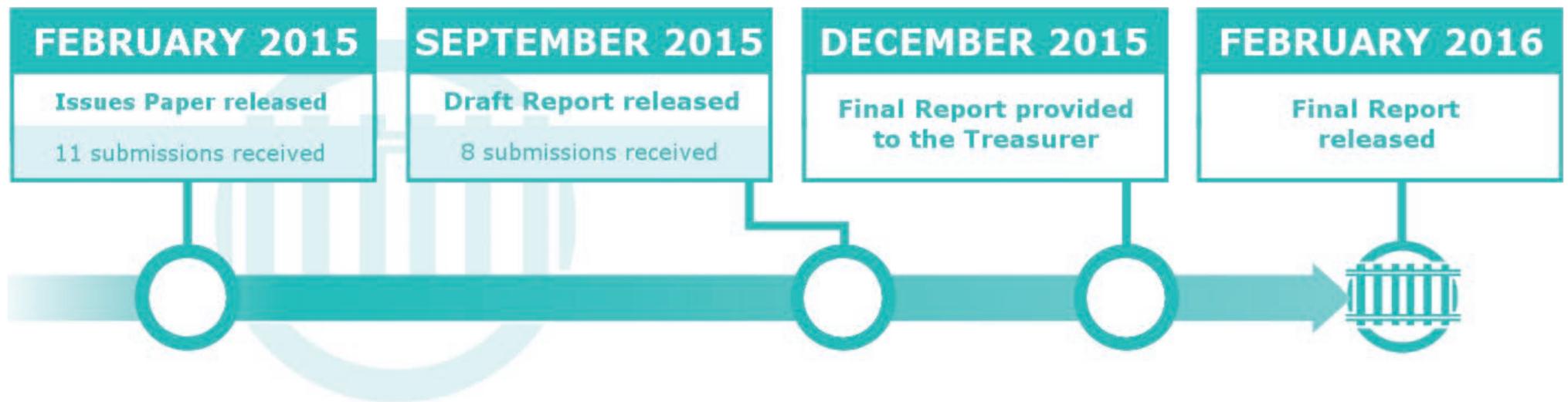
#### *Review of the Railways (Access) Code 2000*

We are required to undertake a review of the [code](#) every five years. The code contains the key provisions that support third parties to access regulated rail networks. This includes the process for negotiating access agreements between the railway owner and third parties, the arbitration of disputes during the course of such negotiations and the role of the regulator in this process.

The purpose of the code review is to assess whether the provisions of the code give appropriate effect to the Competition Principles Agreement as far as it applies to railways prescribed in the code. The Competition Principles Agreement is the framework that allows third parties to access nationally significant infrastructure facilities that exhibit natural monopoly characteristics and cannot be duplicated economically.

We completed our [third review](#) of the rail code in December 2015, when we presented our final report to the Treasurer.

Figure 15 Timeline for the rail code review



We made 10 recommendations aimed at making Western Australia's railway access regulations more workable and consistent with regulations across Australia. For example, one of our recommendations sought to make the regulation of Brookfield Rail's interstate services consistent with the regulation of similar services outside Western Australia.

A number of our recommendations aimed to facilitate more timely negotiations and outcomes. One of these is changing the basis for valuation of assets of intrastate services to an 'established asset base' approach that takes depreciation into account. This would be a significant change and would reduce the number of matters to be settled in negotiation.

The decision whether to implement the recommendations from the rail code review is a matter for the Treasurer. The Act does not require the Treasurer to take any action in response to our review. However, the Treasurer is required to conduct further consultation before any changes to the rail code can be implemented.

#### *Review of the method for determining the rail WACC*

We are required to determine the weighted average cost of capital (WACC) for the regulated rail networks every year. A WACC is the average rate of return a company expects to receive when applied to the value of its regulated assets in order to compensate its different investors.

Every fifth year, we are required to conduct a consultation process before determining the WACC in that year. The purpose of this consultation process is to seek input on how the WACC should be calculated.

The consultation process for the WACC method started before the 2013 WACC determination. However, the review of the rail WACC was delayed because the ERA was undertaking a comprehensive review of its approach to determining the WACC for gas networks under the National Gas Rules. Deferring the review of the rail WACC until after that review allowed us to ensure consistency in our decisions.

We finalised our review of the method for calculating the rail WACC in September 2015. A copy of our [final determination](#) is available on our website.

### *Panel of Arbitrators*

We updated the panel of arbitrators that is required under the rail code on 17 February 2016.

We are required to establish a panel of people that are able to act as arbitrators in the event of a dispute between an access seeker and a railway owner in negotiating access to the railway owner's network.

We may include or remove members of the panel only on the recommendation of the Chairman of the WA Chapter of the Institute of Arbitrators and Mediators Australia or the Perth Centre for Energy and Resource Arbitration.

The [panel of arbitrators](#) is available from our website.



### Fact 4 Access negotiations between Brookfield Rail and CBH

**On December 2013, CBH lodged an access proposal with Brookfield Rail to use routes on the Western Australian freight network to transport grain.**

**Many of the routes subject to this proposal are close to 100 years old, and some are not in good condition. Even if they were in their original condition, they might be considered sub-standard due to the different standards that applied when they were first built.**

**CBH has been the sole user of almost all of these routes since they were first built. Until 2013, CBH had used these routes under agreements outside of the regulated scheme and sought to bring their negotiations with Brookfield Rail under the rail code for the first time in 2013**

**We provided a determination of costs Brookfield Rail could recover on all the routes of interest to CBH in June 2014. Some of these routes are in poor condition and Brookfield had previously reached an agreement with the government (as lessor) and industry (including CBH) that they would close.**

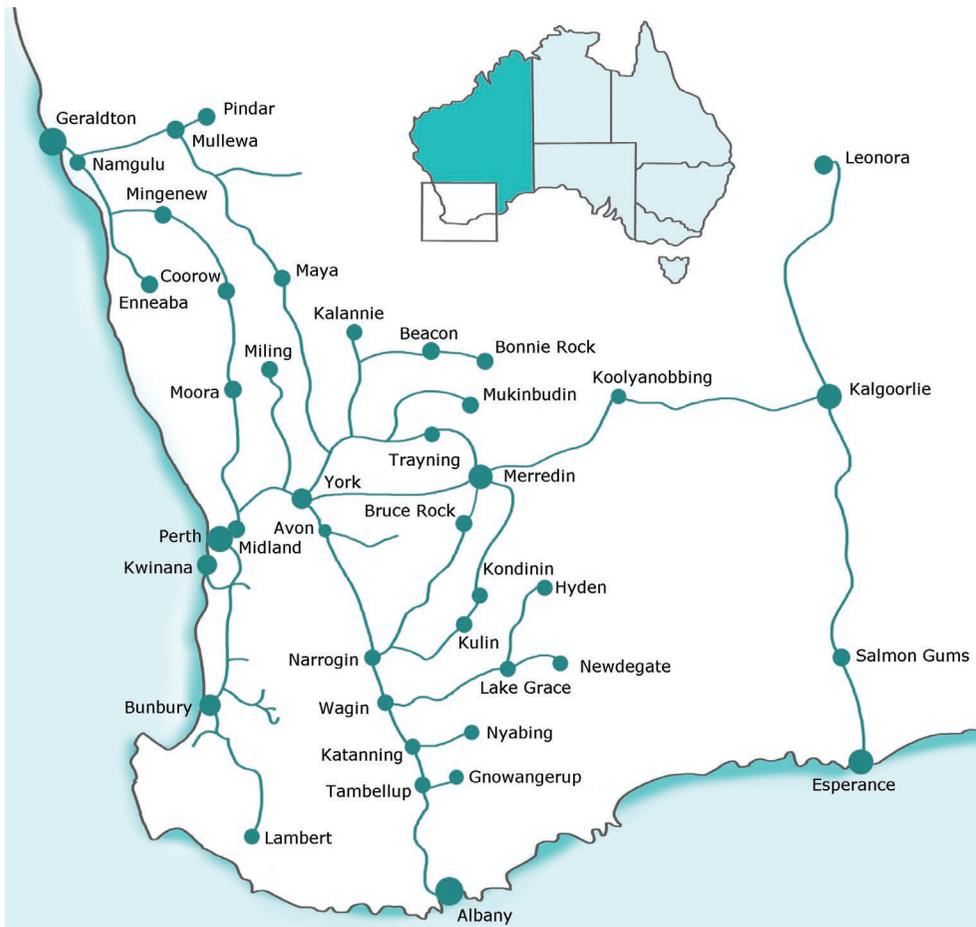
**Brookfield Rail and CBH were unable to negotiate an agreement based on the Authority's determination within the required timeframe, and so negotiations have been referred to an independent arbitrator for resolution, in accordance with the rail code.**

### *Brookfield Rail*

Brookfield Rail is the below-rail owner of the freight network in the south-west of Western Australia, under a long-term lease with the State Government.

The network spans from Geraldton in the north, to Leonora and Kalgoorlie in the east and to Esperance, Albany and Bunbury in the south. The network is used to transport commodities (such as grain, alumina, bauxite, and iron ore) and passengers (on the Perth to Bunbury and Perth to Kalgoorlie lines).

Figure 16 The Brookfield Rail network



**Note:** Some of the routes included in this map are not currently operational. However, they are still prescribed and regulated under Schedule 1 of the code.

In September 2015, Brookfield Rail requested amendments to its [segregation arrangements](#). (Segregation arrangements are the controls and procedures to ensure that above rail operators are not disadvantaged by below rail owners that also operate rolling stock.)

Brookfield Rail proposed the following key areas of amendment to its existing segregation arrangements:

- inclusion of an annual audit procedure;
- a new dispute resolution process;
- inclusion of more detailed non-discrimination provisions;
- expansion of confidentiality obligations; and
- new provisions addressing the possibility of conflicts of interest.

We called for public consultation on the proposed arrangements on 18 September 2015 and received one submission from Co-operative Bulk Handling. We published our [draft decision](#) on 12 November 2015 and received public submissions from Aurizon and Brookfield Rail.

Our [final decision](#) (published on 22 December 2015) was to approve the proposed segregation arrangements subject to 12 required amendments.

Many of our required amendments were to ensure consistency of terms and definitions between the segregation arrangements and the Act and the code. However, we also required three significant structural amendments, which involved removing: provisions for a regular audit and review; provisions defining “access-related functions” as functions involved in arranging railway operations both inside and outside the code; and dispute resolution procedure proposed to be included for the first time by Brookfield Rail.

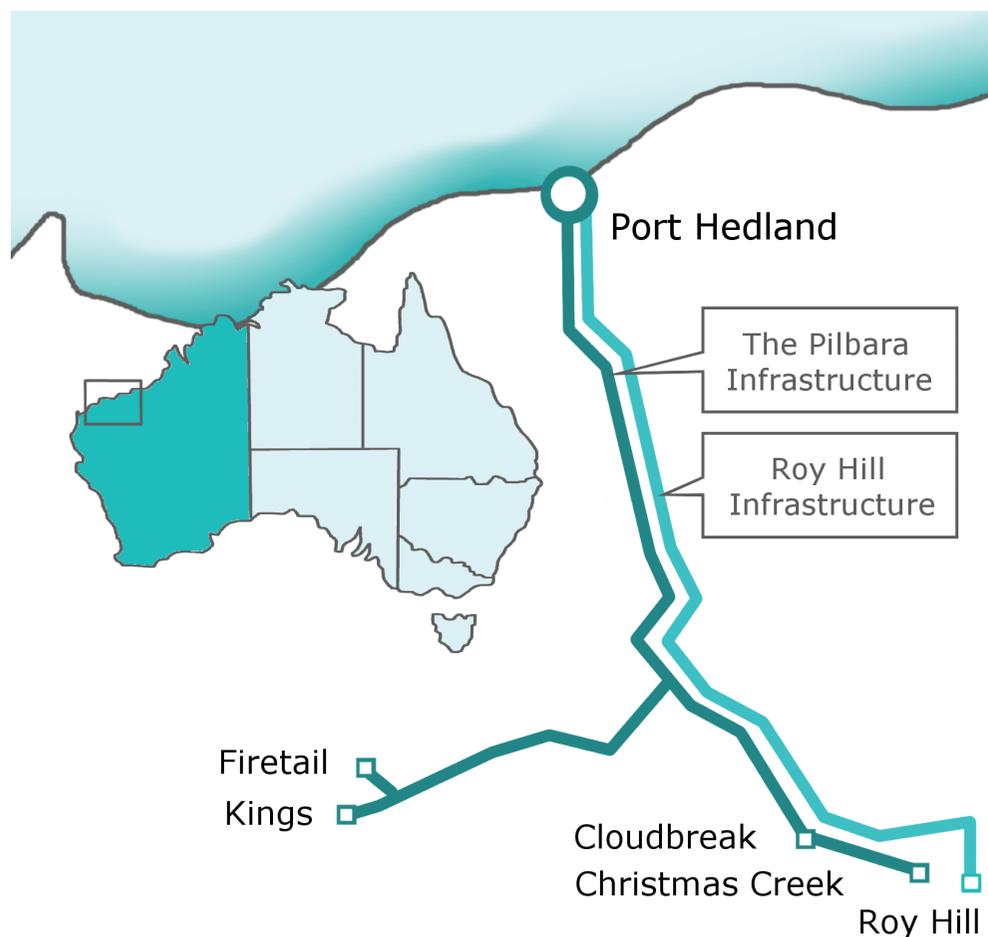
### Roy Hill

Roy Hill Holdings Pty Ltd (Roy Hill) owns and operates a 344 kilometre rail network that is used to transport iron ore from the Roy Hill mine to its port stockyard facility in the Boodarie Industrial Estate south of Port Hedland.

Our regulatory responsibilities for Roy Hill Infrastructure’s rail network commenced in August 2015. The rail network was included in Schedule 1 of the Code when Part 3 of the [Railway \(Roy Hill Infrastructure Pty Ltd\) Agreement Act 2010](#) was proclaimed.

We held a number of meetings with Roy Hill, before and after the inclusion of the rail network in Schedule 1 of the Code.

**Figure 17 The Roy Hill and The Pilbara Infrastructure rail networks**



## Energy markets

We have regulatory responsibilities for the electricity and gas markets in Western Australia. In this section, we describe our role in each of these markets and the major regulatory activities we undertook during 2015-16.

### Wholesale electricity market

The wholesale electricity market in the south west interconnected system commenced in September 2006.

Our role is to monitor the wholesale electricity market to ensure that it is meeting the objectives established for the market. We fulfil this role by:

- preparing annual reports to the Minister for Energy on the effectiveness of the wholesale electricity market and on the regulatory scheme for the Electricity Generation and Retail Corporation (being Synergy);
- monitoring the behaviour of market participants, which is a function shared with the Australian Energy Market Operator;
- undertaking approvals requested by the Australian Energy Market Operator (including System Management); and
- conducting reviews required by the Market Rules.

The wholesale electricity market is currently going through a significant reform process, known as the [electricity market review](#). Our involvement in that process, and the potential implications for us, are discussed in the next section.

**Fact 5 About the wholesale electricity market**

**The wholesale electricity market comprises capacity, energy and ancillary services components.**

**The role of the capacity mechanism is to ensure enough energy is supplied when needed, and market participants are paid appropriately for their investment.**

**The energy market component of the wholesale electricity market provides a platform in which electricity generators and retailers interact to supply and purchase electricity. The energy market consists of:**

- **a bilateral contract market, which allows buyers and sellers to negotiate price and volumes directly;**
- **a short term energy market, which is a day-ahead market, and**
- **a balancing market, which is close to real-time.**

**The market for ancillary services provides Load Following Ancillary Services, which are used to manage energy and frequency variations.**

*Electricity market review*

The Minister for Energy launched the electricity market review process on 6 March 2014. The Public Utilities Office is providing secretariat support to the steering committee for the [electricity market review](#).

We strongly support the objectives of the electricity market review. The ERA advocated for such a review of the wholesale electricity market in its previous annual reports to the Minister for Energy.

**Fact 6 About the electricity market review**

**The purpose of the electricity market review is to recommend reforms to improve the operation of electricity generation, wholesale and retail sectors of the South West Interconnected System in Western Australia. The electricity market review has three main objectives:**

- **to reduce the cost of producing and supplying electricity, while maintaining safety and reliability;**
- **to reduce government exposure to risks in the energy market; and**
- **to attract private sector participation in the electricity market.**

**The electricity market review is being conducted in two phases. Phase one of the electricity market review involved an assessment of the strengths and weaknesses of the current industry structure, market institutions and regulatory arrangements, and identification of reform options. Phase one has now concluded.**

**Phase two of the electricity market review was launched by the Minister for Energy on 24 March 2015. Phase two involves detailed design of a set of selected reforms and implementation arrangements.**

We have actively engaged in the electricity market review process. This has included participating on working groups, frequent officer-level interactions, and several formal submissions to position papers developed by the steering committee. Our knowledge and experience in the regulation of the wholesale electricity market means that we can make an important contribution to the design of new arrangements, and support a smooth transition that provides certainty for market participants.

The reforms being progressed under phase two have been categorised into four work streams. These work streams are: institutional arrangements; market improvements; market competition; and network regulation.

The institutional arrangements work stream is comprised of a number of projects to support the transfer of functions from the IMO and system management to the Australian Energy Market Operator. The operations of the IMO are expected to wind up soon and some of the residual functions of the IMO will be transferred to us.

We will assume responsibility for the IMO's market compliance and enforcement function from 1 July 2016. This role involves monitoring the wholesale electricity market and identifying and investigating anomalous behaviour. The function will also involve a liaison role with market participants, focussed on educating and guiding on appropriate market behaviour.

The steering committee has also proposed the establishment of a rule change assessment panel to consider proposed changes to the rules for the wholesale electricity market. If the Government decides to implement this recommendation, the rule change assessment panel will be a separate board with the ERA providing secretariat support. The panel would be responsible for considering changes to proposed rules proposed. We made a

submission in response to the position paper on the design of the new panel.

The market operations work stream is comprised of two projects.

- Reserve capacity mechanism project – the aim of this project is to recommend reforms to reduce the cost and volume of surplus generation capacity by changing the way capacity prices and volumes are determined for generators and providers of demand side management. The ERA Secretariat made a submission in response to the position paper on the reserve capacity mechanism.
- Energy market operations and processes project – the aim of this project is to recommend reforms to address flaws in market operations and processes that prevent efficient, transparent and least-cost dispatch of generators while maintaining the security of the system. The ERA Secretariat made a submission in response to the position paper on the energy market operations and processes.

The main stated aims of the market competition work stream are to reduce barriers to entry to the wholesale electricity market and to provide consumers with greater freedom to choose their electricity provider through the eventual introduction of full retail contestability. The ERA is a member of the Market Competition Working Group.

A key objective of the network regulation work stream is to adopt the national electricity regulation framework under the National Electricity Law for regulating Western Power's transmission and distribution network in the South-West Interconnected System. The ERA is represented on each of the four working groups under this work stream.

One of the reforms occurring under the network regulation work stream is the transfer of our electricity and gas access functions to the Australian Energy Regulator. The bill to effect this transfer ([\*Energy Legislation Amendment and Repeal Bill 2016\*](#)) was introduced to Parliament on 22 June 2016.

#### *Wholesale electricity market report*

The market rules require us to provide a report to the Minister for Energy at least once a year, on the effectiveness of the wholesale electricity market in meeting market objectives.

We have had to give careful consideration to the focus of the 2015 Minister's report, given the significant potential for overlap between the Minister's report, our report on the regulatory scheme of the Electricity Generation and Retail Corporation (discussed below) and the electricity market review (discussed above).

Reflecting these considerations, the 2015 Minister's report will focus on operational matters arising during the relevant period and identifying any existing or emerging issues that

may not be addressed as part of the electricity market review. In addition, we will review the current level of competition in the market and consider potential new technologies and business models that may require changes to the market rules.

We conducted a public consultation process to inform the preparation of the Minister's report. We published an [issues paper](#) on 20 November 2015 and received submissions from Tesla Corporation and Perth Energy. We also held an informal workshop with market participants on 19 January 2016 on issues to be included in the Minister's report. Approximately 40 people attended the workshop.

We anticipate providing the 2015 Minister's report in mid-2016, after which it will be published on our website.

### *EGRC regulatory scheme report*

From 1 January 2014, Synergy (an electricity and gas retailer) and Verve Energy (an electricity generator) were merged to form a new "gentailer". The gentailer trades as Synergy, but is formally called the Electricity Generation and Retail Corporation (EGRC).

The Government established the EGRC regulatory scheme to impose requirements on the merged entity, which include ring-fencing, business segregation, transfer pricing and non-discriminatory wholesale electricity trading.

Synergy is the largest participant in the wholesale electricity market. The EGRC regulatory scheme is important to ensure Synergy does not unduly preference its own retail and generation arms over third party retailers and generators, and the private sector has access to electricity on non-discriminatory terms.

We are required to review the operation of the EGRC regulatory scheme each year to assess its effectiveness. We must also provide a report to the Minister for Energy, including any recommendations to improve the scheme.

In 2015-16, we commenced our second report (2015 report) on the operation of the EGRC regulatory scheme. We will be able to undertake more detailed analysis this year as the scheme has now been in operation for nearly two years and more information is available to us.

In preparing the 2015 report, we assessed the effectiveness of the scheme in facilitating competition by ensuring a level playing field for competitors and new entrants and mitigating the potential for Synergy to exercise market power. We developed this objective in preparing the 2014 report, reflecting the absence of a clear objective in the regulatory scheme.

We conducted a public consultation process to inform the preparation of the EGRC report. We published a [discussion paper](#) on 11 November

2015 and received submissions from Alinta Energy, Amanda Energy, Community Electricity, ERM Power, and Synergy. We also discussed issues to be included in the EGRC report at an informal workshop with market participants on 19 January 2016.

We provided the report to the Minister for Energy on 30 June 2016.

### *Pricing investigations of Vinalco Energy Pty Ltd*

We monitor the effectiveness of the wholesale electricity market in meeting market objectives. This is a role that we share with the Independent Market Operator (IMO).

Our role involves monitoring inappropriate and anomalous market behaviour, including the abuse of market power and exploitation of any shortcomings of the market rules.

Participants in the wholesale electricity market can notify either the ERA or the IMO of any behaviour that reduces the effectiveness of the wholesale electricity market.

The IMO wrote to the ERA on 23 June 2014 and 28 July 2014 advising of alleged breaches of the market rules by Vinalco Energy Pty Ltd (Vinalco).

Vinalco is a market generator that is a 100 per cent owned subsidiary of Synergy. It operates the Muja AB plant, which provides electricity into the South West Interconnected System.

The IMO considered that – during two periods – Vinalco offered prices into the wholesale electricity market that were above its relevant costs (being the short run marginal cost of generating the relevant electricity) and were ‘related to market power’. The two periods were:

- from 23 February 2014 to 24 March 2014; and
- from 9 June 2014 to 30 June 2014.

This was the first time the IMO referred behaviour by a market participant to us for investigation.

We conducted two investigations into the pricing behaviour of Vinalco. We found that Vinalco offered prices for 218 half-hour trading intervals during the first period and 2,611 half-hour trading intervals during the second period that involved market power.

We submitted the reports arising from its first and second investigations into Vinalco’s pricing behaviour to the IMO on 30 October 2015. These reports contain commercial-in-confidence information and will not be published. However, more information on the [first](#) and [second](#) investigation is available on our website.

It is not our role to determine whether Vinalco breached market rules; that is the role of the Electricity Review Board. As a result of

our investigation, the IMO must apply to the Electricity Review Board for an *Order for Contravention* of clause 7A.2.17 in relation to pricing behaviour by Vinalco during the two investigation periods.

The Electricity Review Board will determine a civil penalty for Vinalco, if it finds that Vinalco offered prices above its reasonable expectation of the short run marginal cost of generating the relevant electricity in a manner that related to market power.

#### *Determination of parameters in the wholesale electricity market*

We are responsible for determining a number of parameters that influence the operation of the wholesale electricity market. This includes the approval of values for energy price limits, the maximum reserve capacity price and ancillary service parameters. These determinations are made each year.

- **Energy price limits** are a set of caps on the prices at which participants in the wholesale electricity markets can bid for, or offer energy to, the short-term energy market. The aim of the energy price limits are to mitigate market power in the wholesale electricity market. Three price limits must be determined: the maximum price, the alternative maximum price and the minimum price.

The IMO must review the energy price limits each year and propose values to the

ERA. We review the proposed values and decide whether or not to approve them. We published our [final decision](#) on 21 June 2016, approving the energy price limits.

- The **maximum reserve capacity price** (MRCP) is the maximum price for which generators can offer their capacity in an auction (refer box below). An MRCP is set for each capacity year, with the MRCP for the 2018-19 capacity year being determined in 2015-16.

The Australian Energy Market Operator (AEMO) is responsible for reviewing and recommending an MRCP. We review the proposed value and decide whether or not to approve it. We published our [final decision](#) on 8 March 2016, approving an MRCP of \$159,800 per MW, as proposed by AEMO.

- **Ancillary services** are services necessary to maintain security and reliability of the electricity system. We are required to determine prices for three ancillary services, being load rejection, system restart and spinning reserve services. On 31 March 2016, we published a final decision on [load rejection and system restart](#), and a final decision approving the IMO’s proposal on [spinning reserve services](#).

**Fact 7 The reserve capacity mechanism**

**The reserve capacity mechanism is designed to ensure there is sufficient generation capacity to meet power system requirements. Retailers can contract directly with generators to purchase capacity (in the bilateral market). Alternatively, retailers can purchase capacity from the AEMO (in the capacity market).**

**Gas retail market**

The Western Australian gas retail market is contestable. This means that gas retailers can compete in the marketplace for Western Australian gas customers, including residential customers.

The Minister for Energy has approved a single retail market scheme that covers all of the WA Gas Networks distribution systems (which is owned by ATCO Gas Australia). The aim of the retail market scheme is to ensure that the gas retail market is regulated and operated in a manner that is open, competitive and efficient, and is fair to gas market participants and their customers.

The Retail Energy Market Company Limited (REMCo) is the administrator of the retail market scheme in Western Australia. REMCo is responsible for managing the gas market, which includes administering customer transfers,

managing the daily allocation of gas usage to retailers, reviewing the appropriateness of market rules, and monitoring compliance with those rules.

We have regulatory oversight of the retail market scheme, and any future schemes established in Western Australia. Our role includes:

- considering amendments to the retail market rules submitted to us REMCo; and
- investigating any non-compliance with the gas market rules referred to us by REMCo.

**Rule change proposals**

On 30 October 2015, we received a submission from REMCo seeking our approval of three amendments to the REMCo Rules.

- Rule change proposal C03/15R – REMCo sought approval to include a note in the rules to address ambiguity about the requirement to seek explicit informed consent from small use gas customers for ‘move-ins’.
- Rule change proposal C04/15S – REMCo asked us to approve a simple typographic change to fix an error in a document that forms part of the specification pack for the retail market scheme.
- Rule change proposal C05/15R – REMCo asked us to approve a change to Appendix 1 of the rules to recognise a new gate point

(1107P) from the Parmelia Pipeline, which will be interconnected to Metro-South Sub-network (1107).

We [approved](#) the amendments proposed by REMCo. The amendments took effect on 1 January 2016.

**Inquiries**

Our inquiry function enables the Treasurer to request us to undertake detailed research and analysis into issues confronting the Government, at his discretion.

An inquiry is initiated when the Treasurer issues us with a ‘terms of reference’. A terms of reference sets out the scope, duration and process for conducting the inquiry.

Inquiries generally take one year to complete and involve several rounds of public consultation.

Over the years, we have undertaken inquiries into a wide range of topics, such as water pricing, the prison system, microeconomic reform priorities, home indemnity insurance, shared services and grain marketing. As a result of experience gained in undertaking these inquiries, and experience gained from our regulatory activities, we have established substantial capability to assist the Government by providing robust, independent advice on complex economic matters.

The inquiry function is particularly suited to complex issues that do not have obvious solutions and require in-depth examination. We are experienced in conducting rigorous stakeholder consultation processes to ensure that the full range of issues and solutions are considered in developing recommendations to Government.

### Prison inquiry

We completed one major inquiry in 2015-16: the inquiry into the efficiency and performance of Western Australian prisons. The Treasurer referred this inquiry to us in October 2014.

The purpose of the inquiry was to find ways to improve the prison system, delivering better outcomes for offenders and society, and better value for taxpayers. We were also asked to provide a set of measures to assess the performance of each of the State's prisons, and the prison system as a whole.

Setting the right performance measures matters because prisons need to do more than just lock up offenders if they are to represent good value for money. Providing prisoners with the best opportunity to reintegrate into society upon release benefits everyone – preventing future crime, and reducing the burden on police, courts, and health and welfare services.

During the inquiry, we consulted with stakeholders from across the public, private, and not-for-profit sectors, and visited prisons across the State. We also conducted extensive research, and consulted with international corrective services agencies to identify reforms that have worked well in other countries.

As a result of this work, we found that there were four key areas in which Western Australia's prison system could be improved.

Firstly, establishing formal agreements between the Department of Corrective Services and the Superintendents who run each prison would give both parties clearer and more accountable roles.

Secondly, setting clear and meaningful performance measures would allow the Department of Corrective Services to assess how well each prison was performing, and establish an incentive for prisons to improve. We provided a comprehensive benchmarking manual along with our report, to assist the Department in putting good performance measures in place.

Thirdly, we recommended improvements to information systems and planning processes within the Department of Corrective Services, including increasing the transparency of the prison system, so that the public can understand how well the State's prisons are performing.

Lastly, we recommended the introduction of a 'commissioning' model for selecting prison operators, but only after implementation of the other recommended reforms. Commissioning involves the Government seeking tenders from across the public, private, and not-for-profit sectors.

We provided the Government with 44 specific recommendations covering these areas, which can be found in our [Final Report](#). We also produced a [benchmarking manual](#), [YouTube video](#), and [fact sheet](#).

Figure 18 Inquiries staff





Figure 19 Timeline for the prison inquiry

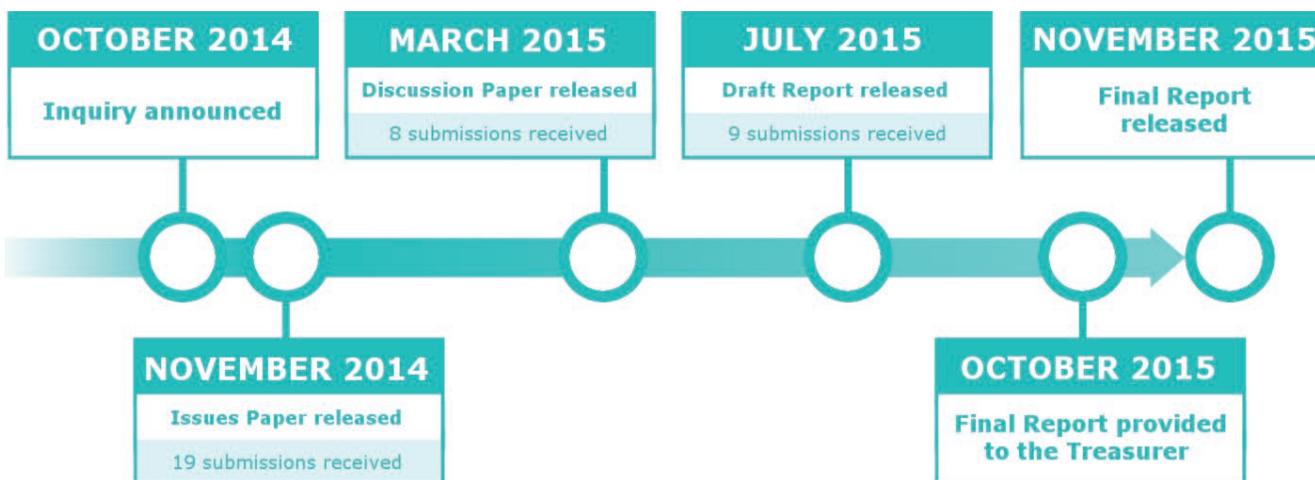


Figure 20 Facts about the Western Australian prison population



## Licensing, Monitoring and Customer Protection

The Licensing, Monitoring and Customer Protection (LMCP) division is responsible for administering the licensing schemes for the electricity, gas and water industries in Western Australia.

Licences are an important tool for protecting the rights of consumers and ensuring that service providers deliver safe and reliable services. A licence is a permit that allows a licensee to undertake the business activities covered by the license. A licence establishes the obligations and standards that the licensee must meet in conducting its operations. This includes requirements to comply with relevant acts, regulations, codes and licence conditions.

We have functions relating to eight different types of licence across the electricity, gas and water industry.

**Figure 21 Licensing, Monitoring and Customer Protection staff**



**Table 4 Categories of licence the ERA is responsible for administering**

| Electricity |  | Gas  |                          | Water |                |
|-------------|--|------|--------------------------|-------|----------------|
| Code        | Description  | Code | Description              | Code  | Description    |
| EGL         | Electricity generation licence   | GDL  | Gas distribution licence | WL    | Water Services |
| EDL         | Electricity distribution licence   | GTL  | Gas trading licence      |       |                |
| ERL         | Electricity retail licence   |      |                          |       |                |
| ETL         | Electricity transmission   |      |                          |       |                |
| EIRL        | Electricity integrated regional (combination of any of the four electricity licence types above in regional areas) |      |                          |       |                |

Our licensing function includes issuing, amending, transferring and renewing electricity, gas and water licences. Before issuing a licence, we must assure ourselves that an applicant has the financial and technical capability to undertake licensed activities, and that granting a license is not contrary to the public interest.

We have an ongoing role in ensuring that licensees are complying with their licence obligations through our monitoring function. Our monitoring function involves regular audits of licensees' compliance with licence conditions, reviews of asset management systems and the publication of performance reports.

Our customer protection function involves providing support to the independent committees that are responsible for advising us on the content of codes of conduct for gas, electricity and water and approving standard form contracts and financial hardship policies.

## Licensing

As of 30 June 2016, there were a total of 88 electricity, gas and water licences (61 electricity, 8 gas, and 19 water) held by 76 licensees.

Copies of all licences currently in force can be found on our website.

The most significant businesses that we license are listed in the following table.

**Table 5 Significant businesses regulated by the ERA**

| Electricity   | Gas                | Water                      |
|---------------|--------------------|----------------------------|
| Synergy       | Alinta             | Water Corporation          |
| Western Power | Kleenheat          | Aqwest                     |
| Horizon Power | ATCO Gas Australia | Busselton Water            |
|               |                    | Harvey Water               |
|               |                    | Ord Irrigation Cooperative |

We granted one new licence during 2015-16. CleanTech Energy Pty Ltd was granted a licence to supply electricity to large use customers.

We approved five amendments to electricity licences during 2015-16. Two of these amendments involved authorising Amanda Energy Pty Ltd and AER Retail Pty Ltd to supply electricity to small use business customers. The other three amendments involved:

- approving a request from BHP Billiton Worsley Alumina Pty Ltd to amend Electricity Generation Licence to change its name to South32 Worsley Alumina Pty Ltd;
- approving a request from Horizon Power to amend its Electricity Integrated Regional Licence to replace its 40 licence areas with a single consolidated area covering the whole of regional Western Australia (the area not serviced through the South West Interconnected System), and to remove generation from the list of activities authorised by the licence; and
- making a minor amendment to CleanTech Energy Pty Ltd's electricity retail licence to issue a new reference number to the licence area map.

In 2015-16, we conducted a review of water services licences. As part of this process, we approved a new water licence template that has replaced existing licenses by substituting the existing licences with new licences. The water services license review is described below.

In addition, the Minister for Water granted a class exemption for local government water service licensees that service less than 1,000 connected properties. As a consequence of this decision, 15 of the current 19 licensees were exempted. The remaining four licensees are the Shires of Dumbleyung, Gnowangerup, Lake Grace and Morawa.

Under the class exemption, the licensees are required to report on the condition of their water services assets annually, by including this information in their annual report. The class exemption will be reviewed five years from the date of commencement (April 2021).

### *Water Services Licence Review*

We administer the licensing scheme for water services providers in Western Australia, in accordance with the [Water Services Act 2012](#) (Act).

Water service providers are businesses that supply water, sewerage, drainage and irrigation services. Under the Act, water service providers must hold a licence, unless they have been exempt by the Governor.

We periodically review the template licences in each of the utility sectors. This year, we undertook a review of water services licences. The focus of the review was to ensure that water services licenses were consistent with best practice licensing principles and legislative requirements.

The review focused on the format of the standard water licence template, including its terms and conditions, as well as circumstances where deviations from the standard template may be required. We sought to reduce compliance costs on business by removing redundant licence conditions.

During the review, we conducted a three-stage public consultation process. The first stage involved requesting stakeholders to identify issues with the existing licences for inclusion in a discussion paper. The second stage involved requesting comments on the [discussion paper](#) and a proposed standard template water services licence. In the third stage, we invited licensees to comment on our final proposed amendments to their licence, which is a legislative requirement for ERA-initiated licence amendments.

As a consequence of these consultations and our own [deliberations](#), we made the following key changes to the [template water services licence](#).

- We removed a licence clause requiring irrigators to notify customers each year that water supplied for irrigation purposes is not suitable for drinking.
- We made two amendments to the obligations associated with drinking water pressure and flow exemptions, including a requirement to notify customers affected by pressure and flow exemptions.
- We made two amendments to provide the Department of Health and drinking water licensees greater discretion about the need to enter into memoranda of understanding and the contents of those documents.

- We made amendments to clarify the definitions of ‘customer’ and ‘potable water’.

On 1 July 2016, the licences of each of the 19 water service providers will be substituted with a new licence.

Following the water licence review, we published revised licence application guidelines to assist potential licence applicants prepare their applications. The guidelines provide advice on statutory obligations and the information needed to support applications for new licences, or applications to renew, transfer, surrender or cancel existing licences.

### Monitoring

#### *Licence audits and asset management reviews*

Utility licences establish minimum standards for service quality, reliability of supply, public safety and customer service. It is important that licensees comply with these standards.

We monitor licensees’ compliance with their licence obligations through regular performance audits (audits). We also monitor how effectively licensees are managing assets used to deliver licensed services through regular effectiveness reviews of their asset management systems (reviews).

Both the audits and reviews are undertaken by independent experts at standard intervals of two years. However, the ERA has the discretion

to increase the interval until the next audit or review based on the licensee’s performance. A high level of performance is rewarded with an increased interval, while poor performance maintains the minimum interval of two years.

The licence audit and review reports are public documents and are available on our [website](#).

Table 6 details all the licence audits and reviews undertaken in 2015-16, and whether we decided to maintain, increase or decrease the period until the next audit or review. In summary:

- 24 audits and 17 reviews of service providers were completed in 2015-16.
- The interval until the next audit remained unchanged for 13 service providers and the interval until the next review remained unchanged for five service providers in 2015-16.
- The interval until the next audit was increased for 11 service providers and the interval until the next review was increased for eight service providers.
- In 2015-16, we deferred a decision on the interval until the next review for four water services providers, until they made progress towards addressing outstanding problems identified in their previous review. The four water service providers are the Shires of Dumbleyung, Lake Grace and Morawa, and Gascoyne Water Cooperative.

- In addition, in 2015-16, the ERA made a decision on the audit and review period for two licensees. We had deferred our decision on the audit or review period after the previous audit or review in 2014-15. The ERA decided to increase the review period of the Shire of Jerramungup to 36 months; and the audit and review period of the City of Kalgoorlie Boulder was retained at 24 months.

### *Inspections of assets and asset management systems of water licensees*

The water licensing legislation includes provisions for us to appoint inspectors, who are authorised to inspect the water service assets and the asset management systems of licensees.

This year, for the first time, we completed two inspections: the Shire of Dumbleyung and the Shire of Lake Grace. The most recent reviews of both licensees identified significant problems with the condition of their assets and their asset management documentation.

The inspection of the Shire of Dumbleyung found there were still a number of significant problems with the Shire's assets, so we decided to serve a section 31 rectification notice on the Shire, requiring the problems to be fixed by 30 June 2016. We will conduct a further inspection after the 30 June deadline.

**Table 6 Summary of licence audits and reviews undertaken in 2015-16**

| Company                    | Licence type | Audit and Review Complete |        | Audit Timeframe        | Review Timeframe       |
|----------------------------|--------------|---------------------------|--------|------------------------|------------------------|
|                            |              | Audit                     | Review | Decision               | Decision               |
| <b>Electricity</b>         |              |                           |        |                        |                        |
| Amanda Energy              | ERL          | ✓                         | -      | Retained at 24 Months  | Not Applicable         |
| ERM Power Retail           | ERL          | ✓                         | -      | Increased to 48 Months | Not Applicable         |
| Blair Fox Energy Retail    | ERL          | ✓                         | -      | Increased to 48 Months | Not Applicable         |
| Synergy                    | ERL          | ✓                         | -      | Retained at 24 Months  | Not Applicable         |
| Blue Star Energy           | ERL          | ✓                         | -      | Increased to 48 Months | Not Applicable         |
| Emu Downs Wind Farm        | EGL          | ✓                         | ✓      | Increased to 48 Months | Increased to 48 Months |
| WR Carpenter Number 1      | EGL          | ✓                         | ✓      | Increased to 60 months | Increased to 60 months |
| Horizon Power              | EIRL         | ✓                         | -      | Retained at 24 Months  | Not Applicable         |
| Rottnest Island Authority  | EIRL         | ✓                         | ✓      | Retained at 24 Months  | Retained at 24 Months  |
| <b>Gas</b>                 |              |                           |        |                        |                        |
| Synergy                    | GTL          | ✓                         | -      | Increased to 48 Months | Not Applicable         |
| <b>Water</b>               |              |                           |        |                        |                        |
| Water Corporation          | WL           | ✓                         | ✓      | Retained at 36 Months  | Increased to 36 Months |
| Aquasol                    | WL           | ✓                         | ✓      | Increased to 36 Months | Increased to 36 Months |
| Gascoyne Water Cooperative | WL           | ✓                         | ✓      | Increased to 36 Months | Deferred decision      |
| Ord Irrigation Cooperative | WL           | ✓                         | ✓      | Increased to 48 Months | Increased to 48 Months |
| Rottnest Island Authority  | WL           | ✓                         | ✓      | Retained at 24 Months  | Retained at 24 Months  |
| Shire of Dalwallinu        | WL           | ✓                         | ✓      | Retained at 36 Months  | Retained at 36 Months  |
| Shire of Denmark           | WL           | ✓                         | ✓      | Increased to 36 Months | Increased to 36 Months |
| Shire of Dumbleyung        | WL           | ✓                         | ✓      | Retained at 36 Months  | Deferred decision      |
| Shire of Koorda            | WL           | ✓                         | ✓      | Retained at 36 Months  | Retained at 36 Months  |
| Shire of Lake Grace        | WL           | ✓                         | ✓      | Retained at 36 Months  | Deferred decision      |
| Shire of Morawa            | WL           | ✓                         | ✓      | Retained at 36 Months  | Deferred decision      |
| Shire of Moora             | WL           | ✓                         | ✓      | Retained at 36 Months  | Increased to 36 Months |
| Shire of Ravensthorpe      | WL           | ✓                         | ✓      | Increased to 36 Months | Increased to 36 Months |
| Shire of Wickepin          | WL           | ✓                         | ✓      | Retained at 36 Months  | Retained at 36 Months  |

The inspection of the Shire of Lake Grace found most of the assets were well maintained, but more work was required to improve its asset management documentation. We decided to give the Shire until September 2016 to address the outstanding issues.

We have recently commenced an inspection of Gascoyne Water Cooperative's asset management system, following up on problems identified in its last review. The report on the inspection is expected to be published in August 2016.

### [Reporting handbooks, datasheets and manuals](#)

Electricity, gas and water licences include a condition requiring licensees to provide us with annual (non-financial) performance data. This helps us monitor the individual performance of licensees and examine performance trends across each sector. We publish the consolidated performance data for each sector annually in the performance reports on energy (electricity and gas) retailers, energy distributors and water service providers. These performance reports are discussed in more detail below)

To assist licensees in preparing and submitting their performance data we publish reporting handbooks, manuals and template reporting datasheets each year. The handbooks specify the performance indicators that are to be reported by licensees, the definitions of

performance indicators, and how to calculate performance data (where applicable). The manuals, handbooks and datasheets for 2015-16 are available on the ERA website:

### [Electricity Reporting Documents](#)

### [Gas Reporting Documents](#)

### [Water Reporting Documents](#)

### [Annual service provider performance reports](#)

We publish three annual reports on the performance of electricity, gas and water service licensees in Western Australia. The reports cover the performance of [energy distributors](#), [energy retailers](#) and [water service providers](#).

The performance reports inform customers, government and the community about the level of service being delivered to small use customers – some of which do not have a choice of service provider. Publishing performance indicators on Western Australian energy and water service providers ensures greater accountability and transparency.

### **Energy distributors:**

The report on energy distributors covers the performance of electricity and gas distributors that serve small use (residential and small business) customers. The report focuses on three key areas: customers' access to a supply; distribution network reliability; and the level of customer service.

The 2015 annual performance report found some significant benefits had been achieved for the average small use customer:

- The number of customers that Western Power had not provided with the required 72 hours' notice of a planned interruption was 341, a six year low.
- All three electricity distributors (Horizon Power, Rottnest Island Authority and Western Power) reported improved call centre performance in 2015. The improvements by Horizon Power and Western Power are partly due to the new online communications channels, which reduced the number of calls to their call centres.

### **Energy retailers:**

The report on energy retailers covers the performance of electricity and gas retail businesses that serve small use customers. The report may also be used to benchmark performance against similar businesses in other energy markets.

The 2015 annual performance report for retailers focuses on three key areas: affordability; access to a supply; and customer service. Key findings from the report include:

- Complaints from residential and non-residential (small business) electricity customers both reached six year lows, down to 0.31 and 0.26 complaints per 100 customers respectively.

- Competition in the natural gas market intensified: in 2015, Kleenheat supplied 7 per cent of residential and 9.7 per cent of non-residential customers, up from 3.3 per cent and 2.7 per cent respectively in the previous year.

### Water, sewerage and irrigation:

The report on water, sewerage and irrigation covers the performance of 32 drinking water schemes and 22 sewerage schemes, and the two largest irrigators in the state.

We publish the annual report to bring transparency and accountability to the performance of the larger water, sewerage and irrigation service providers, with a focus on the level of service provided to customers over time.

Key findings from the report include:

- Complaints about water remain close to, or at, record low levels, while sewerage complaints reached a new record low in 2015.
- Properties connected to a water supply reached 1 million for the first time. Connections in Perth grew by 2.7 per cent, and connections in regional towns grew by 1.4 per cent.

### Customer protection

Our customer protection function helps to ensure that customers of electricity, gas and water service providers have certain basic protections in place. This includes the approval of standard form contracts of electricity and gas licensees and the approval of financial hardship policies of water licensees.

We also provide executive support to several independent statutory committees. These are the Electricity Code Consultative Committee and the Gas Marketing Code Consultative Committee in their respective reviews of the [Code of Conduct for the Supply of Electricity to Small Use Customers](#) (Electricity Code) and the [Gas Marketing Code of Conduct](#) (Gas Code).

In 2016, the ERA established a new consultative committee: the Water Code Consultative Committee. The purpose of the Water Code Consultative Committee is to provide advice to the ERA on the ERA's amendments to the [Water Services Code of Conduct \(Customer Service Standards\)](#) (Water Code). We will provide executive support to the Water Code Consultative Committee when it meets to provide advice to the ERA regarding the inaugural review of the Water Code.

Following advice from the consultative committees, the Customer Protection team is responsible for facilitating amendments by the ERA to the relevant codes of conduct.

This year, the Customer Protection team implemented amendments to the Electricity Code.

The ERA's Consumer Consultative Committee is also supported by the Customer Protection Team, although the interests of this committee relate to the work of the whole of the ERA, not just that of the Customer Protection team.

More details on these committees, including membership, is provided in the section titled Independent Statutory Committees.

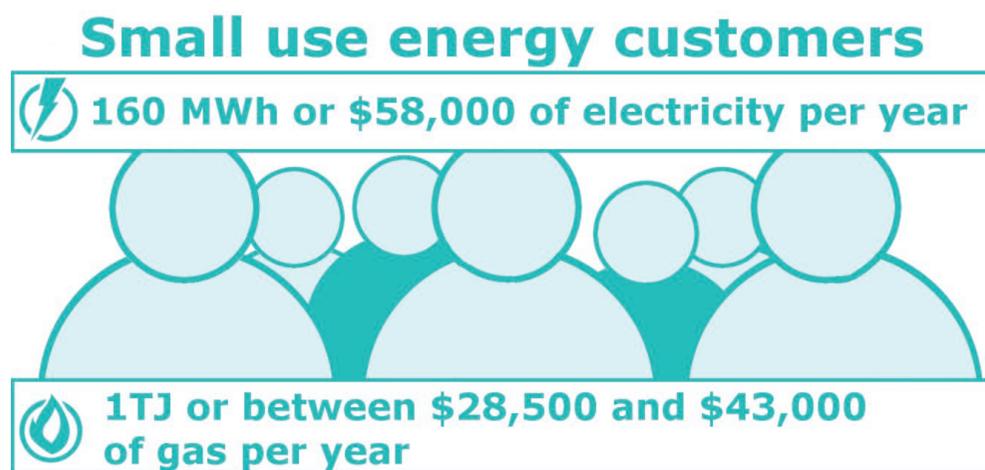
### *Energy standard form contract approvals*

Every electricity retailer and gas trader that supplies energy to small use customers must have a standard form contract approved by us. Standard form contracts specify the minimum terms and conditions on which a retailer will supply electricity or gas, providing a 'safety net' for small use customers.

Standard form contracts are required for electricity licensees under the [Electricity Industry Act 2004](#) and for gas licensees under the [Energy Coordination Act 1994](#).

Small use customers are typically residential and small business customers who consume less than 160MWh of electricity per year (approximately \$58,000) or 1 TJ of gas per year (between \$28,500 and \$43,000).

Figure 22 Small use energy customers



A retailer and small use customer may negotiate terms and conditions different from the retailer's standard form contract, referred to as a "non-standard contract". A non-standard contract does not require our approval. However, it must still comply with relevant legislation.

During the reporting year, we approved new electricity standard form contracts for [AER Retail Pty Ltd](#) and [Amanda Energy Pty Ltd](#).

We must also approve any amendments to a standard form contracts. During the reporting year, we approved amendments to the standard form contract of [Alinta Sales Pty Ltd](#).

### *Financial hardship policies*

Electricity and gas retailers that supply energy to residential customers must have a financial hardship policy to assist customers that are having payment difficulties.

We are not required to approve financial hardship policies, but the retailer must carry out a review of its policy if requested by us. The retailer must then provide us with a copy of the results of its review, along with a copy of its policy.

We made changes to our Financial Hardship Policy Guidelines in 2014-15 and asked all electricity and gas licensees who supply residential customers to review their hardship policy and hardship procedures by 1 July 2015 in line with the new guidelines.

We published copies of the revised hardship policies for [electricity](#) and [gas](#) in October 2015.

### *Electricity Code Review*

As part of the *Electricity Industry Act 2004*, the Electricity Code regulates the conduct of electricity retailers, distributors and marketing agents. Regular reviews of the Electricity Code occur in an open and publicly accountable way to ensure the Code remains relevant and effective, and gives representatives of industry and consumers a direct role in the process.

The Electricity Code must be reviewed every two years by the Electricity Code Consultative Committee. The fifth review of the Electricity Code began in August 2015, and was completed in June 2016.

Following a consultation process, the Electricity Code Consultative Committee proposed a series of amendments to the Code. The amendments were gazetted on 17 June 2016 and the new Code will come into effect on 1 July 2016.

The majority of the amendments to the Code were made to clarify the intent of relevant clauses. However, some substantive amendments were also made, including:

- increasing the minimum time-frame for sending out reminder notices and disconnection warnings (taking into account Australia Post's increased delivery time-frames);

- allowing retailers to arrange disconnection of a customer's supply address if access to the meter has been denied for more than nine months (down from 12 months); and
- no longer requiring distributors to provide life support equipment customers with three business days' notice of a planned interruption if the reason for the interruption is to reconnect supply.

### Independent statutory committees

#### *Electricity Code Consultative Committee*

The [Electricity Code Consultative Committee](#) is a statutory committee that reviews and provides advice to the ERA on matters relating to the Electricity Code.

The Electricity Code Consultative Committee consists of four industry representatives, four consumer organisation representatives, two government agency representatives and a non-voting chairperson and executive officer. Current members include:

Consumer representatives:

- Mr Charles Brown (Financial Counsellors Association of WA)
- Mr Matthew Sargeant (Chamber of Commerce and Industry)
- Mr Mark Fitzpatrick (St Vincent de Paul)
- Ms Justine Clarke (Midland Information Debt and Legal Advocacy Service Inc)

Industry representatives:

- Ms Catherine Rousch (Alinta Energy)
- Mr Gino Giudice (Western Power)
- Mr Simon Thackray (Synergy)
- Ms Melanie Gordon (Wesfarmers Kleenheat Gas)

Government representatives:

- Mr Alex Kroon (Public Utilities Office)
- Ms Sarah Hazell (Department of Commerce)

Mr Paul Kelly (ERA) chaired the Electricity Code Consultative Committee and Ms Caroline Coutts-Kleijer (ERA) was the executive officer.

#### *Gas Marketing Code Consultative Committee*

The [Gas Marketing Code Consultative Committee](#) is an independent statutory committee established to review and provide advice to the ERA on matters relating to the Gas Code.

The Gas Marketing Code Consultative Committee consists of three consumer representatives (one of the positions is currently vacant), three industry representatives, two government representatives, a non-voting chairperson and an executive officer. The Gas Marketing Code Consultative Committee membership for the year was as follows:

Industry representatives:

- Ms Catherine Rousch (Alinta Energy)
- Mr Simon Thackray (Synergy)
- Mr John Saratsis (Wesfarmers Kleenheat)

Consumer representatives:

- Mr Matthew Sargeant (Chamber of Commerce and Industry)
- Mr Charles Brown (Financial Counsellors Association of WA)

Government representatives:

- Ms Sarah Hazell (Department of Commerce)
- Mr James McIntosh (Public Utilities Office)

Mr Paul Kelly (ERA) chairs the Gas Marketing Code Consultative Committee and Ms Cathryn Greville (ERA) was the executive officer for the 2014-15 Code Review.

The Gas Marketing Code Consultative Committee did not undertake any work during 2015-16, as the next review is scheduled for 2016-17.

#### *Water Code Consultative Committee*

The ERA, in consultation with the [Water Code Consultative Committee](#), will commence its inaugural review of the Water Code during 2016-17. The Water Code Consultative Committee is an independent statutory committee established to advise the ERA on

matters relating to the Water Code and any proposed amendment to, or replacement of, the Water Code.

Members of the Water Code Consultative Committee were appointed in June 2016 and include three industry representatives, three consumer representative organisation representatives, two government agency representatives, a non-voting chairperson and executive officers. Current members are:

Consumer representatives:

- Mr Charles Brown (Financial Counsellors Association of WA)
- Mr Dale Leggett (Chamber of Commerce and Industry)
- Ms Kathryn Lawrence (Citizens Advice Bureau of WA Inc)

Industry representatives:

- Mr Garry Peach (Water Corporation)
- Mr Jason Rice (Busselton Water)
- Mr Keith Boase (City of Kalgoorlie-Boulder)

Government representatives:

- Ms Chanelle Dumas (Department of Water)
- Ms Patricia Blake (Department of Commerce)

Mr Paul Kelly (ERA) chairs the Water Code Consultative Committee and Ms Caroline Coutts-Kleijer (ERA) is the executive officer.

### *Economic Regulation Authority Consumer Consultative Committee*

The [ERA Consumer Consultative Committee](#) is the ERA's key customer liaison committee and was established to ensure that our communication and compliance strategies meet the needs of consumers. The ERA Consumer Consultative Committee meets quarterly and includes representatives from a range of consumer and industry organisations.

ERA Consumer Consultative Committee members inform us about issues affecting both the groups they represent, and consumers more generally. The ERA Consumer Consultative Committee also has a role in informing consumers about our work. Members are also invited to provide feedback on ERA initiatives. In turn, members are encouraged to use the knowledge gained through the ERA Consumer Consultative Committee to improve community understanding of the role of the ERA. The ERA Consumer Consultative Committee also provides the ERA an opportunity to promote open consultation processes to members.

Highlights from the quarterly meetings held during the year included:

- regular briefings by our staff on issues of relevance to ERA Consumer Consultative Committee members and to the community, and the current work being undertaken by us (for example, our inquiries and changes in the licensing area);

- a continued focus on conveying technical information relating to our work in a manner that is clear and accessible to all members; and
- presentations from ERA Consumer Consultative Committee members and invited guests about issues specific to their constituencies and issues of general interest to it.

Following the expiration of ERA Consumer Consultative Committee membership terms in February 2016, we appointed the following members for the new 2016-2018 term:

- WA Council of Social Service (Irina Cattalini)
- WA Farmers Federation (Tony York)
- Pastoralists and Graziers Association of WA (Gary McGill)
- Chamber of Commerce and Industry of WA (Luke Hoare)
- Financial Counsellors Association of WA (Charles Brown)
- Chamber of Minerals and Energy of WA (Benjamin Hammer)
- WA Local Government Association (Dana Mason)
- Property Council of Australia (David Moore-Crouch)
- Individual member (Christine Coyne)

We also re-appointed the following observers:

- Energy and Water Ombudsman WA (Marcus Claridge)
- Department of Commerce (Gary Newcombe)

We greatly appreciate the contribution that members make through their involvement in the ERA Consumer Consultative Committee.

## Corporate services

The Corporate Services division of the ERA has a strong focus on improving the overall performance of the organisation. Key activities this year included: improving corporate governance; improving human resource systems; coordinating a functional review of parts of the organisation; and improving the way we communicate with external stakeholders.

### Corporate governance

In 2015-16, we commissioned a corporate governance audit, as part of our internal audit program. The auditor identified opportunities to improve the corporate governance arrangement applying to Governing Body members.

As a result of this audit, we have completely rewritten our corporate governance documents for Governing Body members, consisting of: a corporate governance manual; a code of conduct for members of the Governing Body; rules for Governing Body meetings; and an induction and training manual for members of the Governing Body. These documents will be presented to the Governing Body for approval in early 2016-17.

We also commenced a review of our delegations manual in June. Under section 29 of the *Economic Regulation Authority Act 2003*, certain approval powers can be delegated from the Governing Body to the chairperson or members of the Secretariat. The delegation manual

establishes the types of approvals that can be delegated and to whom they can be delegated. The review of the delegations manual was due to be completed by July 2016.

**Figure 23 Corporate Services staff**



### Human resources systems

In July 2015, we introduced a new electronic timesheet in our human resource management information system. Under the new system, staff are required to allocate their hours worked against projects. In part, this was necessary to obtain better information to support industry funding calculations. However, the system also allow us to better understand the number of staff hours required to complete particular projects, facilitating better planning and the ability to take remedial action to prevent projects going over budget.

We are in the process of implementing a performance management module in our human resource management information system. This module will allow us to better record the outcome of bi-annual performance management discussions in an electronic environment.

We are reviewing internal information about human resource policies, working conditions and entitlements and putting this information into a centralised human resource manual. This will help staff by providing a reliable and consolidated source of information.

### Functional review

The functions of the ERA will undergo changes, with some of these changes commencing from 1 July 2016. These changes will involve the ERA assuming additional responsibilities for regulating the wholesale electricity market, and the planned transfer of our access functions for electricity and gas to the Australian Energy Regulator.

These changes created a need to restructure the Secretariat of the ERA. In 2015-16, the Governing Body approved a new organisational structure, with the first phase of the restructure to be implemented from 1 July 2016.

It is important to ensure that we have an appropriate balance of staff across our functional areas, with the right mix of skills to undertake the functions required of the ERA. In 2015-16, we engaged external consultants to undertake reviews of the Corporate Services and Licensing, Monitoring and Customer Protection divisions. Decisions arising from this review process may be implemented in January 2017, allowing time for the organisation to implement and adapt to changes in our functions.

### Communications

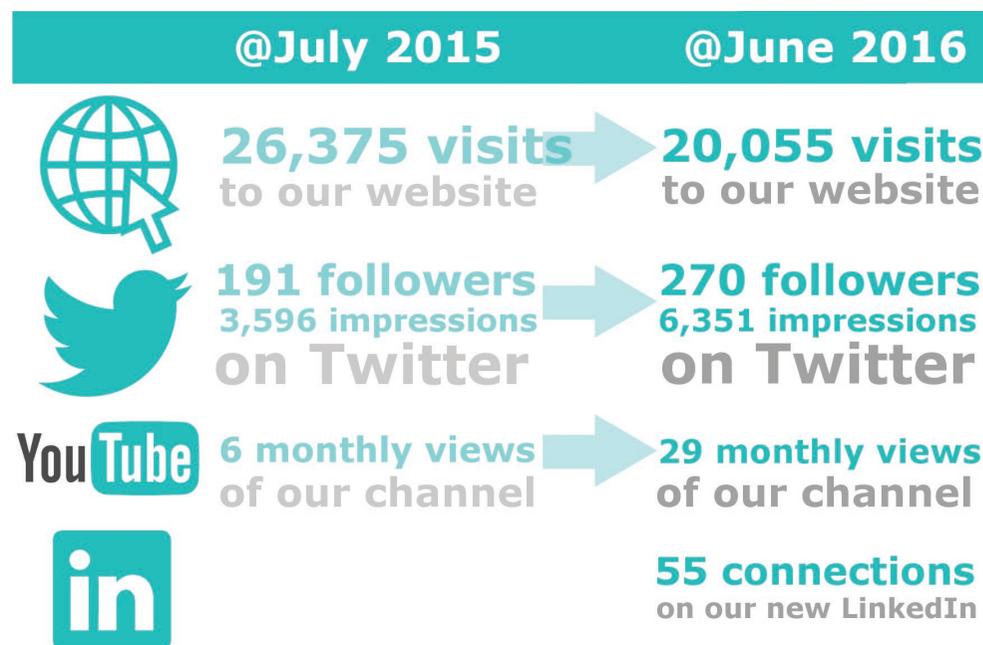
This year we developed and implemented a new communication and media policy, along with an accompanying communication strategy. The primary objective was to increase our profile and ensure the wider public

understands what we do and how we represent their best interests. We're committed to promoting public confidence and trust in the regulatory process, communicating in plain English. Another initiative was the release of a transparency statement, which explains why transparency is critical to independent economic regulation.

### Social media

This year we focused on increasing our profile on our three social media platforms – Twitter, LinkedIn and YouTube. Through cross-promotion, we actively encouraged stakeholders to follow us on Twitter and connect with us on LinkedIn. Our engagement strategies for Twitter included using hashtags and referencing other user accounts, and tweeting stories of value and interest to the industries we regulate.

Figure 24 Social media statistics





We have increasingly used YouTube videos to distil and share complex information. For example, the prison inquiry video recorded by (then) Governing Body chair, Stephen King, provided an engaging overview of the report's findings and recommendations. We also produced videos explaining what we do, summarising our last annual report and highlighting what staff like about working at the ERA.

### *Communicating with stakeholders*

We communicate with our stakeholders via regular email notifications, through our social media channels, by inviting them to make submissions via our website, through our media statements and via stakeholder workshops.

An external communication initiative was the launch of a monthly email summary of our notices, aimed at time-poor stakeholders. To add a human face to our work and explain various job roles and responsibilities, each edition features a staff profile.



# SIGNIFICANT ISSUES IMPACTING THE AGENCY

The 2016-17 financial year will be a year of transition for the ERA, with changes to: key personnel on the Governing Body; our functions and responsibilities; and the structure of the ERA.

## Changes to the Governing Body

The Governor has appointed Ms Nicky Cusworth as chair of the Economic Regulation Authority. Ms Cusworth's term as full-time chair will commence on 4 July 2016 for a period of five years.

Ms Cusworth is a highly regarded economist with extensive knowledge of the Western Australian economy, and significant experience in the public sector. Prior to joining the ERA, Ms Cusworth was Deputy Director General of the Department of State Development. She has previously worked as Director of Macro-economic Policy at the Department of Treasury and Finance, and as Chief Economist of the Chamber of Commerce and Industry of Western Australia.

Professor Stephen King has resigned as a member of the Governing Body, with effect from 30 June 2016. Stephen will commence as a full-time commissioner with the Productivity Commission from 1 July 2016.

We will miss Stephen's personal and intellectual contribution and wish him well in his new role.

It is anticipated that a new member will join the Governing Body in 2016-17.

Mr Steve Edwell continues as a long-standing member of the Governing Body and will have an important role in ensuring a smooth transition and corporate knowledge at the board level in this period.

## Wholesale electricity market

From 1 July 2016, the ERA will begin to assume additional responsibilities for regulating the wholesale electricity market.

The compliance and enforcement functions of the Independent Market Operator are being transferred to the ERA. The ERA will be responsible for monitoring the wholesale electricity market and identifying and investigating anomalous behaviour. These functions will also involve a liaison role with market participants, focussed on educating and engaging with them to ensure appropriate market behaviour and compliance with the rules.

There are also a number of other reforms arising from the electricity market review process, some of which may further affect the functions of the ERA. We continue to work with the Public Utilities Office on the reform process.

Our existing responsibilities for electricity and gas access will be transferred to the Australian Energy Regulator, if legislation is passed by Parliament. However, we will continue to undertake prescribed functions in 2016-17 to assist the transition of electricity access regulation to the Australian Energy Regulator.

## Changes to the structure of the Secretariat

Changes to our functions have created a need to restructure the Secretariat of the ERA. In 2015-16, the Governing Body approved a new organisational structure, to be implemented in 2016-17.

It is intended that the new structure will be introduced in two stages. The first stage will commence from 1 July 2016. This stage will involve the inquiries team transferring from the economics division to the access division to form a new access and inquiries division. The economics division will be re-named the markets division, with an expanded range of functions arising from the electricity market review process.

The second stage of the restructure is dependent upon our regulatory responsibilities for electricity and gas networks being transferred to the Australian Energy Regulator. If this occurs, the new access and inquiries division will be merged with the licensing,

monitoring and customer protection division, to form a regulation and inquiries division. As part of this process, the executive director positions for the regulation and inquiries division and the markets division will be advertised. The number of executive directors in our organisation will be reduced from three to two.

Our functions may eventually include responsibilities for regulating access to, and pricing of, the facilities and services of Fremantle Port and Utah Point. The Government has introduced the [Fremantle Port Assets \(Disposal\) Bill 2016](#) and [Pilbara Port Assets \(Disposal\) Bill 2015](#) to Parliament. The bill for Fremantle Port names the Economic Regulation Authority as the regulator of the access and pricing regime.

## Agency expenditure review

As part of the 2016-17 State Budget, the Treasurer decided that the Economic Regulation Authority would be the subject of an agency expenditure review.

The aim of an agency expenditure review is to identify savings by undertaking a critical examination and re-definition of the entirety of an agency's programs. We are required to identify \$75,000 per annum of savings as part of this process.

We will work cooperatively with the Department of Treasury to review our programs and how they are delivered in the course of 2016-17.

## Appeal of gas access arrangements

Under the [National Gas Law](#), network owners have the right to appeal to the Australian Competition Tribunal (Tribunal) if they consider that a materially preferable decision could have been made as an alternative to the decision determined by the ERA.

When a decision is appealed, the Tribunal may conduct a review of elements of our decision. A review by the Tribunal may lead to a re-consideration of a matter. This is known as a 'limited merits review'.

Following an application by ATCO Gas Australia the Tribunal has conducted a review of our decision on the Mid-West and South-West Gas Distribution Systems. An outcome from this review is expected in July 2016. If the Tribunal finds error in our decision, the matter will be referred back to us for redetermination during 2016-17.

The ERA published its final decisions on the Goldfields Gas Pipeline and Dampier to Bunbury Natural Gas Pipeline on 30 June 2016. The owners of these pipelines may decide to apply to the Tribunal for a review of these decisions.



## Review of the water code

We are required to undertake a review of the *Water Services Code of Conduct (Customer Service Standards) 2013 (Code)* every five years. The first review of the Code will start in 2016-17.

The Code deals with the conduct of water licensees in relation to customers and potential

customers. More specifically, it sets out key provisions relating to connections to water services, billing and payment, customers in financial hardship, suspension of water services, information requirements and complaint procedures.

We have established a Water Code Consultative Committee to assist in the review process, as required under legislation.

# DISCLOSURES AND LEGAL COMPLIANCE



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 2016, 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.

#### *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 2016 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.

#### *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 for the Audit of the Financial Statements*

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.

Page 1 of 3

7th Floor Albert Facey House 469 Wellington Street Perth MAIL TO: Perth BC PO Box 8489 Perth WA 6849 TEL: 08 6557 7500 FAX: 08 6557 7600

### Report on Controls

I have audited the controls exercised by the Economic Regulation Authority during the year ended 30 June 2016.

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.

#### Opinion

In my opinion, in all material respects, 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 2016.

#### 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 for the Audit of Controls

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.

### Report on the Key Performance Indicators

I have audited the key performance indicators of the Economic Regulation Authority for the year ended 30 June 2016.

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

#### Opinion

In my opinion, in all material respects, 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 2016.

#### 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 for the Audit of Key Performance Indicators

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.

#### Independence

In conducting the above audits, 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 2016 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.



COLIN MURPHY  
AUDITOR GENERAL  
FOR WESTERN AUSTRALIA  
Perth, Western Australia  
3 August 2016

## Financial statements

### Certification of financial statements

For the year ended 30 June 2016

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 2016 and the financial position as at 30 June 2016.

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



**Ms Pam Herbener**  
Chief Finance Officer  
1 August 2016



**Dr Stephen King**  
Member of Accountable Authority  
1 August 2016



**Mr Steve Edwell**  
Member of Accountable Authority  
1 August 2016

## Statement of comprehensive income

For the year ended 30 June 2016

|   | Note | 2016<br>\$000  | 2015<br>\$000  |
|---|------|----------------|----------------|
| <b>COST OF SERVICES</b>                                     |      |                |                |
| <b>Expenses</b>   |      |                |                |
| Employee benefits expense                                   | 6.   | 7,417          | 7,356          |
| Supplies and services                                       | 7.   | 2,786          | 2,137          |
| Depreciation and amortisation expense                       | 8.   | 49             | 33             |
| Accommodation expenses                                      | 9.   | 1,177          | 1,151          |
| Other expenses  | 10.  | 40             | 82             |
| <b>Total cost of services</b>                               |      | <b>11,469</b>  | <b>10,759</b>  |
| <b>Income</b>   |      |                |                |
| <i>Revenue</i>  |      |                |                |
| Regulatory fees   | 11.  | 8,966          | 6,845          |
| Interest revenue  | 12.  | 46             | 71             |
| Other revenue   | 13.  | 71             | 27             |
| <b>Total revenue</b>  |      | <b>9,083</b>   | <b>6,943</b>   |
| <b>Total income other than income from State Government</b> |      | 9,083          | 6,943          |
| <b>NET COST OF SERVICES</b>                                 |      | <b>(2,386)</b> | <b>(3,816)</b> |
| <b>Income from State Government</b>                         |      |                |                |
| Service appropriation                                       | 14.  | 2,438          | 3,967          |
| Services received free of charge                            |      | 282            | 345            |
| <b>Total income from State Government</b>                   |      | <b>2,720</b>   | <b>4,312</b>   |
| <b>SURPLUS/(DEFICIT) FOR THE PERIOD</b>                     |      | <b>334</b>     | <b>496</b>     |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>            |      | <b>334</b>     | <b>496</b>     |

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

## Statement of financial position

As at 30 June 2016

|                                      | Note    | 2016<br>\$000 | 2015<br>\$000 |
|--------------------------------------|---------|---------------|---------------|
| <b>ASSETS</b>                        |         |               |               |
| <b>Current assets</b>                |         |               |               |
| Cash and cash equivalents            | 26.     | 3,353         | 3,007         |
| Restricted cash and cash equivalents | 15. 26. | 12            | 291           |
| Receivables                          | 16.     | 3,165         | 3,033         |
| Amounts receivable for services      | 17.     | 9             | 17            |
| Other current assets                 | 18.     | 187           | 116           |
| <b>Total current assets</b>          |         | <b>6,726</b>  | <b>6,464</b>  |
| <b>Non-current assets</b>            |         |               |               |
| Amounts receivable for services      | 17.     | 447           | 352           |
| Plant and equipment                  | 19.     | 200           | 175           |
| Intangible assets                    | 20.     | 19            | 15            |
| <b>Total non-current assets</b>      |         | <b>666</b>    | <b>542</b>    |
| <b>TOTAL ASSETS</b>                  |         | <b>7,392</b>  | <b>7,006</b>  |
| <b>LIABILITIES</b>                   |         |               |               |
| <b>Current liabilities</b>           |         |               |               |
| Payables                             | 22.     | 655           | 733           |
| Provisions                           | 23.     | 1,672         | 1,526         |
| Other liabilities                    | 24.     | -             | 9             |
| <b>Total current liabilities</b>     |         | <b>2,327</b>  | <b>2,268</b>  |
| <b>Non-current liabilities</b>       |         |               |               |
| Provisions                           | 23.     | 344           | 303           |
| <b>Total non-current liabilities</b> |         | <b>344</b>    | <b>303</b>    |
| <b>TOTAL LIABILITIES</b>             |         | <b>2,671</b>  | <b>2,571</b>  |
| <b>NET ASSETS</b>                    |         | <b>4,721</b>  | <b>4,435</b>  |
| <b>EQUITY</b>                        |         |               |               |
| Contributed equity                   | 23.     | 725           | 773           |
| Accumulated surplus/(deficit)        |         | 3,996         | 3,662         |
| <b>TOTAL EQUITY</b>                  |         | <b>4,721</b>  | <b>4,435</b>  |

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 2016

|   | Note | Contributed<br>equity<br>\$000 | Reserves<br>\$000 | Accumulated<br>surplus/(deficit)<br>\$000 | Total<br>equity<br>\$000 |
|---|------|--------------------------------|-------------------|---|--------------------------|
| <b>Balance at 1 July 2014</b>                           |      | 773                            | -                 | 3,166                                     | 3,939                    |
| Total comprehensive income for the period               |      | -                              | -                 | 496                                       | 496                      |
| <b>Balance at 30 June 2015</b>                          |      | <b>773</b>                     | <b>-</b>          | <b>3,662</b>                              | <b>4,435</b>             |
| <b>Balance at 1 July 2015</b>                           | 25   | 773                            | -                 | 3,662                                     | 4,435                    |
| Total comprehensive income for the period               |      | -                              | -                 | 334                                       | 334                      |
| Distribution to Owner - Return of unspent capital funds |      | (48)                           | -                 | -   | (48)                     |
| <b>Balance at 30 June 2016</b>                          |      | <b>725</b>                     | <b>-</b>          | <b>3,996</b>                              | <b>4,721</b>             |

*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 2016

|  | Note | 2016<br>\$000  | 2015<br>\$000  |
|--|------|----------------|----------------|
| <b>CASH FLOWS FROM STATE GOVERNMENT</b>                    |      |                |                |
| Service appropriation                                      |      | 2,286          | 3,885          |
| Holding account drawdowns                                  |      | 17             | 301            |
| <b>Net cash provided by State Government</b>               |      | <b>2,303</b>   | <b>4,186</b>   |
| Utilised as follows:                                       |      |                |                |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                |      |                |                |
| <b>Payments</b>  |      |                |                |
| Employee benefits  |      | (7,419)        | (7,292)        |
| Supplies and services                                      |      | (2,716)        | (1,849)        |
| Depreciation and amortisation                              |      | -              | -              |
| Accommodation  |      | (934)          | (909)          |
| GST payments on purchases                                  |      | (377)          | (317)          |
| Other payments   |      | (40)           | (82)           |
| <b>Receipts</b>  |      |                |                |
| Regulatory fees  |      | 8,894          | 5,744          |
| Interest received  |      | 46             | 71             |
| GST receipts on sales                                      |      | 87             | 89             |
| GST receipts from taxation authority                       |      | 230            | 269            |
| Other receipts   |      | 71             | 27             |
| <b>Net cash provided by/(used in) operating activities</b> | 26.  | <b>(2,158)</b> | <b>(4,249)</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                |      |                |                |
| <b>Payments</b>  |      |                |                |
| Purchase of non-current physical assets                    |      | (78)           | (196)          |
| <b>Net cash provided by/(used in) investing activities</b> |      | <b>(78)</b>    | <b>(196)</b>   |
| Net increase/(decrease) in cash and cash equivalents       |      | 67             | (259)          |
| Cash and cash equivalents at the beginning of period       |      | 3,298          | 3,557          |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF PERIOD</b>      | 26.  | <b>3,365</b>   | <b>3,298</b>   |

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 2016

### Note 1. Australian Accounting Standards

#### General

The Authority's financial statements for the year ended 30 June 2016 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 any other Australian Accounting Standards that have been issued or amended (but not operative) by the Authority for the annual reporting period ended 30 June 2016.

### 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 2006* and the Treasurer's Instructions impose legislative provisions that govern the preparation of financial statements and take precedence over Australian Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the AASB.

Where modification is required and has had a material or significant financial effect upon the reported results, details of that modification and the resulting financial effect are disclosed in the notes to the financial statements.

#### (b) Basis of preparation

The financial statements have been prepared on the accrual basis of accounting using the historical cost convention.

The accounting policies adopted in the preparation of the financial statements have been consistently applied throughout all periods presented unless otherwise stated.

The financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$000).

Note 3 'Judgements made by management in applying accounting policies' discloses judgements that have been made in the process of applying the Authority's accounting policies resulting in the most significant effect on amounts recognised in the financial statements.

Note 4 'Key sources of estimation uncertainty' discloses key assumptions made concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### (c) Reporting entity

The reporting entity comprises the Economic Regulation Authority.

#### (d) Contributed equity

AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* requires transfers in the nature of equity contributions, other than as a result of a restructure of administrative arrangements, to be designated by the Government (the owner) as contributions by owners (at the time of, or prior to transfer) before such transfers can be recognised as equity contributions. Capital appropriations have been designated as contributions by owners by TI 955 *Contributions by Owners made to Wholly Owned Public Sector Entities* and have been credited directly to contributed equity.

The transfer of net assets to/from other agencies, other than as a result of a restructure of administrative arrangements, are designated as contributions by owners where the transfers are non-discretionary and non-reciprocal.

#### (e) Income

##### Revenue 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 from Standing Charges and Specific Charges is recognised at the time the charge is raised on a client. Revenue is raised in accordance with the:

- *Economic Regulation Authority (National Gas Access Funding) Regulations 2009;*
- *Economic Regulation Authority (Electricity Networks Access Funding) Regulations 2012;* and
- *Economic Regulation Authority (Licensing Funding Regulations) 2014.*

Revenue from annual licence charges is recognised at the time the charge is levied on the licensee. The charges are levied in accordance with the *Economic Regulation Authority (Licensing Funding Regulations) 2014*.

The Authority also recovers costs under the *Water Services Act 2012*. The revenue is recognised at the time the costs are raised on a licensee.

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 accrual 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 as an asset, the historical cost model is used for all plant and equipment. All items of plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

### **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 – 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<sup>(a)</sup> - 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 a specialised asset has been identified as a surplus asset, the recoverable amount is the higher of an asset's fair value less costs to sell and depreciated replacement cost.

The risk of impairment is generally limited to circumstances where an asset's depreciation is materially understated, where the replacement cost is falling or where there is a significant change in useful life. Each relevant class of assets is reviewed annually to verify that the accumulated depreciation/amortisation reflects the level of consumption or expiration of the asset's future economic benefits and to evaluate any impairment risk from falling replacement costs.

Intangible assets with an indefinite useful life and intangible assets not yet available for use are tested for impairment at the end of each reporting period irrespective of whether there is any indication of impairment.

The recoverable amount of assets identified as surplus assets is the higher of fair value less costs to sell and the present value of future cash flows expected to be derived from the asset. Surplus assets carried at fair value have no risk of material impairment where fair value is determined by reference to market-based evidence. Where fair value is determined by reference to depreciated replacement cost, surplus assets are at risk of impairment and the recoverable

amount is measured. Surplus assets at cost are tested for indications of impairment at the end of each reporting period.

#### **(i) Leases**

The Authority holds operating leases for accommodation and vehicle fleet.

Operating leases are expensed on a straight line basis over the lease term as this represents the pattern of benefits derived from the leased properties.

#### **(j) Financial instruments**

In addition to cash, the Authority has two categories of financial instrument:

- Receivables; and
- Financial liabilities measured at amortised cost.

Financial instruments have been disaggregated into the following classes:

- Financial assets
  - Cash and cash equivalents
  - Restricted cash and cash equivalents
  - Receivables
  - Amounts receivable for services.
- Financial liabilities
  - Payables
  - Finance lease liabilities

Initial recognition and measurement of financial instruments is at fair value which normally equates to the transaction cost or the face value. Subsequent measurement is at amortised cost using the effective interest method.

The fair value of short-term receivables and payables is the transaction cost or the face value because there is no interest rate applicable and subsequent measurement is not required as the effect of discounting is not material.

#### **(k) Cash and cash equivalents**

For the purpose of the Statement of Cash Flows, cash and cash equivalent (and restricted cash and cash equivalent) assets comprise cash on hand and 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 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 the State Government partly in cash and partly as an asset (holding account receivable). The holding account receivable balance, resulting from service appropriation funding, is accessible on the emergence of the cash funding requirement to cover 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***

Annual leave is not expected to be settled wholly within 12 months after the end of the reporting period and is therefore considered to be 'other long-term employee benefits'. The annual leave liability 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***

Long service leave is not expected to be settled wholly within 12 months after the end of the reporting period and 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.

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 have been 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.

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.

#### **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**

Superannuation expense is recognised in the profit or loss of the Statement of Comprehensive Income and comprises employer contributions paid to the GSS (concurrent contributions), the WSS, the GESBS, or other superannuation funds. The employer contribution paid to the GESB in respect of the GSS is paid back into the Consolidated Account by the GESB.

##### **(r) Assets and services received free of charge or for nominal cost**

Assets or services received free of charge or for nominal cost, that the Authority would otherwise purchase if not donated, are recognised as income at the fair value of the assets or services where they can be reliably measured. 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 2015 that impacted on the Authority.

|                    |   |
|--------------------|---|
| <b>AASB 2013-9</b> | <p><i>Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments.</i></p> <p>Part C of this Standard defers the application of AASB 9 to 1 January 2017. The application date of AASB 9 was subsequently deferred to 1 January 2018 by AASB 2014-1. The Authority has not yet determined the application or the potential impact of AASB 9.</p>  |
| <b>AASB 2014-8</b> | <p><i>Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) – Application of AASB 9 (December 2009) and AASB 9 (December 2010) [AASB 9 (2009 &amp; 2010)]</i></p> <p>This Standard makes amendments to AASB 9 Financial Instruments (December 2009) and AASB 9 Financial Instruments (December 2010), arising from the issuance of AASB 9 Financial Instruments in December 2014. The Authority has not yet determined the application or the potential impact of AASB 9.</p> |
| <b>AASB 2015-3</b> | <p><i>Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality.</i></p> <p>This Standard completes the withdrawal of references to AASB 1031 in all Australian Accounting Standards and Interpretations, allowing that Standard to effectively be withdrawn. There is no financial impact.</p>  |

### Voluntary changes in accounting policy

There were no voluntary changes in accounting policy which have 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**

|                  |  |            |
|------------------|--|------------|
| <b>AASB 9</b>    | <p><i>Financial Instruments</i></p> <p>This Standard supersedes AASB 139 <i>Financial Instruments: Recognition and Measurement</i>, introducing a number of changes to accounting treatments.</p> <p>The mandatory application date of this Standard is currently 1 January 2018 after being amended by AASB 2012-6, AASB 2013-9 and AASB 2014-1 <i>Amendments to Australian Accounting Standards</i>. The Authority has not yet determined the application or the potential impact of the Standard.</p> | 1 Jan 2018 |
| <b>AASB 16</b>   | <p><i>Leases</i></p> <p>This Standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The Authority has not yet determined the application or the potential impact of the Standard.</p>  | 1 Jan 2019 |
| <b>AASB 1057</b> | <p><i>Application of Australian Accounting Standards</i></p> <p>This Standard lists the application paragraphs for each other Standard (and Interpretation), grouped when they are the same. There is no financial impact.</p>   | 1 Jan 2016 |

|                    |   | Operative<br>for<br>reporting<br>periods<br>beginning<br>on/after |
|--------------------|---|---|
| <i>AASB 2010-7</i> | <p><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 &amp; 1038 and Int 2, 5, 10, 12, 19 &amp; 127]</i></p> <p>This Standard makes consequential amendments to other Australian Accounting Standards and Interpretations as a result of issuing AASB 9 in December 2010.</p> <p>The mandatory application date of this Standard has been amended by AASB 2012-6 and AASB 2014-1 to 1 January 2018. The Authority has not yet determined the application or the potential impact of the Standard.</p> | 1 Jan 2018  |
| <i>AASB 2014-1</i> | <p><i>Amendments to Australian Accounting Standards</i></p> <p>Part E of this Standard makes amendments to AASB 9 and consequential amendments to other Standards. It has not yet been assessed by the Authority to determine the application or potential impact of the Standard.</p>  | 1 Jan 2018  |
| <i>AASB 2014-4</i> | <p><i>Amendments to Australian Accounting Standards Clarification of Acceptable Methods of Depreciation and Amortisation [AASB 116 &amp; 138]</i></p> <p>The adoption of this Standard has no financial impact for the Authority as depreciation and amortisation is not determined by reference to revenue generation, but by reference to consumption of future economic benefits.</p>  | 1 Jan 2016  |
| <i>AASB 2014-7</i> | <p><i>Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)</i></p> <p>This Standard gives effect to the consequential amendments to Australian Accounting Standards (including Interpretations) arising from the issuance of AASB 9 (December 2014). The Authority has not yet determined the application or the potential impact of the Standard.</p>   | 1 Jan 2018  |

|                    |   | Operative<br>for<br>reporting<br>periods<br>beginning<br>on/after |
|--------------------|---|---|
| <i>AASB 2015-1</i> | <p><i>Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle [AASB 1, 2, 3, 5, 7, 11, 110, 119, 121, 133, 134, 137 &amp; 140]</i></p> <p>These amendments arise from the issuance of International Financial Reporting Standard <i>Annual Improvements to IFRSs 2012-2014 Cycle</i> in September 2014, and editorial corrections. The Authority has determined that the application of the Standard has no financial impact.</p>  | 1 Jan 2016  |
| <i>AASB 2015-2</i> | <p><i>Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101 [AASB 7, 101, 134 &amp; 1049]</i></p> <p>This Standard amends AASB 101 to provide clarification regarding the disclosure requirements in AASB 101. Specifically, the Standard proposes narrow-focus amendments to address some of the concerns expressed about existing presentation and disclosure requirements and to ensure entities are able to use judgement when applying a Standard in determining what information to disclose in their financial statements. There is no financial impact.</p> | 1 Jan 2016  |

#### 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

|  | 2016<br>\$000 | 2015<br>\$000 |
|--|---------------|---------------|
| Wages and salaries <sup>(a)</sup>                          | 6,667         | 6,584         |
| Superannuation – defined contribution plans <sup>(b)</sup> | 634           | 613           |
| Other related expenses                                     | 116           | 159           |
|  | <b>7,417</b>  | <b>7,356</b>  |

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

(b) Defined contribution plans include West State, Gold State, GESBS and other eligible funds

Employment on-costs expenses, such as workers' compensation insurance are included at note 10 'Other expenses'.

Employment on-costs liability is included at note 23 'Provisions'.

#### Note 7. Supplies and services

|                             | 2016<br>\$000 | 2015<br>\$000 |
|-----------------------------|---------------|---------------|
| Communications              | 163           | 159           |
| Consultants and contractors | 85            | 94            |
| Professional services       | 915           | 1,119         |
| Consumables                 | 55            | 75            |
| Legal costs                 | 1,175         | 248           |
| Motor vehicle               | 93            | 93            |
| Travel                      | 73            | 91            |
| Other                       | 227           | 258           |
|                             | <b>2,786</b>  | <b>2,137</b>  |

#### Note 8. Depreciation and amortisation expense

|  | 2016<br>\$000 | 2015<br>\$000 |
|--|---------------|---------------|
| <u>Depreciation</u>                        |               |               |
| Computer equipment                         | 38            | 26            |
| Office equipment                           | 6             | 6             |
| <b>Total depreciation</b>                  | <b>44</b>     | <b>32</b>     |
| <u>Amortisation</u>                        |               |               |
| Intangible assets                          | 5             | 1             |
| <b>Total amortisation</b>                  | <b>5</b>      | <b>1</b>      |
| <b>Total depreciation and amortisation</b> | <b>49</b>     | <b>33</b>     |

#### Note 9. Accommodation expenses

|                             | 2016<br>\$000 | 2015<br>\$000 |
|-----------------------------|---------------|---------------|
| Office accommodation rental | 1,144         | 1,124         |
| Repairs and maintenance     | 33            | 27            |
|                             | <b>1,177</b>  | <b>1,151</b>  |

#### Note 10. Other expenses

|                          | 2016<br>\$000 | 2015<br>\$000 |
|--------------------------|---------------|---------------|
| Employment on-costs      | 1             | -             |
| Act of grace payments    | -             | 49            |
| Miscellaneous Expense    | -             | 1             |
| Write Offs               | 7             | -             |
| Audit Fee <sup>(a)</sup> | 32            | 32            |
|                          | <b>40</b>     | <b>82</b>     |

(a) See also note 34 'Remuneration of auditor'.

#### Note 11. Regulatory fees

|                           | 2016<br>\$000 | 2015<br>\$000 |
|---------------------------|---------------|---------------|
| Standing charges          | 5,504         | 3,980         |
| Specific charges          | 796           | 687           |
| Licence fees and charges  | 286           | 341           |
| Regulatory market fees    | 2,196         | 1,638         |
| Water audit cost recovery | 184           | 199           |
|                           | <b>8,966</b>  | <b>6,845</b>  |

#### Note 12. Interest revenue

|                  | 2016<br>\$000 | 2015<br>\$000 |
|------------------|---------------|---------------|
| Interest revenue | 46            | 71            |
|                  | <b>46</b>     | <b>71</b>     |

#### Note 13. Other revenue

|   | 2016<br>\$000 | 2015<br>\$000 |
|---|---------------|---------------|
| Government vehicle scheme contributions from staff  | 31            | 26            |
| Miscellaneous revenue                               | -             | 1             |
| Fringe benefit tax refund – past year               | 23            | -             |
| Accommodation variable outgoings refund – past year | 17            | -             |
|   | <b>71</b>     | <b>27</b>     |

**Note 14. Income from State Government**

|  | <b>2016</b>  | <b>2015</b>  |
|--|--------------|--------------|
|  | <b>\$000</b> | <b>\$000</b> |
| Appropriation received during the year:  |              |              |
| Service Appropriation <sup>(a)</sup>   | 2,438        | 3,967        |
|  | <b>2,438</b> | <b>3,967</b> |
| Services received free of charge from other State Government agencies during the financial period: |              |              |
|  | <b>2016</b>  | <b>2015</b>  |
|  | <b>\$000</b> | <b>\$000</b> |
| State Solicitor's Office   | 39           | 103          |
| Department of Finance  | 243          | 242          |
|  | <b>282</b>   | <b>345</b>   |
|  | <b>2,720</b> | <b>4,312</b> |

(a) Service appropriations fund the net cost of services delivered. Appropriation revenue comprises a cash component and a receivable (asset). The receivable (holding account) comprises the budgeted depreciation expense for the year.

**Note 15. Restricted cash and cash equivalents**

|   | <b>2016</b>  | <b>2015</b>  |
|---|--------------|--------------|
|   | <b>\$000</b> | <b>\$000</b> |
| <u>Current</u>                                    |              |              |
| Indian Ocean Territories funding                  | 12           | 21           |
| Accrued salaries suspense account <sup>(a)</sup>  | -            | 270          |
|   | <b>12</b>    | <b>291</b>   |
| <b>Total restricted cash and cash equivalents</b> | <b>12</b>    | <b>291</b>   |

(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 16. Receivables**

|                      | <b>2016</b>  | <b>2015</b>  |
|----------------------|--------------|--------------|
|                      | <b>\$000</b> | <b>\$000</b> |
| <u>Current</u>       |              |              |
| Receivables          | 953          | 1,313        |
| Accrued revenue      | 2,097        | 1,665        |
| GST receivable       | 115          | 55           |
| <b>Total current</b> | <b>3,165</b> | <b>3,033</b> |

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

**Note 17. Amounts receivable for services (Holding Account)**

|             | <b>2016</b>  | <b>2015</b>  |
|-------------|--------------|--------------|
|             | <b>\$000</b> | <b>\$000</b> |
| Current     | 9            | 17           |
| Non-Current | 447          | 352          |
|             | <b>456</b>   | <b>369</b>   |

Represents the non-cash component of service appropriations. It is restricted in that it can only be used for asset replacement.

**Note 18. Other assets**

|                      | <b>2016</b>  | <b>2015</b>  |
|----------------------|--------------|--------------|
|                      | <b>\$000</b> | <b>\$000</b> |
| <u>Current</u>       |              |              |
| Prepayments          | 187          | 116          |
| <b>Total current</b> | <b>187</b>   | <b>116</b>   |

**Note 19. Plant and equipment**

|                          | <b>2016</b>  | <b>2015</b>  |
|--------------------------|--------------|--------------|
|                          | <b>\$000</b> | <b>\$000</b> |
| <u>Computer hardware</u> |              |              |
| At cost                  | 366          | 314          |
| Accumulated depreciation | (191)        | (153)        |
|                          | <b>175</b>   | <b>161</b>   |
| <u>Office equipment</u>  |              |              |
| At cost                  | 33           | 33           |
| Accumulated depreciation | (8)          | (19)         |
|                          | <b>25</b>    | <b>14</b>    |
|                          | <b>200</b>   | <b>175</b>   |

## Reconciliation

Reconciliations of the carrying amounts of plant and equipment at the beginning and end of the reporting period are set out below:

|                                       | Computer<br>Hardware | Office<br>Equipment | Total        |
|---------------------------------------|----------------------|---------------------|--------------|
| <b>2016</b>                           | <b>\$000</b>         | <b>\$000</b>        | <b>\$000</b> |
| Carrying amount at start of year      | 161                  | 14                  | 175          |
| Additions                             | 52                   | 17                  | 69           |
| Disposal                              | -                    | -                   | -            |
| Depreciation                          | (38)                 | (6)                 | (44)         |
| <b>Carrying amount at end of year</b> | <b>175</b>           | <b>25</b>           | <b>200</b>   |
| <b>2015</b>                           | <b>\$000</b>         | <b>\$000</b>        | <b>\$000</b> |
| Carrying amount at start of year      | 22                   | 4                   | 26           |
| Additions                             | 165                  | 16                  | 181          |
| Disposal                              | -                    | -                   | -            |
| Depreciation                          | (26)                 | (6)                 | (32)         |
| <b>Carrying amount at end of year</b> | <b>161</b>           | <b>14</b>           | <b>175</b>   |

## Note 20. Intangible assets

|   | 2016<br>\$000 | 2015<br>\$000 |
|---|---------------|---------------|
| <u>Computer Software</u>                |               |               |
| At cost                                 | 46            | 37            |
| Accumulated amortisation                | (27)          | (22)          |
|   | <b>19</b>     | <b>15</b>     |
| Reconciliation:                         |               |               |
| <u>Computer Software</u>                |               |               |
| Carrying amount at start of period      | 15            | 1             |
| Additions                               | 9             | 15            |
| Amortisation expense                    | (5)           | (1)           |
| <b>Carrying amount at end of period</b> | <b>19</b>     | <b>15</b>     |

## Note 21. Impairment of assets

There were no indications of impairment to plant and equipment or intangible assets at 30 June 2016.

## Note 22. Payables

|                      | 2016<br>\$000 | 2015<br>\$000 |
|----------------------|---------------|---------------|
| <u>Current</u>       |               |               |
| Trade payables       | 144           | 93            |
| Accrued expenses     | 478           | 385           |
| Accrued salaries     | 21            | 210           |
| Other payables       | 12            | 45            |
| <b>Total current</b> | <b>655</b>    | <b>733</b>    |

## Note 23. Provisions

|                                    | 2016<br>\$000 | 2015<br>\$000 |
|------------------------------------|---------------|---------------|
| <u>Current</u>                     |               |               |
| <u>Employee benefits provision</u> |               |               |
| Annual leave <sup>(a)</sup>        | 601           | 628           |
| Long service leave <sup>(b)</sup>  | 1,066         | 894           |
|                                    | <b>1,667</b>  | <b>1,522</b>  |
| <u>Other provisions</u>            |               |               |
| Employment on-costs <sup>(c)</sup> | 5             | 4             |
|                                    | 5             | 4             |
|                                    | <b>1,672</b>  | <b>1,526</b>  |
| <u>Non-current</u>                 |               |               |
| <u>Employee benefits provision</u> |               |               |
| Long service leave <sup>(b)</sup>  | 343           | 302           |
|                                    | <b>343</b>    | <b>302</b>    |
| <u>Other provisions</u>            |               |               |
| Employment on-costs <sup>(c)</sup> | 1             | 1             |
|                                    | 1             | 1             |
|                                    | <b>344</b>    | <b>303</b>    |

(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:

|   | 2016<br>\$000 | 2015<br>\$000 |
|---|---------------|---------------|
| Within 12 months of the end of the reporting period       | 445           | 434           |
| More than 12 months after the end of the reporting period | 158           | 196           |
|   | <b>603</b>    | <b>630</b>    |

(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:

|   | 2016<br>\$000 | 2015<br>\$000 |
|---|---------------|---------------|
| Within 12 months of the end of the reporting period       | 496           | 293           |
| More than 12 months after the end of the reporting period | 917           | 906           |
|   | <b>1,413</b>  | <b>1,199</b>  |

(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

|   | 2016<br>\$000 | 2015<br>\$000 |
|---|---------------|---------------|
| <u>Employment on-cost provision</u>     |               |               |
| Carrying amount at start of period      | 5             | 5             |
| Additional provisions recognised        | 1             | -             |
| <b>Carrying amount at end of period</b> | <b>6</b>      | <b>5</b>      |

#### Note 24. Other liabilities

|                      | 2016<br>\$000 | 2015<br>\$000 |
|----------------------|---------------|---------------|
| <u>Current</u>       |               |               |
| Unearned Revenue     | -             | 9             |
| <b>Total current</b> | <b>-</b>      | <b>9</b>      |

#### Note 25. Equity

The Western Australian 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

|   | 2016<br>\$000 | 2015<br>\$000 |
|---|---------------|---------------|
| Balance at start of period                              | 773           | 773           |
| Distribution to Owner - Return of unspent capital funds | (48)          | -             |
| <b>Balance at end of period</b>                         | <b>725</b>    | <b>773</b>    |

#### Accumulated surplus/(deficit)

|                                      | 2016<br>\$000 | 2015<br>\$000 |
|--------------------------------------|---------------|---------------|
| Balance at start of period           | 3,662         | 3,166         |
| Result for the period                | 334           | 496           |
| <b>Balance at end of period</b>      | <b>3,996</b>  | <b>3,662</b>  |
| <b>Total Equity at end of period</b> | <b>4,721</b>  | <b>4,435</b>  |

#### Note 26. Notes to the Statement of Cash Flows

#### Reconciliation of cash

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

|   | 2016<br>\$000 | 2015<br>\$000 |
|---|---------------|---------------|
| Cash and cash equivalents   | 3,353         | 3,007         |
| Restricted cash and cash equivalents (note 15 'Restricted cash and cash equivalents') |               |               |
| Current   | 12            | 291           |
| Non-Current   | -             | -             |
|   | <b>3,365</b>  | <b>3,298</b>  |

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

|  | 2016<br>\$000  | 2015<br>\$000  |
|--|----------------|----------------|
| Net cost of services                                       | (2,386)        | (3,816)        |
| Non-cash items:  |                |                |
| Depreciation and amortisation expense                      | 49             | 33             |
| Services received free of charge                           | 282            | 345            |
| Net (gain)/loss on sale of plant and equipment             | -              | -              |
| (Increase)/decrease in assets:                             |                |                |
| Current receivables <sup>(a)</sup>                         | (72)           | (1,101)        |
| Other current assets                                       | (71)           | (6)            |
| Increase/(decrease) in liabilities:                        |                |                |
| Current payables <sup>(a)</sup>                            | (78)           | 213            |
| Current provisions   | 146            | 120            |
| Unearned revenue   | (9)            | 9              |
| Non-current provisions                                     | 41             | (87)           |
| Net GST receipts/(payments) <sup>(b)</sup>                 | (60)           | 41             |
| Change in GST in receivables/payables <sup>(c)</sup>       | -              | -              |
| <b>Net cash provided by/(used in) operating activities</b> | <b>(2,158)</b> | <b>(4,249)</b> |

(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 27. Services provided free of charge

|   | 2016<br>\$000 | 2015<br>\$000 |
|---|---------------|---------------|
| During the year 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   | 12            | 11            |
|   | <b>12</b>     | <b>11</b>     |

## Note 28. Commitments

The commitments below are inclusive of GST where relevant

### Lease commitments

#### Non-cancellable operating lease commitments

|  | 2016<br>\$000 | 2015<br>\$000 |
|--|---------------|---------------|
| Commitments for minimum lease payments are payable as follows: |               |               |
| Within 1 year  | 720           | 720           |
| Later than 1 year and not later than 5 years                   | 712           | 1,345         |
|  | <b>1,432</b>  | <b>2,065</b>  |

The Authority has a non-cancellable property lease with a three year term. Contingent rent provisions within the lease agreement require that the minimum lease payments shall be reviewed every two years in accordance with Landgate valuation, with any new rental not to be lower than the rental being paid at the time of the review. Rent is payable monthly in advance.

### Other expenditure commitments

|  | 2016<br>\$000 | 2015<br>\$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  | 95            | 384           |
|  | <b>95</b>     | <b>384</b>    |

## Note 29. Contingent liabilities and contingent assets

### Contingent liabilities

The Authority had no contingent liabilities as at 30 June 2016.

### Contingent assets

The Authority had no contingent assets as at 30 June 2016.

## Note 30. Events occurring after the end of the reporting period

There were no events occurring after the reporting date that impact on the financial statements.

**Note 31. Explanatory statement**

All variances between estimates (original budget) and actual results are shown below. Narratives are provided for key variations selected from observed major variances, which are generally greater than 5% and \$215,000.

|   | Variance notes | Original Budget 2016 | Actual 2016 | Actual 2015 | Variance between estimate and 2016 actual | Variance between actual results for 2016 and 2015 |
|---|----------------|----------------------|-------------|-------------|---|---|
|   |                | \$000                | \$000       | \$000       | \$000                                     | \$000   |
| <b>Statement of Comprehensive Income</b>                    |                |                      |             |             |   |   |
| <b>Expenses</b>   |                |                      |             |             |   |   |
| Employee benefits expense                                   | 1              | 7,925                | 7,417       | 7,356       | (508)                                     | 61  |
| Supplies and services                                       | 2, A           | 3,132                | 2,786       | 2,137       | (346)                                     | 649   |
| Depreciation and amortisation expense                       |                | 69                   | 49          | 33          | (20)                                      | 16  |
| Accommodation expenses                                      |                | 1,177                | 1,177       | 1,151       | -   | 26  |
| Other expenses  |                | 32                   | 40          | 82          | 8   | (42)  |
| <b>Total Cost of services</b>                               |                | 12,335               | 11,469      | 10,759      |   |   |
| <b>Income</b>   |                |                      |             |             |   |   |
| <i>Revenue</i>  |                |                      |             |             |   |   |
| Regulatory fees   | B              | 9,333                | 8,966       | 6,845       | (367)                                     | 2,121   |
| Interest revenue  |                | 51                   | 46          | 71          | (5)                                       | (25)  |
| Other revenue   |                | 30                   | 71          | 27          | 41  | 44  |
| <b>Total revenue</b>  |                | 9,414                | 9,083       | 6,943       |   |   |
| <b>Total income other than income from State Government</b> |                | 9,414                | 9,083       | 6,943       |   |   |
| <b>NET COST OF SERVICES</b>                                 |                | (2,921)              | (2,386)     | (3,816)     |   |   |
| <b>Income from State Government</b>                         |                |                      |             |             |   |   |
| Service appropriation                                       | C              | 2,438                | 2,438       | 3,967       | -   | (1,529)   |
| Services received free of charge                            |                | 244                  | 282         | 345         | 38  | (63)  |
| <b>Total income from State Government</b>                   |                | 2,682                | 2,720       | 4,312       |   |   |
| <b>SURPLUS/(DEFICIT) FOR THE PERIOD</b>                     |                | (239)                | 334         | 496         |   |   |
| <b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>            |                | (239)                | 334         | 496         |   |   |

Budget has been restated for disclosure purposes to align with the format in the Financial Statements.

**Variations between estimate and actual**

1. Employee costs were lower than expected as the Authority could not recruit staff during the State Government's recruitment freeze and the expected appointment of our new Chair did not occur.
2. Supplies and services were \$346,000 (11%) less than the 2016 budget due to lower than expected expenditure on technical advice from consultants to assist with work in the regulatory areas of the Authority. In addition, work that was previously done by a public relations company was brought in-house.

**Variations between actual results for 2016 and 2015**

- A. The increase of \$649,000 in the actual for supplies and services between 2015 and 2016 is due to the need to engage legal counsel for appeals against the Authority's access arrangement revision decisions.
- B. As the Authority undertook three access arrangement revisions in 2016, more revenue was recouped from the gas industry than in 2015. In addition, more staff were allocated to work in the Wholesale Electricity Market due to the volume of work in this area. This work included unanticipated work due to the investigation into Vinalco Energy. Full cost recovery was in effect for licensing in 2015-16 which did not start in 2014-15 until 1 January 2015,
- C. The service appropriation received in 2016 was \$1.5 million less than the amount received in 2015. In 2015 full cost recovery from electricity, gas and water licensees did not commence until 1 January 2015 and an increased appropriation was necessary to fund the functions of the Authority.

**Note 31. Explanatory statement (continued)**

All variances between estimates (original budget) and actual results are shown below. Narratives are provided for key variations selected from observed major variances, which are generally greater than 5% and \$119,000.

|  | Variance notes | Original Budget 2016 | Actual 2016  | Actual 2015  | Variance between estimate and 2016 actual | Variance between actual results for 2016 and 2015 |
|--|----------------|----------------------|--------------|--------------|---|---|
|  |                | \$000                | \$000        | \$000        | \$000                                     | \$000   |
| <b>Statement of Financial Position</b> |                |                      |              |              |   |   |
| <b>ASSETS</b>                          |                |                      |              |              |   |   |
| <b>Current assets</b>                  |                |                      |              |              |   |   |
| Cash and cash equivalents              | 1, A           | 3,040                | 3,353        | 3,007        | 313                                       | 346   |
| Restricted cash and cash equivalents   | B              | -                    | 12           | 291          | 12  | (279)   |
| Receivables                            | 2              | 2,400                | 3,165        | 3,033        | 765                                       | 132   |
| Amounts receivable for services        |                | -                    | 9            | 17           | 9   | (8)   |
| Other current assets                   |                | 110                  | 187          | 116          | 77  | 71  |
| <b>Total current assets</b>            |                | <b>5,550</b>         | <b>6,726</b> | <b>6,464</b> |   |   |
| <b>Non-current assets</b>              |                |                      |              |              |   |   |
| Restricted cash and cash equivalents   |                | 110                  | -            | -            | (110)                                     | -   |
| Amounts receivable for services        | 3              | 155                  | 447          | 352          | 292                                       | 95  |
| Plant and equipment                    |                | 166                  | 200          | 175          | 34  | 25  |
| Intangible assets                      |                | -                    | 19           | 15           | 19  | 4   |
| <b>Total non-current assets</b>        |                | <b>431</b>           | <b>666</b>   | <b>542</b>   |   |   |
| <b>Total assets</b>                    |                | <b>5,981</b>         | <b>7,392</b> | <b>7,006</b> |   |   |
| <b>LIABILITIES</b>                     |                |                      |              |              |   |   |
| <b>Current liabilities</b>             |                |                      |              |              |   |   |
| Payables                               |                | 577                  | 655          | 733          | 78  | (78)  |
| Provisions                             | 4, C           | 1,323                | 1,672        | 1,526        | 349                                       | 146   |
| Unearned Revenue                       |                | -                    | -            | 9            | -   | (9)   |
| <b>Total current liabilities</b>       |                | <b>1,900</b>         | <b>2,327</b> | <b>2,268</b> |   |   |

|                                      | Variance notes | Original Budget 2016 | Actual 2016 | Actual 2015 | Variance between estimate and 2016 actual | Variance between actual results for 2016 and 2015 |
|--------------------------------------|----------------|----------------------|-------------|-------------|---|---|
|                                      |                | \$000                | \$000       | \$000       | \$000                                     | \$000   |
| <b>Non-current liabilities</b>       |                |                      |             |             |   |   |
| Provisions                           |                | 425                  | 344         | 303         | (81)                                      | 41  |
| <b>Total non-current liabilities</b> |                | 425                  | 344         | 303         | (81)                                      | 41  |
| <b>TOTAL LIABILITIES</b>             |                | 2,325                | 2,671       | 2,571       | 346                                       | 100   |
| <b>NET ASSETS</b>                    |                | 3,656                | 4,721       | 4,435       |   |   |
| <b>EQUITY</b>                        |                |                      |             |             |   |   |
| Contributed equity                   |                | 773                  | 725         | 773         | (48)                                      | (48)  |
| Accumulated surplus/(deficit)        | 5, D           | 2,883                | 3,996       | 3,662       | 1,113                                     | 334   |
| <b>TOTAL EQUITY</b>                  |                | 3,656                | 4,721       | 4,435       |   |   |

#### Variations between estimate and actual

1. The cash actual of \$3.353 million is \$313,000 higher than the estimate for 2016. This is due to an increase in money received from industry.
2. In 2016 there was an unanticipated increase in workload in the Wholesale Electricity Market due to an investigation. This has led to an increase in costs that can be recovered from the Wholesale Electricity Market.
3. The amount of receivables varies according to the total expenses and staff allocation against each of our functions each quarter. The three access arrangements that were done in 2015-16 were finished in June 2016 which resulted in a higher receivables amount than estimated.
4. The 2016 actual for provisions was greater than the budget as the actuarial calculated a change in non-current to current long service leave. In addition, a new employee that joined the ERA in 2015-16 had a significant current long service leave balance.
5. The accumulated surplus was \$1.1 million more than the budget as expenditure was less than expected and there was an increase in regulatory fees.

#### Variations between actual results for 2016 and 2015

- A. The increase in revenue was greater than the increase in expenses. In particular, there was a large increase in standing charges to recoup costs associated with the three access arrangements undertaken by the Authority during the year.
- B. Restricted cash decreased by \$279,000 in 2016. The majority of this amount was due to the drawdown from the holding account for the 27th pay that occurred in 2016.
- C. 2016 has seen an increase in current long service liability which has contributed to an increase in provisions of \$146,000 in 2016. A new employee with a significant current long service leave balance also contributed to the increase.
- D. The accumulated surplus in 2016 was \$334,000 more than in 2015 as expenditure was less than expected and there was an increase in regulatory fees.

**Note 31. Explanatory statement (continued)**

All variances between estimates (original budget) and actual results are shown below. Narratives are provided for key variations selected from observed major variances, which are generally greater than 5% and \$215,000.

|  | Variance notes | Original Budget 2016 | Actual 2016 | Actual 2015 | Variance between estimate and 2016 actual | Variance between actual results for 2016 and 2015 |
|--|----------------|----------------------|-------------|-------------|---|---|
|  |                | \$000                | \$000       | \$000       | \$000                                     | \$000   |
| <b>Statement of Cash Flows</b>                             |                |                      |             |             |   |   |
| <b>CASH FLOWS FROM STATE GOVERNMENT</b>                    |                |                      |             |             |   |   |
| Service appropriation                                      | A              | 2,334                | 2,286       | 3,885       | (48)                                      | (1,599)   |
| Holding account drawdowns                                  | B              | 17                   | 17          | 301         | -   | (284)   |
| <b>Net cash provided by State Government</b>               |                | 2,351                | 2,303       | 4,186       |   |   |
| Utilised as follows:                                       |                |                      |             |             |   |   |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                |                |                      |             |             |   |   |
| <b>Payments</b>  |                |                      |             |             |   |   |
| Employee benefits  | 1              | (7,925)              | (7,419)     | (7,292)     | 506                                       | (127)   |
| Supplies and services                                      | 2, C           | (3,402)              | (2,716)     | (1,849)     | 686                                       | (867)   |
| Accommodation  |                | (945)                | (934)       | (909)       | 11  | (25)  |
| GST payments on purchases                                  | 3              | -                    | (377)       | (317)       | (377)                                     | (60)  |
| Other payments   |                | (42)                 | (40)        | (82)        | 2   | 42  |
| <b>Receipts</b>  |                |                      |             |             |   |   |
| Regulatory fees  | D              | 9,295                | 8,894       | 5,744       | (401)                                     | 3,150   |
| Interest received  |                | 51                   | 46          | 71          | (5)                                       | (25)  |
| GST receipts on sales                                      |                | -                    | 87          | 89          | 87  | (2)   |
| GST receipts from taxation authority                       |                | 262                  | 230         | 269         | (32)                                      | (39)  |
| Other receipts   |                | 21                   | 71          | 27          | 50  | 44  |
| <b>Net cash provided by/(used in) operating activities</b> |                | (2,685)              | (2,158)     | (4,249)     |   |   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                |                |                      |             |             |   |   |
| <b>Payments</b>  |                |                      |             |             |   |   |
| Purchase of non-current physical assets                    |                | (17)                 | (78)        | (196)       | (61)                                      | 118   |
| <b>Net cash provided by/(used in) investing activities</b> |                | (17)                 | (78)        | (196)       |   |   |

|   | Variance notes | Original Budget 2016 | Actual 2016 | Actual 2015 | Variance between estimate and 2016 actual | Variance between actual results for 2016 and 2015 |
|---|----------------|----------------------|-------------|-------------|---|---|
|   |                | \$000                | \$000       | \$000       | \$000                                     | \$000   |
| Net increase/(decrease) in cash and cash equivalents  |                | (351)                | 67          | (259)       | 418                                       | 326   |
| Cash and cash equivalents at the beginning of period  |                | 3,501                | 3,298       | 3,557       | (203)                                     | (259)   |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF PERIOD</b> |                | 3,150                | 3,365       | 3,298       |   |   |

Budget has been restated for disclosure purposes to align with the format in the Financial Statements.

#### Variance between estimate and actual

1. Employee costs were lower than expected as the Authority could not recruit staff during the State Government's recruitment freeze. The Chair position was also vacant during the year.
2. Supplies and services were \$686,000 less than the budget. This is due to lower than expected expenditure on technical advice from consultants to assist with work in the regulatory areas. Also, work that was previously done by a public relations company was brought in-house in 2015-16.
3. An amount was not budgeted for GST payments on purchases.

#### Variance between actual results for 2016 and 2015

- A. The service appropriation received in 2016 was \$1.6 million less than the amount received in 2015. In 2015 full cost recovery from electricity, gas and water licensees did not commence until 1 January 2015 and an increased appropriation was necessary to fund the functions of the Authority.
- B. Drawdowns from the holding account were greater in 2015 than in 2016 as the Authority required funds for the replacement of its server environment.
- C. Supplies and services in 2016 were \$867,000 more than in 2015 due to the need to obtain legal advice for access arrangement revisions lodged by gas pipeline operators. Also, the Authority needed to engage legal counsel for appeals against the Authority's access arrangement decisions.
- D. As the Authority undertook three access arrangement revisions in 2016, more revenue was recouped from the gas industry than in 2015. In addition, more staff were allocated to work in the Wholesale Electricity Market due to the investigation of Vinalco Energy. Full cost recovery commenced on 1 January 2015 so revenue in 2015-16 is for a full year.

**Note 32. Financial instruments****(a) Financial risk management objectives and policies**

Financial instruments held by the Authority are cash and cash equivalents, restricted cash and cash equivalents, receivables and payables. The Authority has limited exposure to financial risks. The Authority's overall risk management program focuses on managing the risks identified below.

***Credit risk***

Credit risk arises when there is the possibility of the Authority's receivables defaulting on their contractual obligations resulting in financial loss to the Authority.

The maximum exposure to credit risk at the end of the reporting period in relation to each class of recognised financial assets is the gross carrying amount of those assets inclusive of any allowance for impairment as shown in the table at note 32(c) 'Financial instruments disclosures' and note 16 '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 and 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:

|  | <b>2016</b>  | <b>2015</b>  |
|--|--------------|--------------|
|  | <b>\$000</b> | <b>\$000</b> |
| <u>Financial Assets</u>                          |              |              |
| Cash and cash equivalents                        | 3,353        | 3,007        |
| Restricted cash and cash equivalents             | 12           | 291          |
| Receivables <sup>(a)</sup>                       | 3,050        | 2,978        |
| Amounts receivable for services                  | 456          | 369          |
| <u>Financial Liabilities</u>                     |              |              |
| Financial liabilities measured at amortised cost | 655          | 733          |

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

## Note 32 Financial instruments (continued)

### (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                     |
| <b>2016</b>                          |                 |                               |               |              |                    |           |                   |                           |
| Cash and cash equivalents            | 3,353           | 3,353                         | -             | -            | -                  | -         | -                 | -                         |
| Restricted cash and cash equivalents | 12              | 12                            | -             | -            | -                  | -         | -                 | -                         |
| Receivables <sup>(a)</sup>           | 3,050           | 3,047                         | 3             | -            | -                  | -         | -                 | -                         |
| Amount receivable for services       | 456             | 456                           | -             | -            | -                  | -         | -                 | -                         |
|                                      | <b>6,871</b>    | <b>6,868</b>                  | <b>3</b>      | -            | -                  | -         | -                 | -                         |
| <b>2015</b>                          |                 |                               |               |              |                    |           |                   |                           |
| Cash and cash equivalents            | 3,007           | 3,007                         | -             | -            | -                  | -         | -                 | -                         |
| Restricted cash and cash equivalents | 291             | 291                           | -             | -            | -                  | -         | -                 | -                         |
| Receivables <sup>(a)</sup>           | 2,978           | 2,972                         | -             | 6            | -                  | -         | -                 | -                         |
| Amount receivable for services       | 369             | 369                           | -             | -            | -                  | -         | -                 | -                         |
|                                      | <b>6,645</b>    | <b>6,639</b>                  | -             | <b>6</b>     | -                  | -         | -                 | -                         |

(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**

|   | <i>Interest rate exposure</i>                   |                        |                            |                               |                             | <i>Maturity dates</i> |                      |                     |                           |                  |                          |
|---|---|------------------------|----------------------------|-------------------------------|-----------------------------|-----------------------|----------------------|---------------------|---------------------------|------------------|--------------------------|
|   | <b>Weighted Average Effective Interest Rate</b> | <b>Carrying Amount</b> | <b>Fixed interest rate</b> | <b>Variable interest rate</b> | <b>Non-interest bearing</b> | <b>Nominal Amount</b> | <b>Up to 1 month</b> | <b>1 - 3 months</b> | <b>3 months to 1 year</b> | <b>1-5 years</b> | <b>More than 5 years</b> |
|   | <b>%</b>  | <b>\$000</b>           | <b>\$000</b>               | <b>\$000</b>                  | <b>\$000</b>                | <b>\$000</b>          | <b>\$000</b>         | <b>\$000</b>        | <b>\$000</b>              | <b>\$000</b>     | <b>\$000</b>             |
| <b>2016</b>   |   |                        |                            |                               |                             |                       |                      |                     |                           |                  |                          |
| <u>Financial Assets</u>                             |   |                        |                            |                               |                             |                       |                      |                     |                           |                  |                          |
| Cash and cash equivalents                           | 2.26%   | 3,353                  | -                          | 3,353                         | -                           | 3,353                 | 3,353                | -                   | -                         | -                | -                        |
| Restricted cash and cash equivalents <sup>(b)</sup> | 2.26%   | 12                     | -                          | 12                            | -                           | 12                    | 12                   | -                   | -                         | -                | -                        |
| Receivables <sup>(a)</sup>                          |   | 3,050                  | -                          | -                             | 3,050                       | 3,050                 | 2,904                | 146                 | -                         | -                | -                        |
| Amount receivable for services                      |   | 456                    | -                          | -                             | 456                         | 456                   | -                    | -                   | 9                         | 447              | -                        |
|   |   | <b>6,871</b>           | <b>-</b>                   | <b>3,365</b>                  | <b>3,506</b>                | <b>6,871</b>          | <b>6,269</b>         | <b>146</b>          | <b>9</b>                  | <b>447</b>       | <b>-</b>                 |
| <u>Financial Liabilities</u>                        |   |                        |                            |                               |                             |                       |                      |                     |                           |                  |                          |
| Financial liabilities measured at amortised cost    |   | 655                    | -                          | -                             | 655                         | 655                   | 655                  | -                   | -                         | -                | -                        |
|   |   | <b>655</b>             | <b>-</b>                   | <b>-</b>                      | <b>655</b>                  | <b>655</b>            | <b>655</b>           | <b>-</b>            | <b>-</b>                  | <b>-</b>         | <b>-</b>                 |
| <b>2015</b>   |   |                        |                            |                               |                             |                       |                      |                     |                           |                  |                          |
| <u>Financial Assets</u>                             |   |                        |                            |                               |                             |                       |                      |                     |                           |                  |                          |
| Cash and cash equivalents                           | 2.70%   | 3,007                  | -                          | 3,007                         | -                           | 3,007                 | 3,007                | -                   | -                         | -                | -                        |
| Restricted cash and cash equivalents <sup>(b)</sup> | 2.70%   | 291                    | -                          | 291                           | -                           | 291                   | 21                   | -                   | 270                       | -                | -                        |
| Receivables <sup>(a)</sup>                          |   | 2,978                  | -                          | -                             | 2,978                       | 2,978                 | 1,661                | 1,317               | -                         | -                | -                        |
| Amount receivable for services                      |   | 369                    | -                          | -                             | 369                         | 369                   | -                    | 17                  | -                         | 352              | -                        |
|   |   | <b>6,645</b>           | <b>-</b>                   | <b>3,298</b>                  | <b>3,347</b>                | <b>6,645</b>          | <b>4,689</b>         | <b>1,334</b>        | <b>270</b>                | <b>352</b>       | <b>-</b>                 |
| <u>Financial Liabilities</u>                        |   |                        |                            |                               |                             |                       |                      |                     |                           |                  |                          |
| Financial liabilities measured at amortised cost    |   | 733                    | -                          | -                             | 733                         | 733                   | 733                  | -                   | -                         | -                | -                        |
|   |   | <b>733</b>             | <b>-</b>                   | <b>-</b>                      | <b>733</b>                  | <b>733</b>            | <b>733</b>           | <b>-</b>            | <b>-</b>                  | <b>-</b>         | <b>-</b>                 |

(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.

|                                      |                 | +100 basis points |             | +100 basis points |           |
|--------------------------------------|-----------------|-------------------|-------------|-------------------|-----------|
|                                      | Carrying Amount | Surplus           | Equity      | Surplus           | Equity    |
|                                      | \$000           | \$000             | \$000       | \$000             | \$000     |
| <b>2016</b>                          |                 |                   |             |                   |           |
| <u>Financial Assets</u>              |                 |                   |             |                   |           |
| Cash and cash equivalents            | 3,353           | (34)              | (34)        | 34                | 34        |
| Restricted cash and cash equivalents | 12              | (0)               | (0)         | 0                 | 0         |
| Total Increase/(Decrease)            |                 | <b>(34)</b>       | <b>(34)</b> | <b>34</b>         | <b>34</b> |
| <b>2015</b>                          |                 |                   |             |                   |           |
| <u>Financial Assets</u>              |                 |                   |             |                   |           |
| Cash and cash equivalents            | 3,007           | (30)              | (30)        | 30                | 30        |
| Restricted cash and cash equivalents | 291             | (3)               | (3)         | 3                 | 3         |
| Total Increase/(Decrease)            |                 | <b>(33)</b>       | <b>(33)</b> | <b>33</b>         | <b>33</b> |

### Fair values

All financial assets and liabilities recognised in the Statement of Financial Position, whether they are carried at cost or fair value, are recognised at amounts that represent a reasonable approximation of fair value unless otherwise stated in the applicable notes.

**Note 33. Remuneration of members of the accountable authority and senior officers****Remuneration of members of the accountable authority**

The number of members of the accountable authority, whose total of fees, salaries, superannuation, non-monetary benefits and other benefits for the financial year, fall within the following bands are:

| \$  | 2016         | 2015         |
|---|--------------|--------------|
| 0 - 10,000 <sup>(a)</sup>   | -            | 1            |
| 170,001 - 180,000   | 1            | 1            |
| 200,001 - 210,000   | 1            | -            |
| 220,001 - 230,000   | -            | 1            |
|   | <b>\$000</b> | <b>\$000</b> |
| Base remuneration and superannuation                                  | 361          | 511          |
| Annual leave and long service leave accruals                          | (12)         | (131)        |
| Other benefits  | 39           | 21           |
| <b>The total remuneration of members of the accountable authority</b> | <b>388</b>   | <b>401</b>   |

The total remuneration includes the superannuation expense incurred by the Authority in respect of members of the accountable authority.

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

(a) The Board Member against this band left the Authority in August 2014.

**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:

| \$   | 2016         | 2015         |
|--|--------------|--------------|
| 160,001 - 170,000                                | -            | 1            |
| 180,001 - 190,000                                | 1            | -            |
| 240,001 - 250,000                                | 1            | 1            |
| 250,001 - 260,000                                | 1            | 1            |
| 260,001 - 270,000                                | 1            | 1            |
| 350,001 - 360,000                                | 1            | -            |
| 370,001 - 380,000                                | -            | 1            |
|  | <b>\$000</b> | <b>\$000</b> |
| Base remuneration and superannuation             | 1,110        | 1,185        |
| Annual leave and long service leave accruals     | (3)          | 49           |
| Other benefits                                   | 192          | 77           |
| <b>The total remuneration of senior officers</b> | <b>1,299</b> | <b>1,311</b> |

The total remuneration includes the superannuation expense incurred by the Authority in respect of senior officers other than senior officers reported as members of the Accountable Authority.

No senior officers are members of the Pension Scheme.

#### Note 34. Remuneration of auditor

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

|  | 2016<br>\$000 | 2015<br>\$000 |
|--|---------------|---------------|
| Auditing the accounts, financial statements and key performance indicators | 33            | 32            |

#### Note 35. Indian Ocean Territories

An Agreement between the Treasurer and the Authority provides for the retention of moneys received by the Authority from the Commonwealth in respect of the Indian Ocean Territories. Revenue retained pursuant to this agreement is to be applied to the Authority's services. Money received by the Authority in respect of the services provided are credited to the Authority's operating account.

|   | 2016<br>\$000 | 2015<br>\$000 |
|---|---------------|---------------|
| Balance at the start of the period      | 21            | 22            |
| Receipts                                | -             | -             |
| Payments                                | (9)           | (1)           |
| <b>Balance at the end of the period</b> | <b>12</b>     | <b>21</b>     |

#### Note 36. Parental leave payment

The purpose of this account is to distribute parental leave funds on behalf of the Commonwealth Government.

|   | 2016<br>\$000 | 2015<br>\$000 |
|---|---------------|---------------|
| Balance at the start of the period      | -             | -             |
| Receipts                                | 24            | -             |
| Payments                                | (24)          | -             |
| <b>Balance at the end of the period</b> | <b>-</b>      | <b>-</b>      |

#### Note 37. Related and affiliated bodies

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

#### Note 38. Supplementary financial information

##### Write Offs

During the financial year, the following was written off under the authority of the Governing Body:

|                          | 2016<br>\$000 | 2015<br>\$000 |
|--------------------------|---------------|---------------|
| Minor equipment - iPhone | 1             | -             |
| Accounts Receivable      | 6             | -             |
|                          | <b>7</b>      | <b>-</b>      |

There were no losses through theft or default during the financial year.

##### Invoices not raised for minor amounts

During the financial year, invoices were not raised for standing charges where the amount was less than \$5 or for interest on overdue invoices where the amount was less than \$20.

Invoices not raised for standing charges \$59.31

Invoices not raised for overdue invoices \$101.27

##### Act of grace payments

Act of grace payments of \$49,045 to the Shires was accrued in 2015 and remitted in 2016.

## 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 2016.



**Ms Pam Herbener**  
Chief Finance Officer  
1 August 2016



**Dr Stephen King**  
Member of Accountable Authority  
1 August 2016



**Mr Steve Edwell**  
Member of Accountable Authority  
1 August 2016

## Key performance indicators

### Formulating the ERA's key performance indicators

The Economic Regulation Authority (ERA) is the independent economic regulator for Western Australia. The ERA's role is to regulate the electricity, gas, water and rail industries and undertake inquiries that result in recommendations to government on economic issues that are likely to have a significant impact on the state.

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'. Our desired outcome in support of this goal is 'The efficient, safe and equitable provision of utility services in Western Australia'.

The role of the ERA means we cannot achieve this outcome directly but can play a part towards the achievement of the goal. Our contribution to this goal is embedded in our Strategic Plan, which has as its purpose "to benefit the West Australian community by promoting an efficient and customer focused economy".

The requirement to prepare performance indicators has been modified by legislation to be limited to the ERA's 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 and need only be complied with to the extent practicable."*

The ERA's Secretariat prepares submissions that are considered by the Governing Body when making a decision. The objective administrative measures of our performance are the quality, quantity and cost of the submissions considered by the ERA's Governing Body to facilitate decision making.

### 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.

## 2015/16 Performance Effectiveness

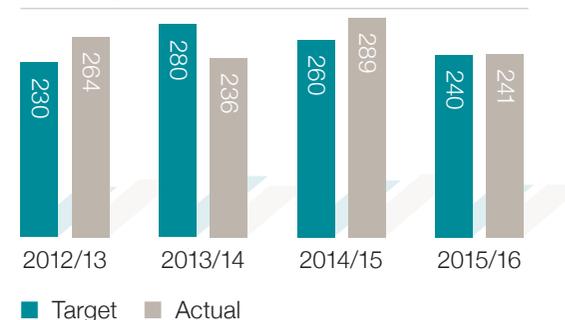
### Quantity (Submissions)

A total of 241 submissions were considered by the ERA's Governing Body during the 2015/16 financial year. The ERA's Governing Body met 36 times during the year to consider 159 of the 241 submissions in session. The remaining 82 submissions were reviewed out of session by email.

The total number of submissions exceeded the 2015/16 target of 240. Compared to the previous financial year, there was a 17% decrease in the number of submissions to the Governing Body.

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 actual and targeted number of submissions vary on an annual basis in accordance with the cyclical nature of regulation.

### Quantity Submissions



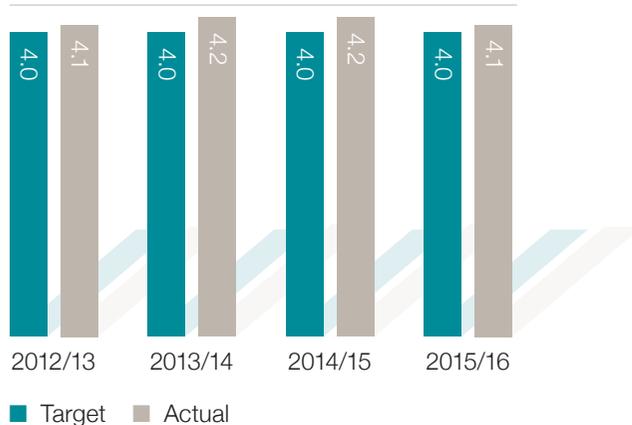
### Quality (Submissions)

On a monthly basis the Governing Body review the submissions that have been prepared by the Secretariat, consider the relevance, accuracy and readability, and then provide an overall rating.

Using a rating scale of one to five (one being “well below expectations”, two being “below expectations”, three being “satisfactory”, four being “above expectations” and five being “well above expectations”) the Governing Body has set a target of four, meaning that submissions rated above four are of a high standard.

For 2015/16, the average quality of submissions as rated by the ERA’s Governing Body was 4.1 out of 5, which exceeded the targeted quality level of 4.0.

#### Quality Submissions



### Timeliness (Legislative Deadlines Achieved)

40 of the 241 submissions related to functions that had legislative time limits in 2015/16 compared to 45 out of 289 submissions in 2014/15. These time limits were either firm deadlines or timelines within which the ERA, taking all reasonable steps, was required to complete its decision making and / or publications.

Of the 40 submissions with deadlines, 36 were completed on or before expiry of the time limit; this equated to 90% of submissions meeting their respective legislative deadlines. The number of submissions that met their respective legislative deadlines in this reporting year decreased from 98% achieved in the previous financial year.

The Decisions that didn’t meet their timelines were:

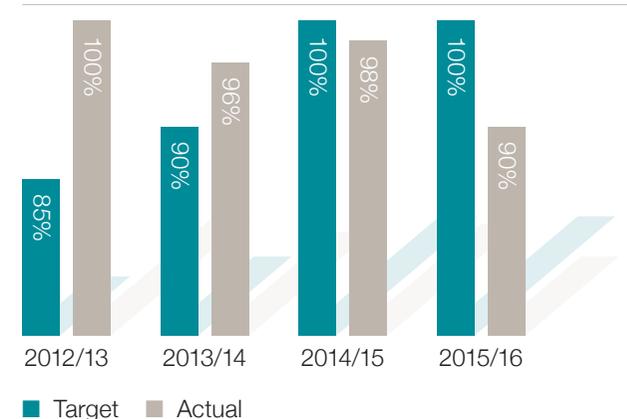
ATCO Revised Access Arrangement – the ERA received submissions from stakeholders as well as a constant stream of submissions from ATCO itself over the duration of the review. The ERA identified matters in these submissions that needed correction and clarification and hence was not able to complete the determination by the statutory deadline.

DBNGP Final Decision & GGP Final Decision – the ERA was working on three concurrent access arrangement reviews with limited resources and also had difficulty obtaining timely information from service providers, which resulted in the final decisions not being completed within the statutory deadlines.

The ERA is required to submit a report to the Ministerial Council on Energy explaining why it was not able to meet the deadlines. This report will be published on the ERA website.

A licensee submitted a licence amendment application to be able to retail to small use customers. This required the licensee to have a standard form contract. As the licence amendment application was run in tandem with the assessment of the standard form contract, the legislative deadline of assessing a standard form contract within 45 days was not met.

#### Timeliness (Legislative Deadline Achieved)

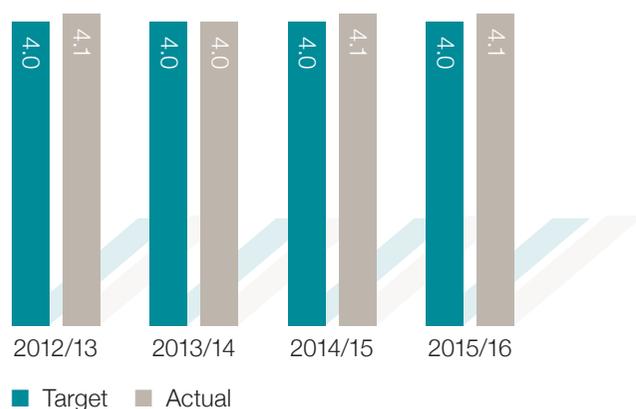


### Timeliness (Governing Body Perception)

In addition to measuring the number of submissions that meet legislative timeframes, the ERA Secretariat has internal deadlines for providing submissions to the ERA's Governing Body in a timely manner. As with the rating of quality of submissions considered by the ERA's Governing Body, a rating on a scale of one to five is provided on a monthly basis to indicate the perceptions of Governing Body members of the Secretariat's timeliness in preparing submissions.

The average rating for timeliness for the year was 4.1, which exceeded the 2015/16 target.

#### Timeliness (Governing Body Perception)



### 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.

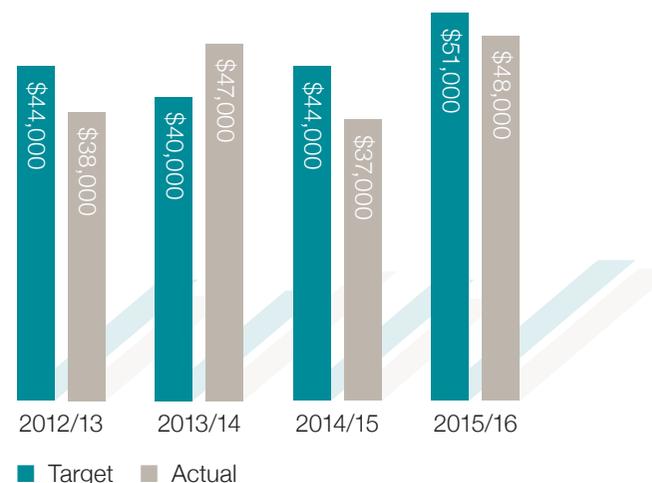
### 2015/16 Performance – Efficiency

#### Average Cost (Per Submission)

The total cost of the ERA's operations for the 12 months under review was \$11.469 million compared to an expenditure limit of \$12.335 million (as per published budget estimates). There were 241 submissions compared to the target of 240. The average cost per submission was \$47,585 against the target of \$51,395. The actual average cost per submission was lower than the targeted cost per submission.

|  | 2012/13 | 2013/14 | 2014/15 | 2015/16 Target | 2015/16 Actual |
|--|---------|---------|---------|----------------|----------------|
| Cost of services (\$ millions)             | 10.223  | 11.041  | 10.759  | 12.335         | 11.469         |
| Number of submissions                      | 264     | 236     | 289     | 240            | 241            |
| Average cost of submissions (\$ thousands) | 38      | 47      | 37      | 51             | 48             |

#### Average Cost (per Submission)



## Ministerial Directives

The ERA is independent of direction or control by the State, or any Minister or officers 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 during 2015-16.

## Other financial disclosures

### Pricing policies of services provided

The ERA receives revenue from regulated industries.

### Electricity Industry

Regulated electricity network operators pay fees and charges for services provided by us under the *Economic Regulation Authority (Electricity Networks Access Funding) Regulations 2012*. The regulations require that the following charges are disclosed in the annual report.

- Standing charges for costs incurred by us that are not directly attributed to specific activities relating to the covered network.
- Specific charges for specific activities carried out for a particular service provider.

The following table provides the total amount of standing charges and specific charges for Western Power, which operated the only regulated electricity network in 2015-16.

| Service provider | Standing charges (\$) | Specific charges (\$, including GST) |
|------------------|-----------------------|--------------------------------------|
| Western Power    | 137,911.34            | 22,677.44                            |

### Gas Industry

Regulated gas pipeline operators pay fees and charges for services provided by us under the *Economic Regulation Authority (National Gas Access Funding) Regulations 2009*. Section 10 of the regulations states that the following details must be included in the annual report.

- The value of standing charges for each person. Standing charges are levied for costs incurred by us that are not directly attributed to specific activities of a particular pipeline system.
- The value of specific charges for each person. Specific charges are levied by us for specific activities carried out for a particular service provider.
- The value of fees. These include fees for: providing documents prepared by, or on behalf of, us; admission to a meeting held by us for the purposes of public consultation; and interest on any outstanding amounts. No fees were received in 2015-16.

The following table provides the total amount of standing charges and specific charges for operators of regulated gas pipelines in 2015-16.

| Service provider                 | Standing charges (\$) | Specific charges (\$, including GST) |
|----------------------------------|-----------------------|--------------------------------------|
| ATCO Gas Australia               | 822,560.13            | 49,964.34                            |
| DBNGP (WA) Transmission Pty Ltd  | 1,522,695.52          | 404,021.55                           |
| Goldfields Gas Transmission      | 617,300.77            | 356,782.45                           |
| Southern Cross Pipelines Pty Ltd | 82,834.63             | -                                    |
| <b>Total</b>                     | <b>3,045,391.05</b>   | <b>810,768.34</b>                    |

### Licensing

Electricity, gas and water licensees pay us charges for services under the *Economic Regulation Authority (Licensing Funding) Regulations 2014*. The following charges must be reported in the annual report.

- Standing charges, which are levied for costs incurred by us that are not directly attributed to specific activities of a particular licensee.
- Specific charges, which are levied for specific activities carried out for a particular licensee.

The following table provides the total amount of standing charges and specific charges paid or payable by licensees in 2015-16.

| Licensee                                      | Standing charges (\$) | Specific charges (\$, including GST) |
|---|-----------------------|--------------------------------------|
| AER Retail Pty Ltd                            | -                     | 1,500.00                             |
| Alcoa of Australia Ltd                        | 9,213.23              | -                                    |
| Alinta Co-generation (Pinjarra) Pty Ltd       | 10,335.94             | -                                    |
| Alinta Co-generation (Wagerup) Pty Ltd        | 11,726.87             | -                                    |
| Alinta DEWAP Pty Ltd                          | 7,953.40              | -                                    |
| Alinta Energy Transmission (Roy Hill) Pty Ltd | 9,819.82              | -                                    |
| Alinta Sales Pty Ltd                          | 134,506.39            | -                                    |
| Amanda Energy Pty Ltd                         | -                     | 3,953.00                             |
| Aquasol Pty Ltd                               | 6.21                  | -                                    |
| Aqwest-Bunbury Water Corporation              | 14,632.95             | -                                    |
| ATCO Gas Australia                            | 143,306.99            | -                                    |
| ATCO Power Australia (Karratha) Pty Ltd       | 3,356.62              | -                                    |
| BHP Billiton Nickel West Pty Ltd              | 176.05                | 392.90                               |
| Bluewaters Power 1 Pty Ltd                    | 8,035.39              | -                                    |
| Bluewaters Power 2 Pty Ltd                    | 8,034.93              | -                                    |
| Busselton Water Board                         | 10,851.24             | -                                    |
| City of Kalgoorlie-Boulder                    | 11,249.13             | -                                    |
| CleanTech Energy Pty Ltd                      | -                     | 4,568.70                             |
| Collgar Wind Farm Pty Ltd                     | 7,203.31              | -                                    |
| Emu Downs Wind Farm Joint Venture             | 2,769.21              | -                                    |
| Energy Developments Ltd                       | 1,188.80              | -                                    |
| Esperance Gas Distribution Company Pty Ltd    | 72.62                 | -                                    |
| Esperance Power Station Pty Ltd               | 365.13                | -                                    |
| Gascoyne Water Co-operative Limited           | 147.05                | -                                    |
| Goldfields Power Pty Ltd                      | 3,846.35              | -                                    |
| Hamersley Iron Pty Ltd                        | 1,696.23              | -                                    |
| Harvey Water (SWIMCO)                         | 898.72                | -                                    |

| Licensee   | Standing charges (\$) | Specific charges (\$, including GST) |
|--|-----------------------|--------------------------------------|
| Horizon Power                                    | 42,439.45             | 114.00                               |
| Karara Power Pty Ltd                             | 2,936.86              | -                                    |
| Merredin Energy Pty Ltd                          | 2,867.12              | -                                    |
| Mumbida Wind Farm Pty Ltd                        | 1,923.07              | -                                    |
| Newgen Neerabup Partnership Pty Ltd              | 11,538.39             | -                                    |
| Newgen Power Kwinana Pty Ltd                     | 11,188.74             | -                                    |
| Newmont Power Pty Ltd                            | 49.49                 | -                                    |
| Ord Irrigation Cooperative Limited               | 96.01                 | -                                    |
| Pacific Hydro Ltd                                | 4,931.71              | -                                    |
| Perth Energy Pty Ltd                             | 332.63                | -                                    |
| Perth Power Partnership                          | 4,283.19              | -                                    |
| Preston Valley Irrigation Co-operative           | 68.33                 | -                                    |
| RATCH-Aust Kemerton Pty Ltd                      | 10,839.09             | -                                    |
| Robe River Mining Co Pty Ltd                     | 347.73                | -                                    |
| Rottnest Island Authority                        | 231.90                | 114.00                               |
| Southern Cross Energy Partnership                | 17,434.56             | -                                    |
| South32 Worsley Alumina Pty Ltd                  | 4,262.22              | 114.00                               |
| South West Cogeneration Joint Venture            | 4,055.92              | -                                    |
| Synergy (Electricity Generation and Retail Corp) | 330,838.52            | -                                    |
| Tronox Management Pty Ltd                        | 1,573.41              | -                                    |
| Walkaway Wind Power Pty Ltd                      | 3,115.37              | -                                    |
| Water Corporation                                | 992,326.63            | -                                    |
| Wesfarmers Kleenheat Gas Pty Ltd                 | 10,714.17             | 114.00                               |
| Western Energy Pty Ltd                           | 4,195.78              | -                                    |
| Western Power                                    | 444,259.37            | -                                    |
| WR Carpenter No 1 Pty Ltd                        | 4,044.72              | -                                    |
| <b>TOTAL</b>                                     | <b>2,312,286.96</b>   | <b>10,870.60</b>                     |

On 7 July 2015, the Treasurer gazetted an exemption order for local governments providing non-potable water services to fewer than 1,000 connections from paying any fees under the *Economic Regulation Authority (Licensing Funding) Regulations 2014*. The licensees covered by the exemption order are:

- Shire of Brookton
- Shire of Coolgardie
- Shire of Dalwallinu
- Shire of Denmark
- Shire of Dowerin
- Shire of Dumbleyung
- Shire of East Pilbara
- Shire of Gnowangerup
- Shire of Goomalling
- Shire of Jerramungup
- Shire of Kent
- Shire of Koorda
- Shire of Lake Grace
- Shire of Moora
- Shire of Morawa
- Shire of Ravensthorpe
- Shire of Victoria Plains
- Shire of Wickepin
- Shire of Yilgarn

On 22 April 2016 the Minister for Water granted a five year class exemption to the following water licensees providing sewerage services and/or non potable water supply services.

- Shire of Brookton
- Shire of Coolgardie

- Shire of Dalwallinu
- Shire of Denmark
- Shire of Dowerin
- Shire of East Pilbara
- Shire of Goomalling
- Shire of Kent
- Shire of Koorda
- Shire of Moora
- Shire of Ravensthorpe
- Shire of Victoria Plains
- Shire of Wickepin
- Shire of Yilgarn

The regulations also allow us to charge annual licence charges (which are payable for each licence held by a licensee) and to levy fees for interest on any outstanding amounts.

We can also recover costs relating to audits and reviews under the *Water Services Act 2012*. Licensees must provide us with a report prepared by an independent expert engaged by us, as to the effectiveness of their asset management system. We may recover our reasonable costs and expenses arising from the appointment and remuneration of the independent expert from the licensee.

### Wholesale Electricity Market

Regulator fees for our surveillance function are recovered from participants of the Wholesale Electricity Market (WEM). 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, we are responsible for licensing water and electricity utilities on the Christmas and Cocos Islands. Applications for licences are yet to be received. Any costs incurred as a result of pre-lodgement negotiations can be recovered from the Commonwealth Government based on an agreed amount.

### Capital works

Our capital works program mainly comprises expenditure on multi-functional devices, the computer network and other servers operated by us. This year, the following items were purchased.

**Table 7 Expenditure on capital works in 2015-16**

| Capital item                           | Amount<br>(\$, excluding GST) |
|--|-------------------------------|
| <b>Office equipment</b>                |                               |
| Printer/photocopier                    | 16,977                        |
| <b>Computer hardware</b>               |                               |
| Firewalls (two)                        | 10,080                        |
| Blade server                           | 35,890                        |
| Router                                 | 5,942                         |
| <b>Total capital works expenditure</b> | <b>68,889</b>                 |



## Staffing policies

### Employment and industrial relations

Our staff are employed under the Public Service Award 1992 and the *Public Service and Government Officers General Agreement 2014*. No industrial disputes were recorded during 2015-16.

The following table provides a breakdown of the categories of staff employment as at 30 June 2016 compared to 30 June 2015.

In addition to the 52 staff employed at the ERA at 30 June 2016, there were: two Governing Body members; two staff on maternity leave; and one staff member on leave without pay.

**Table 9 Staff numbers by categories of employment**

| Employment category                | Number of staff as at 30 June 2015 | Number of staff as at 30 June 2016 |
|------------------------------------|------------------------------------|------------------------------------|
| Permanent full-time                | 42                                 | 42                                 |
| Permanent part-time                | 3                                  | 5                                  |
| Part-time measured on an FTE basis | 2.3                                | 3.5                                |
| Fixed term full-time               | 7                                  | 5                                  |
| Fixed term part-time               | 0                                  | 0                                  |
| Total employees                    | 52                                 | 52                                 |
| Total FTEs                         | 51.3                               | 50.5                               |

The following table provides a breakdown of staff numbers at 30 June 2016 by category of employment and gender.

**Table 10 Staff numbers by categories of employment and gender**

| Employment category                | Female | Male | Total |
|------------------------------------|--------|------|-------|
| Permanent full-time                | 17     | 25   | 42    |
| Permanent part-time                | 5      | 0    | 5     |
| Part-time measured on an FTE basis | 3.5    | 0    | 3.5   |
| Fixed term full-time               | 3      | 2    | 5     |
| Fixed term part-time               | 0      | 0    | 0     |
| Total employees                    | 25     | 27   | 52    |
| Total FTEs                         | 23.5   | 27   | 50.5  |

### Workers compensation

The ERA complies with the requirements of the *Occupational Safety and Health Act 1984*.

There were no workers compensation claims and no outstanding workers compensation claims from a prior period.

## Governance disclosures

### Remuneration and other interests

The following table shows the remuneration of Governing Body members in 2015-16.

**Table 11 Remuneration of Governing Body members**

| Position           | Name         | Type of remuneration | Period of membership             | Gross remuneration in 2015-16 |
|--------------------|--------------|----------------------|----------------------------------|-------------------------------|
| Member             | Steve Edwell | Annual               | 1 July 2015 to 30 June 2016      | \$163,597                     |
| Alternate Chairman | Stephen King | Annual               | 1 July 2015 to 24 November 2015  | \$102,494                     |
| Member             | Stephen King | Annual               | 25 November 2015 to 30 June 2016 | \$95,267                      |
| Total              |              |                      |                                  | \$361,358                     |

The remuneration and allowances paid to Governing Body members are determined by the Governor based on a recommendation by the Minister for Public Sector Management.

The ERA has no shares for senior officers to hold. The ERA does not have any subsidiary bodies, and hence no shares in subsidiary bodies that senior officers could hold.

In 2015-16, no senior officers, or firms of which senior officers are members, or entities in which senior officers have substantial interests, had any interests in existing or proposed contracts with the ERA other than normal contracts of employment of service.

In 2015-16, no senior officers disclosed having received any benefits through contracts held by the ERA.

There are no senior officers of the ERA defined as directors under Part 3 of the *Statutory Corporations (Liability of Directors) Act 1996*. Therefore, the ERA is not required to pay an insurance premium to indemnify any senior officer.



### Unauthorised use of credit cards

Officers of the ERA hold corporate credit cards where their responsibilities warrant use of this facility. No card-holders used their credit cards inappropriately in 2015-16.



# OTHER LEGAL REQUIREMENTS

## Expenditure on advertising

In accordance with section 175ZE of the *Electoral Act 1907*, we incurred the following expenditure on advertising, market research, polling, direct mail and media advertising in 2015-16.

**Table 12 Expenditure on advertising, market research, polling, direct mail and media advertising**

| Expenditure category | Service provider    | Amount             |
|----------------------|---------------------|--------------------|
| Advertising          | Adcorp              | \$8,607.89         |
|                      | LinkedIn            | \$379.90           |
|                      | ABG Pages           | \$5,499.97         |
|                      | State Law Publisher | \$7,247.39         |
| Market research      | NA                  | Nil                |
| Polling              | NA                  | Nil                |
| Direct mail          | NA                  | Nil                |
| Media advertising    | NA                  | Nil                |
| <b>Total</b>         |                     | <b>\$21,735.15</b> |

## Disability access and inclusion plan

We are committed to achieving our outcomes in accordance with the *Disability Services Act 1993* and the *Disability Services Regulations 2004*.

Our disability access and inclusion plan reflects our commitment to:

- ensure that all people, their families and carers are able to fully access our information, services and facilities, providing all members of the community with the same opportunities, rights and responsibilities; and
- consulting with people, their families and carers, and advocacy organisations to ensure that any barriers to access and inclusion are addressed appropriately.

This year we refreshed our access and inclusion working group. The aim of the group is to ensure that our business practices reflect our commitment that people with a disability can access the work we do and employment opportunities.

The access and inclusion plan includes seven key outcomes to improve access and inclusion throughout the organisation. Listed below are the outcomes and a brief description of the associated actions. Also included is a ranking by the working group on the agency's progress towards achieving that outcome.



**Table 13 Outcomes, actions and achievements under the access and inclusion plan**

| Outcome  | Actions   | Progress towards achieving outcome |
|--|---|------------------------------------|
| <p><b>Outcome 1:</b> People with disabilities have the same opportunities as other people to access the services of, and any events organised by, the ERA.</p>             | <ul style="list-style-type: none"> <li>• The objectives of the plan have been incorporated into the ERA's strategic planning</li> <li>• All promotions and public events organised by the ERA are designed and prepared to be as accessible as possible for people with disabilities and their carers</li> <li>• The AIP Plan and AIP Working Group Charter are both available to staff via the intranet and promoted to the public on our website</li> </ul> | 70 per cent                        |
| <p><b>Outcome 2:</b> People with disabilities have the same opportunities as other people to access the building and other facilities of the ERA.</p>                      | <ul style="list-style-type: none"> <li>• Ensure that all ERA offices and other venues leased by the ERA are physically accessible to people with disabilities and their carers</li> <li>• Ensure that ERA occupational health and safety procedures meet the needs of people with disabilities</li> </ul>   | 80 per cent                        |
| <p><b>Outcome 3:</b> People with disabilities receive information from the ERA in a format that will enable them to access the information as readily as other people.</p> | <ul style="list-style-type: none"> <li>• All ERA publications will be generated in accordance with accessibility best practice guidelines.</li> <li>• Ensure the ERA's website is as accessible as possible.</li> </ul>   | 30 per cent                        |
| <p><b>Outcome 4:</b> People with disabilities receive the same level and quality of service from ERA staff as other people receive from ERA staff.</p>                     | <ul style="list-style-type: none"> <li>• Ensure that staff provide the same quality of service to all people.</li> <li>• Accessibility information is regularly reviewed and easily available to staff.</li> <li>• Ensure disability awareness is included in induction for new staff.</li> </ul>   | 70 per cent                        |
| <p><b>Outcome 5:</b> People with disabilities have the same opportunities as other people to make complaints to the ERA.</p>   | <ul style="list-style-type: none"> <li>• Provide people with disabilities and their carers with the option of making complaints in a way that is accessible.</li> <li>• Have grievance mechanism processes available to meet the needs of people with disabilities.</li> </ul>  | 60 per cent                        |
| <p><b>Outcome 6:</b> People with disabilities have the same opportunities as other people to participate in any public consultation by the ERA.</p>                        | <ul style="list-style-type: none"> <li>• The ERA will inform disability and community organisations about ERA events and public consultation opportunities.</li> <li>• Improve community awareness about ERA consultation processes via the ERA website.</li> <li>• Ensure that venues where public events are held are easily accessible for people with disabilities.</li> </ul>  | 40 per cent                        |
| <p><b>Outcome 7:</b> People with disabilities have the same opportunities as other people to access and participate in employment within the ERA.</p>                      | <ul style="list-style-type: none"> <li>• Promote the ERA as an Equal Employment Opportunity employer and ensure all employees and future employees are not subject to any discrimination.</li> <li>• Support employees through job design, flexible working arrangements and appropriate resources.</li> <li>• Ensure that internal policies prohibit discrimination and harassment.</li> </ul>   | 90 per cent                        |

## Compliance with public sector standards and ethical codes

We are committed to ensuring the highest standards of transparency and accountability in our activities.

Our code of conduct outlines the behaviours that are fundamental to our culture, and it is the document we turn to for guidance on our behaviour. Our internal “how we do things” guideline document provides for the practical application of the code of conduct. It focusses on the four main areas that we believe affect our workplace: communication; respect; contribution to culture; and continuous improvement.

We actively encourage all employees to demonstrate a high level of integrity, consistent with public sector standards and ethical codes. 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 staff induction program.

Staff are required refresh their knowledge of public sector accountability requirements by attending mandatory training courses on equal opportunity law; accountable and ethical decision making; and risk management once every three years.

## Recordkeeping plans

Our Recordkeeping Plan was approved by the State Records Commission in December 2014 and remains valid until December 2019. The Retention and Disposal (R&D) Schedule has been approved until August 2018. Both of these documents will be subject to further review as a result of upcoming changes to our functions.

We are endeavouring to achieve our strategic goal of implementing completely digital recordkeeping through a number of projects.

We reviewed the initial implementation of our recordkeeping system, HP Records Manager 8. In particular, we analysed the settings for the locations model, metadata model, object model and security model. The aim of the project is to improve the efficiency and effectiveness of the recordkeeping software and the ability of staff to use it. The location model review has been completed, with changes made to the way locations are being managed.

Key performance indicators for recordkeeping have been approved and implemented. The approved KPIs focus on the timeliness of staff saving records. We will re-evaluate these KPIs to ensure the measures assist us to improve the quality of our recordkeeping.

We undertook a retention and disposal review project. This involved discussions between the records team and the Corporate Executive members to re-evaluate how long their core business records need to be kept and to standardise the retention of common types of core business records. The aim of the project was to ensure we have a functional retention and disposal schedule that can be easily understood by electronic recordkeeping systems and, as a result, records disposal can be automated. This was an important project as our approved retention and disposal schedule had our functional records classified as state records that needed to be archived.

We commenced developing a schedule and comprehensive policy outlining how long records on our website will be retained. The aim of the project was to establish a specific retention period for each type of record published on the website to enable the website content to be reviewed and updated regularly. Our legislative obligations require us to maintain a public register, and that’s how we use our website. The development of this policy is important so we can align the publications on the website to our recordkeeping plan and are able to remove a large volume of historical documents.

We developed a comprehensive policy and schedule outlining records that can be destroyed as part of normal administrative practice, based on the examples of other Australian state records agencies. The aim of this project is to provide explicit guidance to staff on their ability to delete ephemeral or transitory records that they deal with on a daily basis. This is part of our strategy to develop a working environment that ensures that collaboration by staff in preparing documentation is kept separate from the records in Records Manager 8. This ensures our official recordkeeping system only contains our definitive records.

We sought to improve the efficiency of how we work by analysing current business processes, simplifying them where possible, and translating this into an electronic process that can be automated. We examined the business processes for Governing Body meetings and how related records and meetings are managed. We are currently trialling board software to evaluate how this business process could be improved.

We also examined the electronic business process for authorisation of documents and, where necessary, the use of electronic signatures. This was originally a paper process that was copied into an electronic environment. The review is investigating appropriate software solutions to automate approvals and implement authenticated digital signatures.

## Government policy requirements

### Substantive equality

We are not a department represented on the Strategic Management Council and we do not currently have any obligations under the substantive equality framework.

We are aware of the intent of the substantive equality framework and have adopted the policy of providing equal employment opportunities and eliminating discrimination in the provision of our services.

We are committed to ensuring that our employment practices are open and transparent, based on the principles of merit and equity at all times. We have 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

Our documented injury management system 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*.



Our Occupational Health and Safety (OHS) policy is published on our intranet and reinforces the responsibility of all employees to conduct themselves in a safe manner at all times, and not place themselves or any other person at risk.

This year we elected a new OHS representative who regularly conducts inspections of our office environment to undertake an assessment of risks and hazards. OHS reports are provided to our Corporate Executive on a quarterly basis.

We provided ergonomic assessments for all new staff and re-evaluated existing staff if required (for example, if they changed workstations). This year, 10 new staff were assessed and five existing staff were re-evaluated.

The following table sets out our performance against occupational health and safety targets in 2015-16.

**Table 14 Performance against occupational health and safety targets**

| Indicator   | 2015-16 Target  | 2015-16 Actual |
|---|---|----------------|
| Number of fatalities  | Zero  | Zero           |
| Lost time injury/disease (LTI/D) incidence rate   | Zero (0) or 10% improvement on the previous three (3) years | Zero           |
| Lost time injury severity rate  | Zero (0) or 10% improvement on previous three (3) years     | Zero           |
| Percentage of injured workers returned to work within (i) 13 weeks and (ii) 26 weeks                                  | Greater than or equal to 80% return to work within 26 weeks | Zero           |
| Percentage of managers and supervisors trained in occupational safety, health and injury management responsibilities. | Greater than or equal to 80%                                | 78 per cent    |

## Government building contracts

The Government Building Training policy applies to State Government building, construction and maintenance contracts that have a labour component of \$2 million and over. Premier's Circular 2015/02 does not apply to the ERA as we do not award building or maintenance contracts.

## Reconciliation action plan

Our reconciliation action plan focuses on raising awareness of cultural diversity. The plan is available on our website.

The plan outlines the existing and planned initiatives to raise staff awareness to strengthen meaningful relationships with Aboriginal and Torres Strait Islanders.

We have a reconciliation action group, which met three times during the year. Our action group leads the development and deployment of our plan, identifying initiatives in line with the key elements of reconciliation – relationships, respect and opportunities.

This year, the reconciliation action group organised for staff to attend an indigenous heritage tour in Kings Park to celebrate Harmony Day. The tour was led by Aboriginal guide, Greg Nannup, who provided information on the indigenous heritage of Kings Park and bush food and medicine.

## Workforce planning and diversity

Reflecting the technical nature of our regulatory work, our performance is dependent upon the technical abilities, knowledge, and problem-solving skills of our workforce. It is important that we attract and retain highly capable staff.

We aim to recruit highly skilled and motivated people through robust short-listing and interview processes. Some of the positions we need to fill require specialised skills. In accordance with the Public Sector Commissioner's instruction about filling a public sector vacancy, we have determined that some positions in the ERA are 'specialist positions'. We continue to pay attraction and retention incentives to staff working in positions that require specialist skills.

As a small agency, we are conscious of our exposure to the departure of key personnel. Fifteen per cent of our staff have worked with the ERA (and its predecessor agencies) for more than 10 years, with a number of these staff represented on our corporate executive. Turnover amongst the corporate executive will present a challenge, because the corporate and regulatory knowledge developed over many years of experience cannot be easily be transferred to other staff.

We are seeking to address this risk through appropriate succession planning, which involves documenting core knowledge and developing potential future leaders within the organisation.

Over half of our staff have been with the organisation for less than 5 years. Our relatively flat structure, combined with restrictions on recruitment, has made it difficult to retain staff seeking promotion opportunities. We seek to address this turnover by providing interesting and varied work, and opportunities to act in more senior positions when they are available.

### Staff development

We encourage staff to attend training courses and conferences to update and expand their skills. This year staff attended 52 training courses and conferences, at a total cost of \$101,662.

We offer centralised courses to all staff in the following four categories: conferences; skills training; wellness training; and mandatory training. In addition, staff may elect to attend courses independently to address personal development needs identified through performance and development discussions.

Staff are encouraged to attend relevant conferences to enhance their industry knowledge and to develop productive working relationships with government agencies, industry stakeholders and regulators in other jurisdictions. This year staff attended: the Electricity Industry Surveillance Group meeting; the Utility Regulator's Forum; and the Energy in WA conference.

Skill training needs are identified through the performance and development discussions that staff have with their managers. We seek to find common needs across staff and arrange in-house training programs. In-house training allows us to keep training costs low, and increases the convenience to staff.

We recognise that the health and well-being of our staff is key to the productivity of the ERA. This year our in-house wellness training program included: memory and concentration; working well, living well; breathwork and yin yoga practice; A.L.E.R.T mental health awareness; and optimising your wellbeing.

Staff are required to attend certain mandatory training courses once every three years to ensure that they understand their accountability obligations. This year we ran: Equal Opportunity Law; Accountable and Ethical Decision Making; and Risk Management.

We have participated in the Inter Departmental Mentoring program again this year, which is jointly sponsored by the Departments of Finance, Treasury, Training and Workforce Development, and Aboriginal Affairs, as well as Lotterywest and the Mental Health Commission. Five of our staff participated this year.

We want to ensure that the training programs we offer staff are well-targeted, reflecting the cost – in both time and money – associated with training courses. We consulted with assistant directors to find out how we could improve the training offered to staff. The feedback provided by the assistant directors will assist the development of the training program for 2016-17.

### Diversity

Our workforce has a good gender balance, with fifty per cent of the workforce identifying as male and fifty per cent female. However, women remain under-represented at senior levels of the Secretariat, with the six most senior positions held by men. Women make up a third of assistant director positions, which is an important leadership position within the Secretariat.

In 2016-17, the ERA will welcome the first female member of the Governing Body, with Ms Nicky Cusworth assuming the role of chair.

**Table 15 Employment in the Secretariat by level and gender**

| Level                   | Male employees | Female employees |
|-------------------------|----------------|------------------|
| Level 2                 | 1              | 4                |
| Level 3                 | 3              | 3                |
| Level 4                 | 2              | 2                |
| Level 5                 | 2              | 2                |
| Level 6                 | 5              | 4                |
| Level 7                 | 2              | 5                |
| Level 8                 | 6              | 4                |
| Level 9                 | 2              | 3                |
| Class 1                 | 3              | 0                |
| Chief Executive Officer | 1              | 0                |
| <b>Total</b>            | <b>27</b>      | <b>25</b>        |

As an organisation, we recognise that a diverse workforce is important to the performance of the ERA, and we are committed to ensuring that women and men have equal opportunities to progress and have interesting careers.

For the second year in a row, the Chief Executive Officer attended the women in leadership forum convened by the Institute of Public Administration Australia with three of our female assistant directors. This provides an opportunity to reflect and discuss the performance of the organisation in supporting women.

We recognise that the years of early parenthood presents a particular challenge for both women and men in our organisation. Often this period coincides with staff achieving senior positions within the organisation that involve heavier workloads and longer hours. We seek to retain people by providing flexibility in how and when they work, and recognising the importance of balancing work and family.

### Employee assistance

The ERA's employee assistance program is promoted within the Secretariat. Staff are encouraged to use the counselling services available under this program if they encounter any problems in their personal and professional lives.

### Social and charitable activities

We believe that it's important to bring people together from across the organisation on a social basis. This helps to break down barriers in our organisational structure, promote a collegiate atmosphere, and support staff morale.

We have an active social club that includes a representative from each business division. This structure contributes to the strong organisation-wide ownership of the club, the success of our activities, and our good staff morale. The social club organises social and sporting events, and raises funds for a wide range of not-for-profit organisations.

The social club arranged a number of successful events throughout the year including the Christmas Party held at the Perth Zoo, a Melbourne Cup lunch, and a divisional quiz and lunch. Other activities we enjoyed together included Movember, staff drinks to celebrate our successes, an AFL footy tipping competition, Easter egg hunt around the office, and morning tea fundraisers in support a number of charities.

We also organised a range of activities outside the office, including participation in the City to Surf and HBF Run for a Reason fun runs, a pool competition at Pot Black, and racing surfcats on the Swan River.

We encourage staff across all divisions to join in social team-building activities. Continuing our tradition of enthusiasm for sport, we actively participated in the IHF Corporate Challenge competitions, including volleyball, soccer, touch rugby, petanque, and croquet tournaments.

Staff vote for a charity to support each calendar year through our weekly free-dress Friday. This reporting period we supported the United Nations High Commissioner for Refugees (UNHCR) for the last six months of 2015, and Médecins Sans Frontières' (Doctors without Borders) for the first six months of 2016.

Throughout the year, we organised workplace events such as morning teas to raise money for not-for-profit organisations including the Cancer Council and Men's Shed. We also raised funds

for, and awareness about, men's health during Movember, and hosted a guest speaker from the Australian Red Cross Blood Donation service to coincide with our regular blood donations.

Continuing our annual tradition, we donated food and gifts to the Salvation Army's Christmas Appeal in December 2015. We also donated used IT equipment, such as laptops, laptop batteries, and LCD screens to Technology Assisting Disability WA.

## Other disclosures

### Complaints handling

There are three main areas that may be the source of complaints: the administration of the 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 Western Australian Public Sector Code of Ethics, ERA's Code of Conduct, and our Conflict of Interest Policy. These documents are available in either hard copy at our reception desk or on our website.

The Code of Conduct recommends concerns be raised directly with the staff member involved. The next step is to raise the concern with the immediate supervisor, and then the Chief Executive Officer. Staff and consultants are provided with a hard copy of our Code of Conduct during their induction. Staff can discuss their concerns about 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 administration or employment related complaints lodged with the ERA during 2015-16.

A variety of circumstances, such as the competing interests of infrastructure owners and other interested parties, may give rise to views that differ from ours in respect of our regulatory functions.

Our regulatory processes typically provide opportunities for interested parties to express their views on our decisions. These processes include comprehensive public consultation, involving submissions, public forums and meetings with the Governing Body or Secretariat.

Submissions may be made on either a public or confidential basis. Public submissions are published on our website.

Our decisions are ultimately subject to legal appeal on legal matters to the Supreme Court and to merit review by the Australian Competition Tribunal and the Electricity Review Board.

### Public interest disclosures

We have internal procedures that outline how we comply with the *Public Interest Disclose Act 2003*.

Our internal procedures for public interest disclosure (PID) outlines how we comply with the *Public Interest Disclose Act 2003*. These procedures are available on our staff intranet and are also provided to all new employees as part of their induction process.

We currently have three PID officers.

## Memoranda of understanding

A memorandum of understanding (MOU) is a public document that assists with consultation, information sharing, and working relationships. In 2015-16, we had MOUs with the organisations listed in the following table.

**Table 16 Memoranda of Understanding**

| Organisation                                    | Date of signature | Purpose of the MOU   |
|---|-------------------|--|
| Energy Ombudsmen of Western Australia           | 30 October 2008   | Provides for consultation between the two parties.<br>Coordinate regular activities between the signed parties in relation to the regulation of the electricity and gas industries.  |
| Public Utilities Office                         | 5 February 2007   | Promote effective cooperation and coordination between the two agencies in performing their complementary roles in Western Australia's energy market.  |
| Department of Water                             | 12 December 2006  | Ensure efficient and effective decision-making and advisory processes of both agencies in relation to the water services industry.<br>Promote best practice regulation and monitoring of compliance under relevant legislation.  |
| Independent Market Operator                     | 9 January 2007    | Agreed framework for mutual cooperation in relation to functions relevant to both agencies.<br>Agreement to mutually assist each other with the exchange of information, expert advice, appropriate referral of matters and cooperation, consistent with legislation.<br>Protocol between the two agencies to deal with operational matters. |
| Energy Safety Division (Department of Commerce) | 13 April 2015     | Promote cooperation on the regulation of the electricity and gas industries in Western Australia.<br>Contribute significantly to the ability of the agencies to effectively and efficiently carry out their functions.   |

## Audit and risk

### Risk management

Our Corporate Executive team actively identifies and monitors agency-wide and project risks and reviews our risk register on a quarterly basis.

### 2015-16 Internal Audit program

This was the last year of our three-year Strategic Audit Plan, which was in effect for the period 2013-14 to 2014-16 and was undertaken by Quantum Consulting.

The following audit activities were undertaken: Project Management and Legislative Compliance; Information Technology Security and Website; Corporate Governance; Risk Management and Financial Management. The outcomes of each of these audits are described below.

#### *Project Management and Legislative Compliance Audit*

This audit identified four medium risks that required action by the ERA to improve processes. The process improvements identified in this audit have been addressed.

The auditor concluded that staff are aware of the legislative requirements applying to the projects and activities they undertake and found that deadlines, consultation and publishing requirements are generally being met.

#### *Information Technology Security and Website Audit*

This audit found three medium risks and two low risks. The auditor concluded that:

- The level of information security has improved since the previous audit with more comprehensive documentation and implementation of IT security policies and procedures. The main exception related to the lack of rules about the complexity and changing of passwords on the network.

- Our website has adequate content management procedures and an overall governance framework, with the exception of a lack of reporting and monitoring of the website to assist in identifying improvements. The website also needs further improvements to meet Government accessibility guidelines.

The issues raised in relation to information security in this audit have been addressed.

In relation to our website, we have implemented reporting and monitoring, but still need to make further improvements to enable us to meet the Government accessibility guidelines.

### **Corporate Governance Audit**

This audit found seven medium risks requiring strengthened governance and suggested several opportunities for improvement. The audit concluded there is a good level of corporate governance being maintained, with general adherence to well-documented policies, procedures and processes. The ERA has also applied most of the better practices from the Australian Standard for Corporate Governance.

As a result of this audit, we have completely revised our suite of corporate governance documents, which will be presented to our Governing Body for approval once a new Chair is appointed.

### **Risk Management Audit**

This audit found one medium and two low risks relating to improvements to the risk register, process and documentation. The audit concluded that an effective risk management framework has been documented and implemented. The framework consists of policy and process documentation, installation of the RiskWizard software, setting up the risk register and ensuring risks are reported and discussed by the Corporate Executive every quarter and at every meeting of the Audit and Risk Committee.

This audit was conducted in April 2016 and the target date for updating the risk process is not yet due.

### **Financial Management Audit**

This audit found two low risks relating to compliance with fleet management guidelines. The audit noted that our policy and guidelines for fleet management were being updated to ensure that future vehicle acquisitions comply. The revised ERA policy has been incorporated into the Financial Management Manual.

The audit concluded that good controls are being maintained over the financial management functions, including revenue, expenditure, bank accounts, asset register, cash handling and the general ledger. Budgets are approved and the management and Whole-of-Government reporting is in accordance with these budgets and the financial system.

### **2015-16 External Audit**

In June and July 2015, the ERA was one of the agencies selected by the Office of the Auditor General to be audited on the implementation of suitable policies, procedures and controls for employee terminations.

The outcome of the audit found that, overall, our results were good. In the area of checking whether termination processing is done properly, the ERA did not perform as well. This was a result of testing a termination payment made prior to June 2014, for which a termination checklist was not completed.

### **Matters considered by the Audit and Risk Committee**

Our Audit and Risk Committee met three times this year. The standing items considered by the committee included the internal audit reports, an audit log of issues raised by the auditor that still have actions outstanding, a risk register report, and a report on any changes to risks since the last report.

The committee also approved the 2016-17 to 2018-19 three year Strategic Audit Plan and approved the appointment of 2020 Global to undertake the audits identified in the audit plan.

# APPENDICES

## Appendix 1: Administered legislation

| Regulated utility | Relevant legislation  |
|-------------------|---|
| Gas               | <i>Energy Coordination Act 1994</i>                                     |
|                   | <i>Gas Services Information Act 2012</i>                                |
|                   | <i>National Gas Rules Version 29</i>                                    |
|                   | <i>Australian Gas Association Natural Gas Customer Service Code</i>     |
|                   | <i>National Gas Access (WA) Act 2009</i>                                |
|                   | <i>National Gas Access (WA)(Part 3) Regulations 2009</i>                |
|                   | <i>National Gas Access (WA)(Local Provisions) Regulations 2009</i>      |
|                   | <i>Gas Marketing Code of Conduct 2014</i>                               |
| Water             | <i>Water Services Act 2012</i>  |
|                   | <i>Water Services Regulations 2013</i>                                  |
|                   | <i>Water Services Coordination Regulations 1996</i>                     |
|                   | <i>Water Services Code of Conduct (Customer Service Standards) 2013</i> |
| Rail              | <i>Railways (Access) Act 1998</i>                                       |
|                   | <i>Railways (Access) Code 2000</i>                                      |

| Regulated utility | Relevant legislation   |
|-------------------|--|
| Electricity       | <i>Electricity Corporations Act 2005</i>   |
|                   | <i>Electricity Corporations (Electricity Generation and Retail Corporation) Regulations 2013</i> |
|                   | <i>Electricity Industry Act 2004</i>   |
|                   | <i>Electricity Industry (Access Code Enforcement) Regulations 2005</i>                           |
|                   | <i>Electricity Industry (Code of Conduct) Regulations 2005</i>                                   |
|                   | <i>Electricity Industry (Customer Contracts) Regulations 2005</i>                                |
|                   | <i>Electricity Industry (Licence Conditions) Regulations 2005</i>                                |
|                   | <i>Electricity Industry (Licensing Fees) Regulations 2005</i>                                    |
|                   | <i>Electricity Industry (Obligation to Connect) Regulations 2005</i>                             |
|                   | <i>Electricity Industry (Ombudsman Scheme) Regulations 2005</i>                                  |
|                   | <i>Electricity Industry (Wholesale Electricity Market) Regulations 2004</i>                      |
|                   | <i>Wholesale Electricity Market Rules</i>  |
|                   | <i>Electricity Industry (Network Quality and Reliability of Supply) Code 2005</i>                |
|                   | <i>Code of Conduct for the Supply of Electricity to Small Use Customers 2013</i>                 |
|                   | <i>Electricity Industry Customer Transfer Code 2004</i>  |
|                   | <i>Electricity Networks Access Code 2004</i>   |
|                   | <i>Electricity Industry Metering Code 2012</i>   |

## **Appendix 2: Other legislation impacting the agency**

*Corruption and Crime Commission Act 2003*

*Disability Services Act 1993*

*Energy Arbitration and Review Act 1998*

*Equal Opportunity Act 1984*

*Financial Management Act 2006*

*Freedom of Information Act 1992*

*Industrial Relations Act 1979*

*Occupational Safety and Health Act 1984*

*Public Interest Disclosure Act 2003*

*Public Sector Management Act 1994*

*State Records Act 2000*

*Workers' Compensation and Injury Management Act 1981*



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