

Attachment 1.3

Electricity Networks Corporation Trading as Western Power Regulatory Financial Statements for the year ended 30 June 2017

Access Arrangement Information

2 October 2017

Access Arrangement Information (AAI) for the period
1 July 2017 to 30 June 2022

Electricity Networks Corporation
Trading as Western Power
Regulatory Financial Statements (final)
for the year ended 30 June 2017

Contents	Page
Directors' overview	1
Regulatory financial statements	
1. Profit and loss account (disaggregated)	3
2. Profit and loss account (regulatory financial statement)	4
3. Cash flow statement (disaggregated)	5
4. Cash flow statement (regulatory financial statement)	6
5. Balance sheet (disaggregated)	7
6. Balance sheet (regulatory financial statement)	8
7. Capital expenditure (disaggregated)	10
8. Capital expenditure (regulatory financial statement)	11
9. Operating expenditure (disaggregated)	12
10. Operating expenditure (regulatory financial statement)	13
11. Contributions	14
12. Regulatory adjustments	15
13. Summary of significant accounting policies	16
Directors' declaration	23
Independent agreed-upon-procedures report	24

Directors' overview

The directors of Electricity Networks Corporation trading as Western Power (**Western Power**) present this special purpose report in accordance with the Economic Regulation Authority's (ERA's) *Guidelines for Access Arrangement Information* December 2010 (**Guidelines**).

Corporate information

Western Power is incorporated under the *Electricity Corporations Act 2005 (WA)* (**Act**) and domiciled in Australia. The registered office and principal place of business is 363 Wellington Street, Perth, Western Australia 6000.

Western Power is primarily involved in the building, maintenance and operation of the electricity network throughout the majority of southern Western Australia. For a more detailed description of Western Power's operations and principal activities refer to the 2017 annual report (including the audited 2016/17 statutory financial statements) available on Western Power's website www.westernpower.com.au.

Likely developments

Likely developments in Western Power's future operations and their expected results are set out below.

Access Arrangement 4

On 11 November 2016, the Western Australian Public Utilities Office (**PUO**) confirmed Western Power would not transition from the current state regulatory regime to the National Electricity Rules (**NER**), a reform initiative under the previous State Government's Electricity Market Review (**EMR**). This was due to enabling legislation not passing in Parliament in time for Western Power to submit a regulatory proposal under the new regime, being to the Australian Energy Regulator (**AER**) the administrator of the NER.

In lieu of transition to the NER, Western Power will submit the next regulatory proposal under the current Western Australian regime. This is due to the ERA for approval on 2 October 2017, an extension of the legislatively mandated submission date of December 2016 in accordance with an amendment to the Electricity Network Access Code 2004 (**Access Code**).

The submission covering the fourth access arrangement (**AA4**) will present Western Power's five year financial business plan (2017/18 - 2021/22) and supporting strategies, and include the services to be delivered, service levels to be achieved, conditions for access and proposed customer charges.

Western Power has commenced engagement with the ERA, PUO and the Western Australian Department of Treasury with an AA4 decision expected in July 2018. The Access Code however, does allow the ERA up to eight months of extensions, extending a potential final decision to March 2019.

Further to the AA4 submission, Western Power will seek to work with the State Government and ERA to achieve a regulatory framework that reflects modern expectations of customers and enables energy providers to fully participate in the market. This is particularly in relation to the deployment of non-traditional grid solutions to enhance the network's existing value for customers. To achieve this reforms are thought necessary considering the current framework was developed before distributed energy resources (such as solar photovoltaic (**PV**) systems and battery storage) existed.

Future revenue

Western Power's future regulated revenue base remains uncertain due to the reset of the regulatory period. Clarity is expected once the ERA approves Western Power's AA4 submission - due between July 2018 and March 2019.

Irrespective of this, Western Power's revenue base is expected to decline as the natural monopoly of the centralised network erodes due to continued:

- > changes in customer consumption patterns in response to cost influences, environmental factors and product efficiencies
- > deployment of evolving technologies such as solar PV systems, battery storage and stand-alone power systems.

This decline in revenue will present challenges to Western Power, including upwards pressure on network tariffs to offset this fall. This could encourage some customers to consider leaving the grid to generate their own power, meaning remaining customers would bear a greater share of the cost of maintaining the network.

New technologies and customer demands

The operating model of the traditional electricity network service provider including Western Power's, continues to evolve due to technological advances in energy generation, and options for customers to take more control of their energy supply and use. This has the potential to not only fundamentally change the energy value chain, but may also drive increasingly complex consumption and production patterns that will challenge the historical approach of delivering electricity one-way across a centralised network.

Integrating these new technologies into the traditional electricity network service represents an opportunity to benefit Western Power's customers as a whole with better service, reliability and efficiency. This is a key focus of Western Power's next five year Strategic Plan (2017/18 - 2021/22), being the interaction of new technologies and customer demands with the network while continuing to deliver a high level of service for the community.

Western Power is interested in piloting new technologies to develop an understanding of the efficiency benefits for the future deployment of these technologies.

Ageing network assets

The Western Power Network was largely built prior to 1965. In general, older networks pose a greater risk, with the frequency and severity of failures expected to increase as the assets age.

On average Western Power's network assets will continue to age. The annual 'state of the infrastructure' report published on the Western Power website details the current state and level of performance of the network, and highlights the associated risks.

To mitigate these risk, Western Power's approach to network asset management has matured over the past four years with the Network Risk Management Tool (**NRMT**) seen as best practice within the industry. This risk-based tool not only provides analysis of the consequences of risk at the asset level, but also can be used to support long-term asset investment decisions in the light of potential future cost reductions of new network technologies.

Directors' overview (continued)

Likely developments (continued)

Public safety

Western Power is required to maintain and replace network assets in a way that acceptably delivers to customers a safe, reliable and efficient connection to electricity. All overhead electrical networks in Australia including the South West Interconnected Network (**SWIN**), have an inherent level of risk in operation. This risk arises from environmental and weather related factors, which are outside of the operator's control, as well as from risks that are identified as part of the operation's strategies.

Western Power has implemented *Australian Standard (AS) 5577 Electricity network safety management systems* to ensure it continues to manage the network in a reasonable and appropriate manner considering the risk posed.

Regulatory financial statements

These financial statements form a special purpose financial report prepared for the sole purpose of the ERA. They have been prepared in accordance with Australian accounting standards and other authoritative pronouncements of the Australian Accounting Standards Board (**AASB**) (including Australian interpretations), as modified by the requirements of the Guidelines. For a more detailed description of the accounting policies adopted in the preparation of these financial statements refer to the 'summary of significant accounting policies' section within this report.

The presentation of these financial statements is in accordance with the pro-forma statements prescribed in appendix A of the Guidelines. In compliance with the Guidelines, any discretionary headings agree with, or are traceable to the headings in Western Power's audited 2016/17 statutory financial statements.

(a) Regulatory allocations

In compliance with the ERA's Guidelines, these financial statements present Western Power's audited 2016/17 statutory financial statements (base accounts) disaggregated into the following business segments:

- > Covered Transmission (regulated transmission services)
- > Covered Distribution (regulated distribution services)
- > System Management (unregulated system operation services transferred to the Australian Energy Market Operator (**AEMO**) from 1 July 2016)
- > Unregulated (contestable services)

The disaggregation is in accordance with the ERA's Guidelines and Western Power's approved 2016/17 cost and revenue allocation method (**CRAM**), specifically:

- > transactions that are directly attributable to a business segment are attributed accordingly
- > transactions that are not directly attributable to a business segment are allocated, where practicable, on a causation basis that most appropriately correlates to the underlying nature of the transaction.

(b) Regulatory adjustments

In compliance with the ERA's Guidelines, these financial statements include regulatory adjustments that primarily reflect differences in accounting policies between the 2016/17 statutory financial statements (base accounts) and the 2016/17 regulatory financial statements, i.e.:

> **Capital contributions (adjustment 12.1)**

For regulatory financial reporting, contributions are recognised in the profit and loss account on receipt. This contrasts to statutory financial reporting, where contributions are deferred to the balance sheet and subsequently recognised in the profit and loss account only when developers and/or customers are connected to the network in accordance with the terms of the contributions.

> **Borrowing costs (adjustment 12.2)**

For regulatory financial reporting, borrowing costs are not capitalised to the balance sheet. This contrasts to statutory financial reporting, where borrowing costs are capitalised to the balance sheet where they are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is one that takes a substantial period of time to be ready for their intended use.

For further details regarding all regulatory adjustments applied in these financial statements refer to the 'regulatory adjustments' section within this report.

(c) Audit assurance

In compliance with the ERA's Guidelines, this special purpose financial report includes an 'agreed-upon-procedures report' from the independent auditor appointed to Western Power under the Act, i.e. the Office of the Auditor General (**OAG**). The OAG's procedural engagement and resultant report seeks to cover:

- > the application of the CRAM in the preparation of the regulatory financial statements
- > the consistency with stated accounting policies, principles and methods
- > the arithmetic accuracy of the regulatory financial statements.

1. Profit and loss account (disaggregated) for the year ended 30 June 2017

Description	Base account \$'000	Covered Transmission \$'000	Covered Distribution \$'000	System Management (unregulated) \$'000	Unregulated \$'000
Network services (revenue cap)	1,511,641	293,647	1,217,994	-	-
Network services (non-revenue cap)	14,510	3,043	11,467	-	-
Network services (other)	59,947	640	12,939	10,927	35,441
Contributions (excluding gifted network assets)	101,143	2,988	98,155	-	-
Gifted network assets	82,347	-	82,347	-	-
Proceeds from disposal of assets*	28,778	1,450	618	-	26,710
Other income	3,890	2,610	78	-	1,202
Total income	1,802,256	304,378	1,423,598	10,927	63,353
Operating expenditure costs	(642,367)	(102,822)	(494,037)	(12,344)	(33,164)
<i>Operations</i>	(82,273)	(19,562)	(35,044)	-	(27,667)
<i>Maintenance</i>	(211,163)	(45,773)	(165,390)	-	-
<i>Customer service and billing</i>	(27,036)	-	(26,342)	-	(694)
<i>Corporate</i>	(145,942)	(38,459)	(105,890)	-	(1,593)
<i>Other operating expenditure</i>	(175,953)	972	(161,371)	(12,344)	(3,210)
Depreciation and amortisation	(336,661)	(114,372)	(218,946)	(3,080)	(263)
Bad debts	(1,264)	(239)	(997)	-	(28)
Borrowing costs	(327,491)	(92,663)	(231,922)	(182)	(2,724)
Book value on disposal of assets*	(26,444)	(2,354)	(5,749)	-	(18,341)
Total expenses	(1,334,227)	(312,450)	(951,651)	(15,606)	(54,520)
Earnings before tax equivalent	468,029	(8,072)	471,947	(4,679)	8,833
Tax equivalent	(141,522)	2,441	(142,707)	1,415	(2,671)
Profit/(loss) after tax equivalent	326,507	(5,631)	329,240	(3,264)	6,162

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

* Total income and total expenses in the regulatory financial statements each differ by \$26.444 million from total income and total expenses reported in the statutory financial statements. This is due to the separate disclosure of proceeds and written down value on the disposal of assets in the regulatory financial statements. In contrast, the statutory financial statements discloses proceeds and written down value on the disposal of assets net of one another, i.e. a net gain of \$2.334 million.

2. Profit and loss account (regulatory financial statement) for the year ended 30 June 2017

Covered Transmission

Description	Base account \$'000	Regulatory adjustment \$'000	Regulatory account \$'000	Support reference #
Network services (revenue cap)	293,647	-	293,647	
Network services (non-revenue cap)	3,043	-	3,043	
Network services (other)	640	-	640	
Contributions (excluding gifted network assets)	2,988	12,333	15,321	11, 12.1
Proceeds from disposal of assets	1,450	-	1,450	
Other income	2,610	-	2,610	
Total income	304,378	12,333	316,711	
Operating expenditure costs	(102,822)	(2,825)	(105,647)	9, 10, 12.3
<i>Operations</i>	(19,562)	-	(19,562)	
<i>Maintenance</i>	(45,773)	-	(45,773)	
<i>Corporate</i>	(38,459)	(2,825)	(41,284)	
<i>Other operating expenditure</i>	972	-	972	
Depreciation and amortisation	(114,372)	2,825	(111,547)	12.3
Bad debts	(239)	-	(239)	
Borrowing costs	(92,663)	(924)	(93,587)	12.2
Book value on disposal of assets	(2,354)	-	(2,354)	
Total expenses	(312,450)	(924)	(313,374)	
Earnings before tax equivalent	(8,072)	11,409	3,337	
Tax equivalent	2,441	(3,423)	(982)	12.4
Loss after tax equivalent	(5,631)	7,986	2,355	

Covered Distribution

Description	Base account \$'000	Regulatory adjustment \$'000	Regulatory account \$'000	Support reference #
Network services (revenue cap)	1,217,994	-	1,217,994	
Network services (non-revenue cap)	11,467	-	11,467	
Network services (other)	12,939	-	12,939	
Contributions (excluding gifted network assets)	98,155	(4,719)	93,436	11, 12.1
Gifted network assets	82,347	-	82,347	
Proceeds from disposal of assets	618	-	618	
Other income	78	-	78	
Total income	1,423,598	(4,719)	1,418,879	
Operating expenditure costs	(494,037)	(7,091)	(501,128)	9, 10, 12.3
<i>Operations</i>	(35,044)	-	(35,044)	
<i>Maintenance</i>	(165,390)	-	(165,390)	
<i>Customer service and billing</i>	(26,342)	-	(26,342)	
<i>Corporate</i>	(105,890)	(7,091)	(112,981)	
<i>Other operating expenditure</i>	(161,371)	-	(161,371)	
Depreciation and amortisation	(218,946)	7,091	(211,855)	12.3
Bad debts	(997)	-	(997)	
Borrowing costs	(231,922)	-	(231,922)	12.2
Book value on disposal of assets	(5,749)	-	(5,749)	
Total expenses	(951,651)	-	(951,651)	
Earnings before tax equivalent	471,947	(4,719)	467,228	
Tax equivalent	(142,707)	1,416	(141,291)	12.4
Profit after tax equivalent	329,240	(3,303)	325,937	

3. Cash flow statement (disaggregated) for the year ended 30 June 2017

Description	Base account \$'000	Covered Transmission \$'000	Covered Distribution \$'000	System Management (unregulated) \$'000	Unregulated \$'000
Operating activities					
<i>Receipts</i>	1,863,803	347,809	1,463,413	13,126	39,455
<i>Payments</i>	(853,651)	(121,627)	(679,173)	(12,204)	(40,647)
Net operating cash flows	1,010,152	226,182	784,240	922	(1,192)
Investing activities					
<i>Receipts</i>	28,778	1,450	618	-	26,710
<i>Payments</i>	(560,494)	(106,535)	(447,094)	-	(6,865)
Net investing cash flows	(531,716)	(105,085)	(446,476)	-	19,845
Financing activities					
<i>Receipts</i>	6,608,437	1,850,316	4,706,188	1,919	50,014
<i>Payments</i>	(7,107,103)	(1,975,332)	(5,075,974)	(2,137)	(53,660)
Net financing cash flows	(498,666)	(125,016)	(369,786)	(218)	(3,646)
Net (decrease)/increase in cash and cash equivalents	(20,230)	(3,919)	(32,022)	704	15,007
Cash and cash equivalents at beginning of reporting year	30,885				
Net decrease in cash and cash equivalents	(20,230)				
Cash and cash equivalents at end of reporting year*	10,655	3,036	7,619		

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

4. Cash flow statement (regulatory financial statement) for the year ended 30 June 2017

Covered Transmission

Description	Base account \$'000	Regulatory adjustment \$'000	Regulatory account \$'000
Operating activities			
<i>Receipts</i>	347,809	-	347,809
<i>Payments</i>	(121,627)	-	(121,627)
Net operating cash flows	226,182	-	226,182
Investing activities			
<i>Receipts</i>	1,450	-	1,450
<i>Payments</i>	(106,535)	-	(106,535)
Net investing cash flows	(105,085)	-	(105,085)
Financing activities			
<i>Receipts</i>	1,850,316	-	1,850,316
<i>Payments</i>	(1,975,332)	-	(1,975,332)
Net financing cash flows	(125,016)	-	(125,016)
Net decrease in cash and cash equivalents	(3,919)	-	(3,919)

Support
reference
#

Covered Distribution

Description	Base account \$'000	Regulatory adjustment \$'000	Regulatory account \$'000
Operating activities			
<i>Receipts</i>	1,463,413	-	1,463,413
<i>Payments</i>	(679,173)	-	(679,173)
Net operating cash flows	784,240	-	784,240
Investing activities			
<i>Receipts</i>	618	-	618
<i>Payments</i>	(447,094)	-	(447,094)
Net investing cash flows	(446,476)	-	(446,476)
Financing activities			
<i>Receipts</i>	4,706,188	-	4,706,188
<i>Payments</i>	(5,075,974)	-	(5,075,974)
Net financing cash flows	(369,786)	-	(369,786)
Net decrease in cash and cash equivalents	(32,022)	-	(32,022)

Support
reference
#

5. Balance sheet (disaggregated) as at 30 June 2017

Description	Base account \$'000	Covered Transmission \$'000	Covered Distribution \$'000	System Management (unregulated) \$'000	Unregulated \$'000
Current assets					
<i>Cash and cash equivalents</i>	10,655	3,036	7,619	-	-
<i>Trade and other receivables</i>	81,200	16,545	62,801	538	1,316
<i>Prepayments</i>	15,887	5,155	10,696	-	36
<i>Accrued revenue</i>	141,567	27,464	114,103	-	-
<i>Inventories</i>	92,237	27,264	51,553	-	13,420
Total current assets	341,546	79,464	246,772	538	14,772
Non-current assets					
<i>Property, plant and equipment, and intangible assets</i>	10,192,844	2,885,046	7,220,864	2,133	84,801
<i>Trade and other receivables</i>	336	64	264	-	8
<i>Derivative financial instruments</i>	3,813	1,087	2,726	-	-
Total non-current assets	10,196,993	2,886,197	7,223,854	2,133	84,809
Total assets	10,538,539	2,965,661	7,470,626	2,671	99,581
Current liabilities					
<i>Borrowings</i>	(17,020)	(4,802)	(12,088)	-	(130)
<i>Trade and other payables, and current tax equivalent</i>	(146,115)	(35,950)	(89,099)	(813)	(20,253)
<i>Derivative financial instruments</i>	(1,866)	(532)	(1,334)	-	-
<i>Deferred income</i>	(88,988)	(17,745)	(70,415)	-	(828)
<i>Provisions</i>	(74,083)	(20,886)	(52,913)	-	(284)
Total current liabilities	(328,072)	(79,915)	(225,849)	(813)	(21,495)
Non-current liabilities					
<i>Borrowings</i>	(7,270,246)	(2,050,713)	(5,161,943)	(2,133)	(55,457)
<i>Trade and other payables</i>	(4,902)	-	(4,902)	-	-
<i>Derivative financial instruments</i>	(22,711)	(6,471)	(16,240)	-	-
<i>Deferred tax equivalent liabilities</i>	(762,567)	(215,842)	(540,221)	(160)	(6,344)
<i>Deferred income</i>	(1,833)	(1,351)	(482)	-	-
<i>Provisions</i>	(19,719)	(10,689)	(8,989)	-	(41)
Total non-current liabilities	(8,081,978)	(2,285,066)	(5,732,777)	(2,293)	(61,842)
Total liabilities	(8,410,050)	(2,364,981)	(5,958,626)	(3,106)	(83,337)
Net assets	2,128,489	600,680	1,512,000	(435)	16,244
Equity					
<i>Share capital</i>	1,242,366				
<i>Accumulated profits/reserves*</i>	886,123				
Total equity	2,128,489				
* Accumulated profits/reserves					
<i>At start of reporting period</i>	632,353				
<i>Profit after tax equivalent</i>	326,507				
<i>Other comprehensive income</i>	29,210				
<i>Distributions provided for or paid in reporting year</i>	(101,947)				
At end of reporting period	886,123				

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

6. Balance sheet (regulatory financial statement) as at 30 June 2017

Covered Transmission

Description	Base account \$'000	Regulatory adjustment \$'000	Regulatory account \$'000	Support reference #
Current assets				
<i>Cash and cash equivalents</i>	3,036	-	3,036	
<i>Trade and other receivables</i>	16,545	(387)	16,158	12.1
<i>Prepayments</i>	5,155	-	5,155	
<i>Accrued revenue</i>	27,464	-	27,464	
<i>Inventories</i>	27,264	-	27,264	
Total current assets	79,464	(387)	79,077	
Non-current assets				
<i>Property, plant and equipment, and intangible assets</i>	2,885,046	91,864	2,976,910	12.2
<i>Trade and other receivables</i>	64	-	64	
<i>Derivative financial instruments</i>	1,087	-	1,087	
Total non-current assets	2,886,197	91,864	2,978,061	
Total assets	2,965,661	91,477	3,057,138	
Current liabilities				
<i>Borrowings</i>	(4,802)	-	(4,802)	
<i>Trade and other payables, and current tax equivalent</i>	(35,950)	(3,192)	(39,142)	12.1, 12.4
<i>Derivative financial instruments</i>	(532)	-	(532)	
<i>Deferred income</i>	(17,745)	15,912	(1,833)	12.1
<i>Provisions</i>	(20,886)	-	(20,886)	
Total current liabilities	(79,915)	12,720	(67,195)	
Non-current liabilities				
<i>Borrowings</i>	(2,050,713)	-	(2,050,713)	
<i>Derivative financial instruments</i>	(6,471)	-	(6,471)	
<i>Deferred tax equivalent liabilities</i>	(215,842)	-	(215,842)	
<i>Deferred income</i>	(1,351)	1,351	-	12.1
<i>Provisions</i>	(10,689)	-	(10,689)	
Total non-current liabilities	(2,285,066)	1,351	(2,283,715)	
Total liabilities	(2,364,981)	14,071	(2,350,910)	
Net assets	600,680	105,548	706,228	

6. Balance sheet (regulatory financial statement) as at 30 June 2017

Covered Distribution

Description	Base account \$'000	Regulatory adjustment \$'000	Regulatory account \$'000	Support reference #
Current assets				
<i>Cash and cash equivalents</i>	7,619	-	7,619	
<i>Trade and other receivables</i>	62,801	(3,167)	59,634	12.1
<i>Prepayments</i>	10,696	-	10,696	
<i>Accrued revenue</i>	114,103	-	114,103	
<i>Inventories</i>	51,553	-	51,553	
Total current assets	246,772	(3,167)	243,605	
Non-current assets				
<i>Property, plant and equipment, and intangible assets</i>	7,220,864	-	7,220,864	12.2
<i>Trade and other receivables</i>	264	-	264	
<i>Derivative financial instruments</i>	2,726	-	2,726	
Total non-current assets	7,223,854	-	7,223,854	
Total assets	7,470,626	(3,167)	7,467,459	
Current liabilities				
<i>Borrowings</i>	(12,088)	-	(12,088)	
<i>Trade and other payables, and current tax equivalent</i>	(89,099)	2,753	(86,346)	12.1, 12.4
<i>Derivative financial instruments</i>	(1,334)	-	(1,334)	
<i>Deferred income</i>	(70,415)	66,304	(4,111)	12.1
<i>Provisions</i>	(52,913)	-	(52,913)	
Total current liabilities	(225,849)	69,057	(156,792)	
Non-current liabilities				
<i>Borrowings</i>	(5,161,943)	-	(5,161,943)	
<i>Trade and other payables</i>	(4,902)	-	(4,902)	
<i>Derivative financial instruments</i>	(16,240)	-	(16,240)	
<i>Deferred tax equivalent liabilities</i>	(540,221)	-	(540,221)	
<i>Deferred income</i>	(482)	482	-	12.1
<i>Provisions</i>	(8,989)	-	(8,989)	
Total non-current liabilities	(5,732,777)	482	(5,732,295)	
Total liabilities	(5,958,626)	69,539	(5,889,087)	
Net assets	1,512,000	66,372	1,578,372	

7. Capital expenditure (disaggregated) for the year ended 30 June 2017

Description	Base account \$'000	Covered Transmission \$'000	Covered Distribution \$'000	System Management (unregulated) \$'000	Unregulated \$'000
Capital additions					
Capacity expansion	66,767	31,275	35,492	-	-
Customer driven	137,641	6,474	131,167	-	-
Gifted network assets	82,347	-	82,347	-	-
Asset replacement	148,274	33,356	114,918	-	-
State Underground Power Project (<i>SUPP</i>)	10,389	-	10,389	-	-
Metering	24,481	-	24,481	-	-
Wood pole management	81,720	-	81,720	-	-
Reliability driven	3,664	-	3,664	-	-
Supervisory Control and Data Acquisition (<i>SCADA</i>) & communications	16,519	11,455	5,064	-	-
Regulatory compliance	35,817	21,036	14,781	-	-
Information technology	43,279	12,331	30,948	-	-
Business support	7,510	2,265	5,245	-	-
Capitalised interest	924	924	-	-	-
Mobile plant and vehicles	1,758	-	-	-	1,758
Stand-alone power systems	1,866	-	-	-	1,866
Total capital additions	662,956	119,116	540,216	-	3,624

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

8. Capital expenditure (regulatory financial statement) for the year ended 30 June 2017

Covered Transmission

Description	Base account \$'000	Regulatory adjustment \$'000	Regulatory account \$'000
Growth			
<i>Capacity expansion</i>	31,275	-	31,275
<i>Customer driven</i>	6,474	-	6,474
	37,749	-	37,749
Asset replacement and renewal			
<i>Asset replacement</i>	33,356	-	33,356
Improvement in service			
<i>SCADA and communications</i>	11,455	-	11,455
Compliance			
<i>Regulatory compliance</i>	21,036	-	21,036
Corporate			
<i>Information technology</i>	12,331	-	12,331
<i>Business support</i>	2,265	-	2,265
	14,596	-	14,596
Other			
<i>Capitalised interest</i>	924	(924)	-
Total capital additions	119,116	(924)	118,192

Support
reference
#

12.2

Covered Distribution

Description	Base account \$'000	Regulatory adjustment \$'000	Regulatory account \$'000
Growth			
<i>Capacity expansion</i>	35,492	-	35,492
<i>Customer driven</i>	131,167	-	131,167
<i>Gifted network assets</i>	82,347	-	82,347
	249,006	-	249,006
Asset replacement and renewal			
<i>Asset replacement</i>	114,918	-	114,918
<i>SUPP</i>	10,389	-	10,389
<i>Metering</i>	24,481	-	24,481
<i>Wood pole management</i>	81,720	-	81,720
	231,508	-	231,508
Improvement in service			
<i>Reliability driven</i>	3,664	-	3,664
<i>SCADA and communications</i>	5,064	-	5,064
	8,728	-	8,728
Compliance			
<i>Regulatory compliance</i>	14,781	-	14,781
Corporate			
<i>Information technology</i>	30,948	-	30,948
<i>Business support</i>	5,245	-	5,245
	36,193	-	36,193
Total capital additions	540,216	-	540,216

Support
reference
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9. Operating expenditure (disaggregated) for the year ended 30 June 2017

Description	Base account \$'000	Covered Transmission \$'000	Covered Distribution \$'000	System Management (unregulated) \$'000	Unregulated \$'000
Directly attributed costs					
<i>Operations</i>	(62,774)	(14,908)	(20,199)	-	(27,667)
<i>Maintenance</i>	(211,163)	(45,773)	(165,390)	-	-
<i>Customer service and billing</i>	(27,036)	-	(26,342)	-	(694)
<i>Corporate</i>	(1,067)	-	(39)	-	(1,028)
<i>Other operating expenditure</i>	(175,953)	972	(161,371)	(12,344)	(3,210)
Total directly attributed costs	(477,993)	(59,709)	(373,341)	(12,344)	(32,599)
Causally allocated costs					
<i>Operations</i>	(19,499)	(4,654)	(14,845)	-	-
<i>Maintenance</i>	-	-	-	-	-
<i>Customer service and billing</i>	-	-	-	-	-
<i>Corporate</i>	(144,875)	(38,459)	(105,851)	-	(565)
<i>Other operating expenditure</i>	-	-	-	-	-
Total causally allocated costs	(164,374)	(43,113)	(120,696)	-	(565)
Total operating expenditure costs	(642,367)	(102,822)	(494,037)	(12,344)	(33,164)

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

Operating expenditure costs to be excluded from gain sharing mechanism for the year ended 30 June 2017

Description	Base account \$'000	Covered Transmission \$'000	Covered Distribution \$'000	System Management (unregulated) \$'000	Unregulated \$'000
Superannuation for defined benefit schemes	(199)	(48)	(151)	-	-
Non-revenue cap services	(17,234)	(4,028)	(13,206)	-	-
EnergySafety levy	(4,434)	(1,263)	(3,171)	-	-
Network control services	(633)	(151)	(482)	-	-
ERA costs under ERA (<i>Electricity Networks Access Funding Regulations 2012</i>)	(1,124)	(320)	(804)	-	-
Total operating expenditure costs to be excluded from gain sharing mechanism	(23,624)	(5,810)	(17,814)	-	-

10. Operating expenditure (regulatory financial statement) for the year ended 30 June 2017

Covered Transmission

Description	Base account \$'000	Regulatory adjustment \$'000	Regulatory account \$'000
Operations			
SCADA and communications	(10,880)	-	(10,880)
Non-revenue cap services	(4,028)	-	(4,028)
Network operations	(4,654)	-	(4,654)
	(19,562)	-	(19,562)
Maintenance			
Preventative condition	(13,624)	-	(13,624)
Preventative routine	(20,538)	-	(20,538)
Corrective deferred	(9,447)	-	(9,447)
Corrective emergency	(2,164)	-	(2,164)
	(45,773)	-	(45,773)
Corporate			
Business support	(38,459)	(2,825)	(41,284)
Other operating expenditure			
Non-recurring expenditure	972	-	972
Total operating expenditure costs	(102,822)	(2,825)	(105,647)

Support
reference
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12.3

Covered Distribution

Description	Base account \$'000	Regulatory adjustment \$'000	Regulatory account \$'000
Operations			
Reliability operations	(1,452)	-	(1,452)
SCADA and communications	(5,541)	-	(5,541)
Non-revenue cap services	(13,206)	-	(13,206)
Network operations	(14,845)	-	(14,845)
	(35,044)	-	(35,044)
Maintenance			
Preventative condition	(25,265)	-	(25,265)
Preventative routine	(54,741)	-	(54,741)
Corrective deferred	(16,653)	-	(16,653)
Corrective emergency	(68,731)	-	(68,731)
	(165,390)	-	(165,390)
Customer service and billing			
Call centre	(3,866)	-	(3,866)
Metering	(14,783)	-	(14,783)
Guaranteed service level payments	(1,011)	-	(1,011)
Distribution quotations	(6,682)	-	(6,682)
	(26,342)	-	(26,342)
Corporate			
Business support	(105,890)	(7,091)	(112,981)
Other operating expenditure			
Non-recurring expenditure	(11,371)	-	(11,371)
Tariff equalisation contribution	(150,000)	-	(150,000)
	(161,371)	-	(161,371)
Total operating expenditure costs	(494,037)	(7,091)	(501,128)

Support
reference
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12.3

11. Contributions for the year ended 30 June 2017

Covered Transmission

Reason for contributions	Base account \$'000	Regulatory adjustment \$'000	Regulatory account \$'000
<i>Capacity expansion</i>	(33)	-	(33)
<i>Customer driven</i>	3,021	12,387	15,408
<i>SCADA and communications</i>	-	(54)	(54)
Total contributions	2,988	12,333	15,321

Support
reference
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12.1

Covered Distribution

Reason for contributions	Base account \$'000	Regulatory adjustment \$'000	Regulatory account \$'000
<i>Customer driven</i>	86,067	(1,114)	84,953
<i>Gifted network assets</i>	82,347	-	82,347
<i>Asset replacement</i>	30	-	30
<i>SUPP</i>	8,950	(3,605)	5,345
<i>Metering</i>	3,108	-	3,108
Total contributions (including gifted network assets)	180,502	(4,719)	175,783

Support
reference
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12.1

12. Regulatory adjustments for the year ended 30 June 2017**Accounting policy adjustments****12.1 Capital contributions (including gifted network assets)**

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

Description	Base account \$'000	Covered Transmission \$'000	Covered Distribution \$'000	System Management (unregulated) \$'000	Unregulated \$'000
Capital contributions recognised (statutory)	183,490	2,988	180,502	-	-
Regulatory cash adjustment:					
Net capital contributions deferred to balance sheet					
<i>Opening deferred income (capital contributions)</i>	(74,449)	(4,774)	(69,675)	-	-
<i>Closing deferred income (capital contributions)</i>	84,049	17,263	66,786	-	-
	9,600	12,489	(2,889)	-	-
Net capital contributions invoiced but not yet received	(3,554)	(387)	(3,167)	-	-
Net capital contributions accrued but not yet refunded	1,568	231	1,337	-	-
Total regulatory cash adjustment	7,614	12,333	(4,719)	-	-
Capital contributions received (regulatory)	191,104	15,321	175,783	-	-

12.2 Borrowing costs

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

Description	Base account \$'000	Covered Transmission \$'000	Covered Distribution \$'000	System Management (unregulated) \$'000	Unregulated \$'000
Opening capitalised borrowing costs (statutory)	92,788	92,788	-	-	-
Capitalised borrowing costs in reporting year	(924)	(924)	-	-	-
Closing capitalised borrowing costs (statutory)	91,864	91,864	-	-	-

Accounting disclosure adjustments**12.3 Fleet depreciation**

To align Western Power's statutory accounting disclosures with regulatory accounting disclosures, i.e. unregulated fleet depreciation is disclosed as 'operating expenditure costs' in the profit and loss (regulatory financial statements) and not 'depreciation and amortisation'.

Other adjustments**12.4 Tax equivalent**

The tax equivalent is calculated on regulatory adjustments using the tax rates, that based on laws, have been enacted or substantially enacted as at the reporting date (30 June 2017: 30 per cent), and is adjusted against current 'trade and other payables, and current tax equivalent' in the balance sheet (regulatory financial statement).

13. Summary of significant accounting policies

This is a special purpose financial report prepared for the sole purpose of the ERA. The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied, unless otherwise stated.

(a) Basis of preparation

These financial statements have been prepared in accordance with Australian accounting standards and other authoritative pronouncements of the AASB (including Australian interpretations), as modified by the Guidelines, with the exception of the disclosure requirements in the following pronouncements:

- > AASB 101 *Presentation of financial statements*
- > AASB 107 *Statement of cash flows*
- > AASB 7 *Financial instruments: disclosures*
- > AASB 124 *Related party disclosures*

Western Power has been classified as a not-for-profit entity for the purpose of applying accounting standards, and accordingly applies the not-for-profit elections available in the Australian accounting standards (where applicable).

The modifications to the Australian accounting standards as required by the Guidelines include:

- > any contributions for capital projects are recognised as income when received (and not deferred to the balance sheet until the associated asset is energised as required by *AASB Interpretation 18 Transfer of assets from customers*) (refer to regulatory adjustment 12.1)
- > any interest (or like allowance) incurred during construction is expensed (and not capitalised as permitted by *AASB 123 Borrowing costs*) (refer to regulatory adjustment 12.2).

(b) Accrual accounting and historical cost convention

These financial statements are prepared on the accrual accounting basis except for capital contributions and cash flow information prepared on the cash accounting basis, and in accordance with the historical cost convention except for:

- > derivative financial instruments measured at fair value
- > certain employee benefit liabilities measured at present value, less the fair value of any defined benefit plan assets.

(c) Critical accounting and historical cost convention

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

Estimates, judgements and underlying assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on Western Power and that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the reporting year in which the estimate is revised and any future reporting years affected.

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

Critical accounting estimates and judgments	Note
Unbilled network tariff revenue	13(g)
Fair values of derivative financial instruments	13(l)
Present value of employee benefit liabilities	13(r)

(d) Rounding

All financial information presented in Australian dollars has been rounded off to the nearest thousand (\$'000), unless otherwise stated.

(e) Cost allocations

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

(f) Foreign currency translation***Presentation and functional currency***

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

Transactions and balances

Transactions in currencies other than the functional currency of Western Power are translated into Australian dollars using the exchange rates at the dates of the transactions. At each reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at closing exchange rates. Non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

All foreign currency translation differences are recognised on a net basis in 'operating expenditure costs' in profit or loss, except:

- > when deferred in equity for translation differences of qualifying cash flow hedges, to the extent the hedge is effective
- > when the translation differences deferred to equity for qualifying cash flow hedges are transferred to the carrying value of non-financial assets.

13. Summary of significant accounting policies (continued)

(g) Revenue and income recognition

Revenues are recognised to the extent it is probable that future economic benefits will flow to Western Power and the revenue can be measured reliably. It is measured at the fair value of the consideration received or receivable, being the invoiced amount including interest on overdue amounts, net of the amount of goods and services tax. Revenue also includes an estimate for the value of unbilled network tariff services. The below specific recognition criteria must also be met before revenue is recognised:

Network services revenue

Western Power receives network services revenue from the transmission and distribution of electricity, and provision of other related services including unregulated sales of materials. Network services revenue is recognised when the service is provided. As at each reporting date, network services revenue and trade receivables include amounts attributable to 'unbilled network tariff revenue' (30 June 2017: \$141.567 million). Unbilled network tariff revenue is an estimate of electricity transported to customers that has not been invoiced at the reporting date. It is calculated using projected historical and budget revenue assumptions for unread meters based on the billing profile of Western Power customers.

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

Contributions

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

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

Other income

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

(h) Income tax equivalent

National taxation equivalent regime

Western Power is exempt from the Commonwealth of Australia's Income Tax Assessment Acts but makes income tax equivalent payments to the Western Australian State Government. The calculation of the liability in respect of these taxes is governed by the Income Tax Administration Acts and the National Taxation Equivalent Regime guidelines as agreed by the State Government.

Current tax equivalent

The income tax equivalent expense for a reporting year comprises current and deferred tax equivalents. It is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax too is recognised in other comprehensive income or directly in equity, respectively.

Current tax equivalent is the expected tax equivalent payable or receivable on the taxable income or loss for the reporting year, using tax rates enacted or substantially enacted as at the reporting date, and any adjustment to the tax equivalent in respect of previous years.

Deferred tax equivalent

Deferred tax equivalent is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax equivalent is measured at the tax rates that are expected to be applied when the asset is realised or the liability is settled, based on the laws that have been enacted or substantially enacted as at the reporting date.

A deferred tax equivalent asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax equivalent assets are reviewed at the end of each reporting year and are reduced to the extent it is no longer probable that the related tax equivalent benefit will be realised. Unrecognised deferred tax equivalent assets are reassessed at each reporting date and are recognised to the extent that it has become probable future taxable profits will allow the deferred tax equivalent asset to be recovered.

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

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, deposits held at call with financial institutions and other short-term deposits that have an original maturity of three months or less that are readily convertible to known amounts of cash.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and deposits as defined above, net of outstanding bank overdrafts. As at 30 June 2017, Western Power did not have a bank overdraft.

13. Summary of significant accounting policies (continued)

(j) Trade and other receivables

Trade and other receivables represent amounts due from customers for services provided or goods sold in the ordinary course of business. They are usually settled on 14 or 30 day payment terms, unless contractually agreed otherwise. Trade and other receivables are initially recognised at fair value, being the value of the invoice sent to the customer, and subsequently measured at amortised cost less provision for impairment. The estimate for the value of unbilled network tariff services is included in 'accrued revenue' in the balance sheet.

Trade and other receivables are classified as current assets unless collection is not expected for more than 12 months after the reporting date. Where payments are due after one year, they are measured at their net present value to reflect the economic cost of the delayed payment.

Impairment

Trade and other receivables are determined to be impaired when objective evidence exists that Western Power will not be able to collect all amounts due. Objective evidence includes known financial difficulties of the debtor, probability the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue). The amount impaired is the difference between the carrying value of the receivable and the net present value of the estimated future cash flows discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting would be immaterial. Amounts impaired are recognised in profit or loss.

When a trade receivable for which an impairment provision has been recognised becomes uncollectible in a subsequent reporting year it is written off against the provision account. Subsequent recoveries of amounts written off are credited to profit or loss.

(k) Inventories

Inventories consist of materials required for the maintenance and operation of the network, as well as for general construction works. They are valued at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated completion and selling costs.

(l) Derivative and hedging activities

Derivative financial instruments

Derivative financial instruments are used to hedge exposures to movements in interest and foreign exchange rates. Western Power uses derivative financial instruments in accordance with Board approved policy. Speculative trading where a derivative is entered into without an underlying business exposure is strictly prohibited. All derivative activities are carried out by a specialist group within Western Power that has the appropriate skills, experience and supervision.

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. Derivative financial instruments are presented as assets when the fair value is positive and as liabilities when the fair value is negative.

Hedge accounting

For the purpose of hedge accounting, hedges are classified as:

- > Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment
- > Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction, or the foreign currency risk in an unrecognised firm commitment

On entering into a hedge relationship, Western Power determines whether hedge accounting is applied. Where hedge accounting applies, Western Power formally designates and documents the relationship between the hedging instrument and the hedged item, as well as its risk management objective and strategy for undertaking the hedge. Western Power also documents its assessment, both at the inception of the hedge and on an ongoing basis, of whether the derivative that is used in the hedging transaction has been, and will continue to be, highly effective in offsetting changes in fair values or cash flows of the hedged item.

Fair value hedges:

For all derivative transactions designated as a fair value hedge, the portion of gain or loss on the hedging instrument is recognised in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. There is no impact in other comprehensive income or the hedging reserve. Western Power has not accounted for any derivative financial instruments that qualify for hedge accounting as fair value hedges in the current reporting year.

Cash flow hedges:

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

When a hedging instrument expires, is sold or is terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity, and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

13. Summary of significant accounting policies (continued)**(l) Derivative and hedging activities (continued)*****Derivatives that do not qualify for hedge accounting***

For all derivative transactions that do not qualify for hedge accounting, any changes in fair value are recognised immediately in profit or loss. During the year ended 30 June 2017, all Western Power's derivative transactions qualified for hedge accounting.

Derecognition

Derivative financial instruments are derecognised when Western Power no longer controls the contractual rights that comprise the financial instrument. During the year ended 30 June 2017, Western Power did not derecognise any derivative financial instruments.

(m) Property, plant and equipment***Cost***

Property, plant and equipment represents the capital works and plant required for the operation of the business, and is recognised at historical cost less accumulated depreciation in accordance with *AASB 116 Property, plant and equipment*. Property, plant and equipment is not equal to the regulated asset base (**RAB**). Historical cost is determined as the fair value of the asset at the date of acquisition or construction, and includes all expenditure directly attributable to the acquisition or construction of the asset. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

Subsequent costs are included in property, plant and equipment only when it is probable the item associated with the cost will generate future economic benefits and the cost can be measured reliably. The carrying amounts of items replaced are derecognised. All other repairs and maintenance, plus minor capital assets less than \$5,000, are expensed to profit or loss in the reporting years in which they are incurred.

Depreciation

In order to recognise the loss of service potential of property, plant and equipment, depreciation is calculated using the straight-line method over the estimated useful lives below, making allowances where appropriate for residual values.

Categories of property, plant and equipment	Estimated useful life (years)
Substations, transformers, poles and cables	45 - 50
Buildings	40
Land improvements and infrastructure	25
Meters, streetlights	20 - 25
Stand-alone power systems	10 - 20
Pole reinforcements, advance meters	15
Furniture and fittings, refurbishments, other plant and equipment	10
Communications	7 - 10
Fleet	5 - 10
Computer hardware	4
Leasehold improvements	Life of lease

Property, plant and equipment received on disaggregation of Western Power Corporation is depreciated over the estimated residual useful lives. No depreciation is provided on freehold land, easements and assets in the course of construction.

The residual value, estimated useful lives and depreciation methods of property, plant and equipment are reviewed annually, and adjusted as appropriate at the end of each reporting year, with any changes recognised as a change in accounting estimate. As at 30 June 2017, Western Power did not recognise any changes in depreciation estimates.

Rehabilitation costs

Upon recognition of an item of property, plant and equipment, the cost of the item includes the present value of the anticipated costs of rehabilitating the site on which it is located.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The proceeds and carrying amount on disposal are recognised in profit or loss.

Leases

Leases where the lessee retains substantially all the risks and benefits of ownership of the asset are classified as finance leases. As at 30 June 2017, Western Power did not have any finance leases.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed to profit or loss in the reporting years in which they are incurred, being representative of the pattern of benefits derived from the leased assets.

13. Summary of significant accounting policies (continued)**(n) Intangible assets****Cost**

Intangible assets represent identifiable capitalised software costs and intellectual property, and are recognised at historical cost less accumulated amortisation in accordance with AASB 138 *Intangible assets*. Intangible assets are not equal to the RAB. Subsequent costs are included in intangible assets only when it is probable the item associated with the cost will generate future economic benefits and the cost can be measured reliably.

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

Amortisation

In order to recognise the loss of service potential of intangible assets, amortisation is calculated using the straight-line method over the estimated useful lives below, making allowances where appropriate for residual values.

Categories of intangible assets	Estimated useful life (years)
Intellectual property	3 - 25
Software (major developments/enhancements)	5 - 10
Software (minor purchases/enhancements)	2.5

Intangible assets received on disaggregation of Western Power Corporation are amortised over their estimated residual useful lives.

The residual value, estimated useful lives and amortisation methods of intangible assets are reviewed annually, and adjusted as appropriate at the end of each reporting year, with any changes recognised as a change in accounting estimate. As at 30 June 2017, Western Power did not recognise any changes in amortisation estimates.

Derecognition

An intangible asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The proceeds and carrying amount on disposal are recognised in profit or loss.

(o) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to Western Power prior to the end of the reporting year which are unpaid. They are usually settled between 30 and 45 days of recognition.

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost. Trade and other payables are classified as current liabilities unless payment is not due for at least 12 months after the reporting date.

(p) Borrowings

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

Borrowings are classified as current liabilities unless Western Power has an agreement with the lender that allows refinancing of the liability for at least 12 months after the reporting date. This includes where a forward domestic borrowing commitment exists that replaces the existing borrowing on the date of maturity, and where this extends the maturity of the original borrowing to greater than 12 months after the reporting date.

Forward domestic borrowing commitments

Western Power enters into forward domestic borrowing commitments with the Western Australian Treasury Corporation (WATC) where it agrees to borrow specified amounts in the future at pre-determined interest rates. These borrowings are entered into with the objective of managing interest rate risks, and are recognised as a derivative financial instrument in the period between entering into the forward domestic borrowing agreement and draw down of the loan principal. Once the loan is drawn down, the principal is accounted for at fair value like any other borrowing. Any fair value gain or loss recognised in the hedging reserve is reclassified to profit or loss over the term of the loan.

(q) Borrowing costs

Borrowing costs are expensed when incurred.

13. Summary of significant accounting policies (continued)

(r) Provisions

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

Rehabilitation costs

A provision for site rehabilitation costs is recognised when there is either a legal or constructive obligation to rehabilitate a site as a result of a past event; it is probable a rehabilitation expense will be incurred to settle the obligation; and the obligation costs can be reliably estimated. The amount of the provision for future rehabilitation costs is capitalised into the cost of the related property, plant and equipment, and depreciated over the estimated useful life.

Rehabilitation costs that relate to an existing condition caused by past operations, but that do not have a future economic benefit are expensed to profit or loss.

Employee benefits

Provisions for the below employee benefit liabilities are recognised as a result of services rendered up to the reporting date.

Wages and salaries:

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

Annual and long service leave:

The liabilities arising in respect of annual and long service leave are not expected to be settled wholly within 12 months of the reporting date. They are recognised in 'provisions' and measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to factors including the expected future wages and salaries levels, experience of employee departures and settlement dates. Expected future payments are discounted using the Commonwealth bond rates whose terms most closely match the terms of the related liabilities. Independent actuarial valuations are carried out at each reporting date. Remeasurement as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

Leave obligations are presented as current liabilities in the balance sheet where there is no unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when actual settlement is expected to occur.

Retirement benefit obligations:

All employees of Western Power are entitled to benefits upon retirement, disability or death from any number of superannuation plans, which may include a defined contribution section, a defined benefit section, or both.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which Western Power pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Contributions to defined contribution plans are recognised as an expense in the reporting years in which the services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit other than a defined contribution plan. A liability or asset in respect of defined benefit superannuation plans is recognised in the balance sheet, and is measured separately for each plan as the present value of the defined benefit obligation in respect of services provided by employees up to the reporting date, less the fair value of any plan assets at that date.

The present value of defined benefit superannuation plans is based upon expected future payments and is calculated using discounted cash flows consistent with the projected unit credit method. Consideration is given to factors including the expected future wages and salaries level, experience of employee departures and periods of service. Expected future payments are discounted using the Commonwealth bond rates whose terms most closely match the terms of the related liabilities. An independent actuarial valuation is carried out at each reporting date.

The annual net defined benefit interest expense and/or income is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting year to the net defined benefit liability and/or asset. It is recognised immediately along with all other defined benefit plan expenses including past services costs in 'operating expenditure costs' in profit or loss.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions (including changes in the bond rate) are recognised in the reporting years in which they occur, directly in other comprehensive income. They are included in equity in the balance sheet.

Changes in the present value of defined benefit obligations resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

13. Summary of significant accounting policies (continued)

(r) Provisions (continued)

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for those benefits. Western Power recognises a provision for termination benefits at the earlier of the following dates: (i) when Western Power can no longer withdraw the offer of those benefits; and (ii) when Western Power recognises the costs for a restructuring that is within the scope of *AASB 137 Provisions, contingent liabilities and contingent assets* and involves the payment of termination benefits.

In the case of an offer made to encourage voluntary redundancies, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting date are discounted to present value.

(s) Dividends

Dividends are provided for in the reporting year in which the dividends recommended by the Board are accepted by the Minister for Energy, with the concurrence of the Treasurer of Western Australia. A corresponding amount is recognised directly in equity.

(t) Goods & services tax (GST)

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

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

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

Directors' declaration

This is a special purpose financial report prepared for the sole purpose of the Economic Regulation Authority in accordance with the *Guidelines for Access Arrangement Information* December 2010 (**Guidelines**).

In the directors' opinion the financial statements and summary of significant accounting policies have been prepared in accordance with the Guidelines, and comply with Australian accounting standards and other authoritative pronouncements (where applicable).

This declaration is made in accordance with a resolution of the directors.



C Beckett

Board Chair



G Martin

Deputy Board Chair

8 August 2017



Our Ref: 5563-06

Chairman of Directors
Electricity Networks Corporation
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PERTH WA 6000



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Dear Sir

AGREED UPON PROCEDURES ENGAGEMENT ON WESTERN POWER'S REGULATORY FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

Attached is the report on agreed upon procedures for the regulatory financial statements for the year ending 30 June 2017, prepared for submission to the Economic Regulation Authority.

I would like to take this opportunity to thank you, the management and the staff of your Corporation for their cooperation with the audit team.

Feel free to contact Acting Assistant Auditor General, Patrick Arulsingham, on 6557 7644 if you would like to discuss these matters further.

Yours faithfully



COLIN MURPHY
AUDITOR GENERAL
9 August 2017

Attach

Scope of agreed upon procedures and findings Regulatory Financial Statements (RFS)

Procedure 1

Agree the base account numbers in Western Power's 2016/17 RFS to Western Power's 2016/17 statutory financial statements for:

- a) Total income, total expenses, profit/(loss) after taxation equivalent.
- b) Net operating cash flows, net investing cash flows, net financing cash flows, net increase/(decrease) in cash and cash equivalents.
- c) Total assets, total liabilities, net assets, total equity.

Factual findings

We found the base account numbers within the Western Power's 2016/17 RFS to be in agreement, except for the exceptions documented below.

Testing details

We agreed the base numbers for each of the following base account categories:

Category	Agreed without exception
Total income	No
Total expenses	No
Profit/(loss) after taxation equivalent	Yes
Net operating cash flows	Yes
Net investing cash flows	Yes
Net financing cash flows	Yes
Net increase/(decrease) in cash and cash equivalents	Yes
Total assets	Yes
Total liabilities	Yes
Net assets	Yes
Equity	Yes

Exception identified

Total income and total expenses do not agree. There is an equivalent variance of \$26,444,000 in both of these categories. The explanation for this variance is noted on page three of the RFS, which states that the variance is due to gross amounts being disclosed for proceeds and write-down on disposal of assets within the RFS, whilst these amounts are disclosed on a net basis within the 30 June 2017 statutory financial statements. The grossing up is a requirement of the ERA guidelines, which varies from the AASB required accounting treatment.

Scope of agreed upon procedures and findings Regulatory Financial Statements (RFS)

Procedure 2

Agree the allocations of income (e.g. network services - revenue cap; non-revenue cap; other), contributions (excluding gifted network assets), gifted network assets, proceeds from disposal of assets and other income) as disclosed in Western Power's 2016/17 RFS profit and loss account to Western Power's 2016/17 CRAM (by business segment).

Factual findings

We found the base account numbers within the RFS to be in agreement.

Testing details

We selected a sample and agreed the allocations were in accordance with the CRAM. In particular, we considered:

1. Section 6.3 of the CRAM, which states the following protocols with respect to revenue:
 - All revenue items are recorded in Western Power's financial system via the account code structure. The account code structure comprises a cost centre and expense element. A cost centre is assigned to each projects and work orders and includes three segments: responsibility centre, activity code and asset segment.
 - Activity code: comprises the second group of four characters of cost centre. The characters are numeric and are used to identify business services, e.g. 1@@@ denotes external work.
 - Asset segment: comprises the third group of four characters of our cost centre. The characters are numeric and are used to identify segments, i.e. 1@@@ denotes corporate-related, 2@@@ denotes transmission, 3@@@ denotes distribution and 4@@@ denotes network planning & operations (including unregulated system management).
2. Appendix C of the CRAM also stipulates the methodology for revenue allocation.
3. The RFS revenue categories (e.g. network services (revenue cap; non-revenue cap; other), contributions, proceeds from disposal of assets, and other income) each comprise a number of general ledger accounts, which are further comprised of a number of sub-ledgers.

We selected our revenue transactions from the sub-ledger level. For those transactions allocated on the 'direct' basis, we have assessed whether their account coding is consistent with the CRAM. For those transactions allocated on the 'indirect' basis we have discussed with management or reviewed documentation to ascertain the nature of the revenue item and consequently the rationale for the transaction's business segment allocation. The sample selected and reviewed is documented in the following table:

The sample selected and reviewed is documented in the following table:

Revenue category and \$ (as disclosed in the RFS)	Chart of accounts description and account code	Amount (\$)	RFS business segment	Type of allocation	Agreed allocation to CRAM
Network service (revenue cap) \$1,511,641,000	Network Services (Revenue Cap) 118012732000	\$27,143,446	Transmission	Direct	Yes
Network service (non-revenue cap) \$14,510,000	Network Services (Non-Revenue Cap) 533010102000	\$676,289	Transmission	Direct	Yes

**Scope of agreed upon procedures and findings
Regulatory Financial Statements (RFS)**

Network service (other) \$59,947,000	Network Services (Other) 602552203000	\$126,220	Distribution	Direct	Yes
Contributions (excluding gifted network assets) \$101,143,000	Customer Contributions (Excluding Gifted Network Assets) 602530153000	\$973,620	Distribution	Direct	Yes
Gifted network assets \$82,347,000	Gifted Assets 602530563000	\$8,783,991	Distribution	Direct	Yes
Proceeds from disposal of assets \$28,778,000	Lot 137 (No. 72) Gordon Rd East, Osborne Park	\$589,704	Transmission	Direct	Yes
Other income \$3,890,000	Internally Driven Cancelled Project Cost 533010001000	\$12,260	Unregulated	Direct	Yes

Scope of agreed upon procedures and findings Regulatory Financial Statements (RFS)

Procedure 3

Agree the allocations of operating expenditure costs (i.e. operations, maintenance, customer service and billing, corporate and other operating expenditure) as disclosed in Western Power's 2016/17 RFS profit and loss account to the Western Power's 2016/17 CRAM (by business segment and regulatory category).

Factual findings

We found the allocations to be in agreement, except for the exception noted below.

Testing details

We selected a sample and agreed the allocations were in accordance with the CRAM. In particular, we considered:

1. Section 6.3 of the CRAM provides for the following allocation with respect to costs:
 - All cost items are recorded in Western Power's financial system via the account code structure. The account code structure comprises a cost centre and expense element. A cost centre is assigned to each of our projects and work orders and includes three segments: responsibility centre, activity code and asset segment.
 - Activity code: comprises the second group of four characters of cost centre. The characters are numeric and are used to identify business services, e.g. 1@@@ denotes external work.
 - Asset segment: comprises the third group of four characters of our cost centre. The characters are numeric and are used to identify segments, i.e. 1@@@ denotes corporate-related, 2@@@ denotes transmission, 3@@@ denotes distribution and 4@@@ denotes network planning & operations (including unregulated system management).
2. Appendix A of the CRAM also stipulates the methodology for cost allocation.
3. The RFS cost categories (e.g. operations, maintenance, customer service and billing, corporate and other operating expenditure) each comprise a number of general ledger accounts, which are further comprised of a number of sub-ledgers.

We have selected our cost transactions from the sub-ledger level. For those transactions allocated on the 'direct' basis, we have assessed whether their account coding is consistent with the CRAM. For those transactions allocated on the 'indirect' basis we have discussed with management or reviewed documentation to ascertain the nature of the cost item and consequently the rationale for the transaction's business segment allocation.

The sample selected and reviewed is documented in the following table:

Expenditure category and \$ (as disclosed in the RFS)	Chart of accounts description and account code	Amount (\$)	RFS business segment	Type of allocation	Account code allocation agreed to CRAM
Operations \$82,273,000	Works in vicinity 602510053000	\$45,978	Distribution	Direct	Yes
Maintenance \$211,163,000	Corrective deferred 602423233000	\$12,913	Distribution	Direct	Yes

Scope of agreed upon procedures and findings
Regulatory Financial Statements (RFS)

Expenditure category and \$ (as disclosed in the RFS)	Chart of accounts description and account code	Amount (\$)	RFS business segment	Type of allocation	Account code allocation agreed to CRAM
Customer service and billing \$27,036,000	Customer Service Centre (Call centre) 994071413000	\$173,952	Distribution	Direct	No
Corporate \$145,942,000	Obsolete Stock 633061551000	\$272,233	Transmission	Indirect (Inventory)	Yes
Other operating expenditure \$175,953,000	Tariff Equalisation Contribution 118061551000	\$12,500,000	Distribution	Direct	Yes

Exception identified

According to the CRAM, Customer Service and Billing Expenditure attributable to the "Customer Service Centre (Call Centre)" is to be allocated on a direct basis to both "Transmission" and "Distribution" business segments, based on subject matter categorisation of calls received and recorded by the Call Centre.

We noted the total Call Centre expenditure amount of \$3,865,992 was allocated entirely to the "Distribution" business segment within the regulatory profit and loss statement. Although an immaterial amount of \$33,534 should have been allocated to the "Transmission" business segment, the 2016/17 Western Power Regulatory Financial Statements remain 99.1% accurate in this regard.

**Scope of agreed upon procedures and findings
Regulatory Financial Statements (RFS)**

Procedure 4

Agree the allocations of depreciation and amortisation, bad debts, borrowing costs, book value on disposal of assets and taxation equivalent as disclosed in the Western Power's 2016/17 RFS profit and loss account to Western Power's 2016/17 CRAM (by business segment).

Findings

We found the allocations to be in agreement.

Testing details

We selected a sample and agreed the allocations were in accordance with the CRAM. In particular, we considered the following allocations as per the CRAM (as extracted from Appendix A, Table 6 of the CRAM):

Other Expenditure	Transmission	Distribution	System Management	Unregulated
Depreciation and Amortisation	Direct & then PPE for remaining	Direct & then PPE for remaining	Direct	Direct (excluding fleet)
Bad Debts	Network Services Revenue	Network Services Revenue	n/a	Network Services Revenue
Borrowing Costs	PPE (reported)	PPE (reported)	Direct	PPE (reported)
Book Value on Disposal of Assets	Direct & then PPE for remaining	Direct & then PPE for remaining	Direct	Direct
Taxation Equivalent	Earnings before Taxation Equivalent	Earnings before Taxation Equivalent	Earnings before Taxation Equivalent	Earnings before Taxation Equivalent

We have reviewed the allocation methodology applied for each of the "Other Expenditure" categories and found the allocation methodology is applied consistently with the CRAM. The procedures we applied included:

- a) Review of management allocation work papers.
- b) Checked the allocation calculation for those categories that were based on a ratio calculation.

Expenditure category and \$ (as disclosed in the RFS)	Amount (\$)	Agreed allocation to CRAM
Depreciation and amortisation	\$336,661,000	Yes
Bad debts	\$1,264,000	Yes
Borrowing costs	\$327,491,000	Yes
Book value on disposal of assets	\$26,444,000	Yes
Taxation equivalent	\$141,522,000	Yes

Scope of agreed upon procedures and findings
Regulatory Financial Statements (RFS)

Procedure 5

Agree the allocations of cash flows for operating activities, investing activities and financing activities (i.e. receipts and payments) as disclosed in Western Power's 2016/17 RFS cash flow statement to Western Power's 2016/17 CRAM (by business segment).

Factual findings

We found the allocations to be in agreement, except for the exception noted below.

Testing details

Each cash flow item comprises many activities. We have reviewed the allocation methodology applied to each account. The allocation methodologies applied reflect the causal relationship in line with the nature of the balance and are in accordance with the CRAM.

Exception identified

We noted from Procedure 5 that there was an exception in applying the CRAM with respect to the allocation of "Customer Funded (non-cash) contributions".

The CRAM prescribes that "Customer Funded (non-cash) contributions" are to be allocated on a direct basis. However, we noted that a total of \$1,337,000 was allocated to the "Transmission" business segment when it should have been allocated to the "Distribution" business segment.

The 2016/17 Western Power Regulatory Financial Statements have not been corrected by management as the re-allocation between regulated business segments is considered to be immaterial (i.e. less than half a percent of operating receipts).

**Scope of agreed upon procedures and findings
Regulatory Financial Statements (RFS)**

Procedure 6

Agree the allocation of assets and liabilities as disclosed in Western Power's 2016/17 RFS balance sheet to Western Power's 2016/17 CRAM (by business segment).

Findings

We found the allocations to be in agreement.

Testing details

We have reviewed each of the asset and liability allocations and compared the allocation to the CRAM.

Appendix D of the CRAM stipulates the following methodology for asset and liability allocation:

Current Assets	Transmission	Distribution	System Management (unregulated)	Unregulated
Cash and Cash Equivalents	PPE	PPE	n/a	n/a
Trade and Other Receivables (including Current Taxation Equivalent Assets)	Direct & then Network Services Revenue, Accrued Revenue &/ or PPE (reported) for remaining	Direct & then Network Services Revenue, Accrued Revenue &/ or PPE (reported) for remaining	Direct & then PPE (reported only) for remaining	Direct & then Network Services Revenue &/ or PPE (reported only) for remaining
Prepayments	Direct & then PPE &/ or FTE for remaining	Direct & then PPE &/ or FTE for remaining	Direct	Direct & then FTE for remaining
Accrued Revenue	Direct & then Accrued Revenue for remaining	Direct & then Accrued Revenue for remaining	n/a	n/a
Inventories	Direct & then Inventories for remaining	Direct & then Inventories for remaining	n/a	Direct
Derivative Financial Instruments	PPE	PPE	n/a	n/a

Non-Current Assets	Transmission	Distribution	System Management (unregulated)	Unregulated
Property, Plant and Equipment, & Intangibles assets	Direct & then PPE for remaining	Direct & then PPE for remaining	Direct	Direct
Trade and Other Receivables	Direct & then Network Services Revenue	Direct & then Network Services Revenue	Direct	Direct & then Network Services Revenue

Scope of agreed upon procedures and findings
Regulatory Financial Statements (RFS)

Non-Current Assets	Transmission	Distribution	System Management (unregulated)	Unregulated
Derivative Financial Instruments	PPE	PPE	n/a	n/a

Current Liabilities	Transmission	Distribution	System Management (unregulated)	Unregulated
Borrowings	Borrowings (non-current)	Borrowings (non-current)	n/a	Borrowings (non-current)
Trade and Other Payables and Current Taxation Equivalent	Direct & then PPE &/or FTE for remaining	Direct & then PPE &/or FTE for remaining	Direct & then PPE (reported only) &/or FTE for remaining	Direct & then PPE (reported only), FTE &/or operating expenditure costs
Derivative Financial Instruments	PPE	PPE	n/a	n/a
Deferred Income	Direct & PPE for remaining	Direct & PPE for remaining	Direct	Direct
Provisions	Direct & then PPE &/ or FTE for remaining	Direct & then PPE &/ or FTE for remaining	Direct & then FTE for remaining	Direct & then FTE for remaining

Non-Current Liabilities	Transmission	Distribution	System Management (unregulated)	Unregulated
Borrowings	Net assets (before borrowings)	Net assets (before borrowings)	= PPE (reported)	Net assets (before borrowings)
Trade and Other Payables	Direct & then PPE for remaining	Direct & then PPE for remaining	Direct	Direct
Derivative Financial Instruments	PPE	PPE	n/a	n/a
Deferred Taxation Equivalent Liabilities	PPE (reported)	PPE (reported)	PPE (reported)	PPE (reported)
Deferred Income	Direct	Direct	n/a	n/a
Provisions	Direct & then PPE &/ or FTE for remaining	Direct & then PPE &/ or FTE for remaining	Direct & then FTE for remaining	Direct & then FTE for remaining

Scope of agreed upon procedures and findings
Regulatory Financial Statements (RFS)

Procedure 7

Agree the allocations of capital expenditure (i.e. additions) as disclosed in Western Power's 2016/17 RFS to Western Power's 2016/17 CRAM (business segment and regulatory category).

Factual findings

We found the allocations to be in agreement.

Testing details

The CRAM, Appendix B Capital Expenditure Allocation Method, details the methodology for the allocation of capital expenditure. The methods applied include allocation based on property plant and equipment and direct allocation (i.e. account code).

We note that the CRAM provides the following information regarding the allocation under the 'Direct' method where account codes are assigned to projects:

- Capital expenditure is directly identified and attributed to business services and/or segments based on the activity codes and asset segments of the parent capital projects underlying the transactions.
- Capital expenditure that cannot be directly attributed to the business segments is allocated using the method that most appropriately reflects the causal correlation of the underlying transaction.

Below tables are extracted from the CRAM Appendix B:

- Table B.1: Information technology capital expenditure allocation

Information Technology Capital Expenditure	Transmission	Distribution	System Management (unregulated)	Unregulated
Information Technology (strategic, business, infrastructure)	PPE	PPE	n/a	n/a

- Table B.2: Corporate shared capital expenditure allocation

Business Support Capital Expenditure	Transmission	Distribution	System Management (unregulated)	Unregulated
Corporate Real Estate	PPE	PPE	n/a	n/a
East Perth Control Centre	PPE	PPE	n/a	n/a
Metering	n/a	Direct	n/a	n/a
Other Plant and Equipment	Direct & then PPE for remaining	Direct & then PPE for remaining	n/a	n/a

**Scope of agreed upon procedures and findings
Regulatory Financial Statements (RFS)**

The RFS capital expenditure categories each comprise a number of accounts, which are further comprised of a number of sub-accounts. We have selected our test sample of capital expenditure transactions from the sub-account level. For those transactions allocated on the 'direct' basis we have assessed whether their account coding is consistent with the CRAM. For those transactions allocated on the 'indirect' basis we have discussed with management or reviewed documentation to ascertain the nature of the expenditure item and consequently the rationale for the transaction's business segment allocation.

The sample selected and reviewed is shown below:

Expenditure category and \$ (as disclosed in the RFS)	Asset segment code	Amount (\$)	RFS business segment	Type of allocation	Account code allocation agreed to CRAM
Capacity expansion \$66,767,000	3000	\$90,554	Distribution	Direct	Yes
Customer driven \$137,641,000	2000	\$31,087	Transmission	Direct	Yes
Gifted network assets \$82,347,000	3000	\$11,541,683	Distribution	Direct	Yes
Asset replacement \$148,274,000	2000	\$1,202,113	Transmission	Direct	Yes
State underground power project \$10,389,000	3000	\$246,702	Distribution	Direct	Yes
Metering \$24,481,000	3000	\$1,264,052	Distribution	Direct	Yes
Wood pole management \$81,720,000	3000	\$335,228	Distribution	Direct	Yes
Reliability driven \$3,664,000	3000	\$1,091,177	Distribution	Direct	Yes
Supervisory control and data acquisition & communications \$16,519,000	2000	\$800,253	Transmission	Direct	Yes
Regulatory compliance \$35,817,000	3000	\$124,067	Transmission	Direct	Yes

Scope of agreed upon procedures and findings
Regulatory Financial Statements (RFS)

Expenditure category and \$ (as disclosed in the RFS)	Asset segment code	Amount (\$)	RFS business segment	Type of allocation	Account code allocation agreed to CRAM
Information technology \$43,279,000	1000	\$89,565	Transmission	Indirect	Yes
Business support \$7,510,000	1000	\$167,317	Distribution	Indirect	Yes
Capitalised interest \$924,000	2000	\$42,334	Transmission	Direct	Yes
Mobile plant and vehicles \$1,758,000	1000	\$769,363	Unregulated	Direct	Yes
Stand-alone power systems \$1,866,000	1000	\$253,649	Unregulated	Direct	Yes

Scope of agreed upon procedures and findings
Regulatory Financial Statements (RFS)

Procedure 8

Select at least two regulatory adjustments as disclosed in Western Power's 2016/17 RFS and agree the supporting documentation and/or underlying methodology and calculations.

Factual findings

We found the allocations to be in agreement.

Testing details

We have randomly selected the adjustment in respect to capital contributions and the adjustment in respect of the treatment of capitalised borrowing costs.

We have agreed the adjustments to management supporting documentation and noted these adjustments are required in accordance with the guidelines for the access arrangement.

The basis for these adjustments are outlined below:

- (i) Capital contributions: The base accounts include developer and customer contributions as revenue when assets are energised; however the guidelines for the access arrangement require revenue to be recognised with respect to developer and customer contributions when received.
- (ii) Capitalised borrowing costs: The base accounts include capitalised borrowing costs; however the guidelines for the access arrangement require all borrowing costs to be expensed.

Scope of agreed upon procedures and findings
Regulatory Financial Statements (RFS)

Procedure 9

Check the mathematical accuracy and perform a cross-reference of the balances disclosed within the Western Power's 2016/17 RFS.

1.1 Factual findings

We found the mathematics to be accurate and all balances were able to be cross-referenced.

1.2 Testing details

We have checked the mathematical accuracy by recalculation and have reviewed the internal consistency of the RFS.

2 ACRONYMS

Cost and Revenue Allocation Method (**CRAM**)

Property, plant and equipment, intangibles assets (**PPE**)

Regulatory financial statement (**RFS**)

Economic Regulation Authority (**ERA**)

ERA's Guidelines for Access Arrangement Information December 2010 (**Guidelines**)

Full time Equivalents (**FTE**)