Attachment 7.1

Cost and Revenue Allocation Method (CRAM) 2016/17

Access Arrangement Information

2 October 2017

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

westernpower

Cost and Revenue Allocation Method (CRAM) 2016/17

July 2017

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1 Introduction

1.1 Purpose

The purpose of the cost and revenue allocation method (**CRAM**) is to present and explain the method applied to allocate and adjust cost and revenue items to the regulated and unregulated business segments in Western Power's annual regulatory financial statements.

Western Power is required to prepare regulatory financial statements in accordance with section 3 of the Economic Regulation Authority's *Guidelines for Access Arrangement Information 2010* (**Guidelines**)[1]. These statements are prepared by allocating and adjusting Western Power's audited statutory financial statements (base accounts).

1.2 Scope

The CRAM provides responsibilities (section 3) and details on the recording and allocation of Western Power's:

> costs and revenue (refer section 6)

> other financial statements (refer section 7)

> regulatory adjustments (refer section 8)

between the following business segments and services (refer section 5):

> covered transmission (regulated transmission services)

> covered distribution (regulated distribution services)

> System Management (unregulated system operation services)

> unregulated (contestable services).

Western Power's general business and regulatory framework is explained in section 2.

[1] Refer to http://www.erawa.com.au for the ERA's *Guidelines for Access Arrangement Information 2010.*

2 Background

2.1 Who we are

The Electricity Networks Corporation trading as Western Power (**Western Power**) is a Western Australian State Government owned corporation with the purpose of connecting people with electricity in a way that is safe, reliable and affordable.

Western Power builds, maintains and operates the transmission and distribution networks in the south-west corner of Western Australia. The Western Power Network forms the vast majority of the south west interconnected network (**SWIN**), which together with electricity generators, comprises the south west interconnected system (**SWIS**).

Western Power does not generate and/or retail electricity (like Synergy) or operate in the non-SWIS areas of Western Australia (like Horizon Power).

Western Power is governed by an independent Board and reports to the Western Australian Minister for Energy as the owner's representative.

Western Power has depots and offices throughout the SWIS region including the head office in Wellington Street, Perth.

2.2 Our regulators

To ensure Western Power provides an efficient service at a reasonable cost, business operations are governed by legislation, regulations and codes. These include mechanisms such as performance targets and revenue control (i.e. how much money can be earned), to the proper disposal of waste, and the safety of employees and the public.

Western Power is regulated[2] by:

> Economic Regulation Authority (**ERA)** - an independent body reporting directly to the Western Australian parliament. The ERA regulates Western Power to ensure the delivery of an efficient service at a fair price. The primary review functions performed by the ERA include Western Power's Access Arrangement (**AA**) and technical licenses.

> Public Utilities Office (**PUO**) - a government office within the Western Australian Department of Finance. The PUO sets the guiding rules for the ERA and overall energy policy in Western Australia.

> Energy*Safety* - part of the Western Australian Department of Consumer Protection. Energy*Safety* licenses electrical contractors and sets technical guidelines for the electricity network in relation to safety.

[2] Western Power's day-to-day work is also determined by guidelines set by other bodies such as the Environmental Protection Authority and WorkSafe.

2.3 Our regulatory framework

As the sole owner and operator of the transmission and distribution networks in the south-west corner of Western Australia, Western Power is effectively a natural monopoly delivering an essential service.

To bring about economic efficiency in place of competition the ERA, on behalf of the Western Australian community, oversees Western Power's economic and service performance. The basis for this oversight is the AA which is the regulatory contract agreed with the ERA for a given period, i.e. usually five years.

Western Power's AA:

> defines services to be delivered, services levels to be achieved, tariffs/fees to be charged, general policies, and the terms and conditions for obtaining access to the Western Power Network, e.g. by retailers and generators (like Synergy) to transport electricity to customers

> details the future investment plan to ensure customers continue to enjoy a good quality of service, whilst improving network safety, security and capacity.

The AA needs to support fair prices, quality services and choice.

3 Responsibilities and compliance

3.1 Our Board and management

Western Power's Board and senior leadership team, including the relevant Executive and Heads of Function, are responsible for:

> approving the annual CRAM

> declaring the annual regulatory financial statements:

- present in all material aspects, a true and fair view of Western Power's financial position against the audited statutory financial statements (base accounts)
- have been prepared in accordance with Australian accounting standards (and other authoritative pronouncements of the Australian Accounting Standards Board (**AASB**)), the Guidelines and Western Power's CRAM (as applicable)

> authorising the annual regulatory financial statements.

3.2 Business Planning & Reporting and Finance, Treasury & Risk functions

The Business Planning & Reporting and Finance, Treasury & Risk functions are responsible for:

> reviewing and updating the CRAM to ensure compliance with the Guidelines and the AA, i.e. appendix A to D

> advising key stakeholders of account code recording and reporting requirements to ensure compliance with the regulatory framework and CRAM

> preparing June year-end regulatory financial statements, including maintenance of supporting work papers, in accordance with the CRAM

> obtaining sign-off of the annual regulatory financial statements from the:

- Heads of Regulation & Investment Management, Business Planning & Reporting and Finance, Treasury & Risk
- Chief Executive Officer and Chief Financial Officer, i.e. the annual declaration to the Board.

3.3 Regulation & Investment Management function

The Regulation & Investment Management function is responsible for:

> advising key stakeholders of changes to the Guidelines and the AA which impact the CRAM, i.e. via meetings convened in the lead up to the production of the June year-end regulatory financial statements

> updating and reviewing the CRAM to ensure compliance with the Guidelines and the AA, e.g. regulatory adjustments

> obtaining approval and sign-off of the annual CRAM from the Heads of Regulation & Investment Management, Business Planning & Reporting and Finance, Treasury & Risk

> supporting the Business Planning & Reporting and Finance, Treasury & Risk functions in the decisions and implementation of account code recording and reporting requirements to ensure (or advise on) compliance with the regulatory framework and CRAM.

3.4 Our staff

Western Power personnel are responsible for maintaining accounting records and transactions (e.g. within the financial system) in compliance with the regulatory framework and CRAM including account code postings to business services and segments, e.g. via projects and/or work orders.

3.5 Our compliance

Western Power's CRAM is monitored for accuracy, completeness and application by way of:

1. An internal review of the CRAM prior to the production of the annual regulatory financial statements

   This review is completed by representatives from the Regulation & Investment Management, Business Planning & Reporting and Finance, Treasury & Risk functions (Finance, Regulation & Information and Communication Technology business unit). The representatives meet to discuss Western Power's regulatory framework and requirements for/impact to the June year-end regulatory financial statements. Western Power's CRAM is assessed and updated accordingly.

   Finalisation occurs when the CRAM is approved by the Heads of Regulation & Investment Management, Business Planning & Reporting and Finance, Treasury & Risk.

2. The external review of the annual regulatory financial statements against the approved CRAM

   This review is completed by Western Power's external auditors in accordance with Australian auditing standards, i.e. via an agreed-upon procedures engagement. The external auditors report the findings from this review to Western Power's Board. The audit report is also provided to the ERA as an attachment to Western Power's annual regulatory financial statements.

   The ERA may also request an additional audit of the annual regulatory financial statements in accordance with clause 2.7 of the Guidelines.

4 Organisation structure and services

Western Power is a Government Trading Enterprise (**GTE**) incorporated under the *Electricity Corporations Act 2005*. This means that Western Power:

> is ultimately accountable to the State Government (via the Minister for Energy) as the sole owner and shareholder

> operates as a corporatised enterprise with the autonomy to make decisions regarding the maintenance and operation of the Western Power Network.

4.1 Our structure

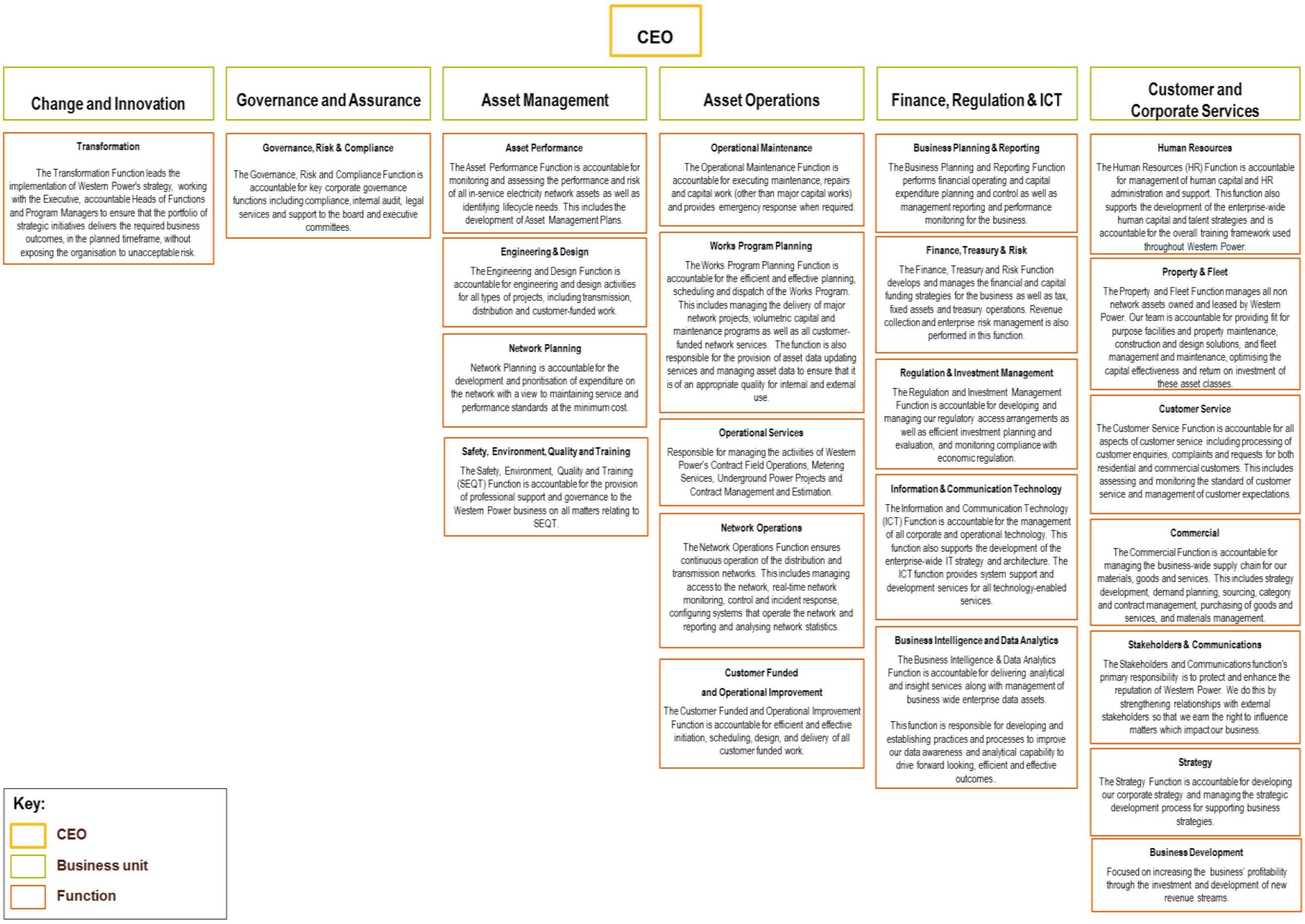
Figure 4.1 illustrates Western Power's year-end organisation structure. This structure supports Western Power's operating model by:

> maximising efficiencies by grouping similar accountabilities together

> distributing workload equitably across the senior leadership team

> improving process flows by reducing the handling of work between functions.

Figure 4.1: Our structure (based on EDM 34195687)



4.2 Our categories of service

Western Power provides the following categories of services:

> regulated services, i.e. covered transmission and distribution (refer section 5.1)

> unregulated services, e.g. system management (refer section 5.2) and contestable (refer section 5.3).

Figure 4.2 illustrates Western Power's categories of service in more detail.

Figure 4.2: Our categories of service[3]

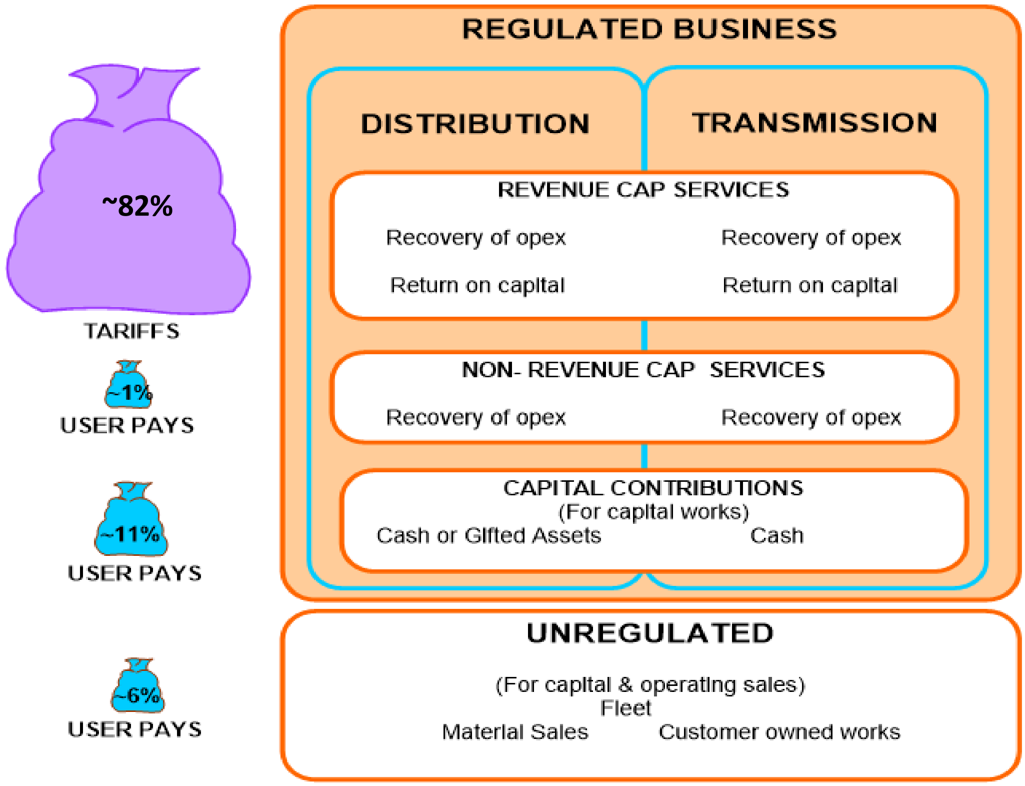


Table 4.2 identifies the customer types that utilise Western Power's services.

Table 4.2: Our customers by services

Service	Category of service	Customers
Regulated	Revenue cap services (section 5.1.1)	Residential and business customers
	Non-revenue cap services (section 5.1.2)	
	Capital contributions (section 5.1.3)	
Unregulated	System management services (section 5.2)	Australian Energy Market Operator (**AEMO**)
	Contestable services (section 5.3)	Residential and business customers

[3] Percentages and dollar amounts are indicative only.

5 Business segments

Section 3 of the Guidelines requires Western Power to disaggregate the audited statutory financial statements (base accounts) into the following business segments:

> covered (regulated) transmission services

> covered (regulated) distribution services

> system management services (unregulated)

> unregulated services

> excluded transmission and distribution services[4].

The remainder of this section provides an overview of the services provided by each of Western Power's business segments.

5.1 Our transmission and distribution regulated services

5.1.1 Revenue cap services (reference and non-reference services)

Western Power provides revenue cap services to generators and retailers accessing the Western Power Network. Revenue cap services may be provided on the terms and conditions (e.g. tariffs/fees) either:

> in Western Power's AA as agreed with the ERA, i.e. reference services:

- two entry services, i.e. transmission and distribution entry services
- 11 exit services, e.g. transmission exit services, anytime and time of use energy exit services, high and low voltage demand exit services, street lighting exit services, unmetered supplies exit services
- four bi-directional services, i.e. anytime energy and time of use bi-directional services (residential and business)

> reasonably negotiated between the parties in good faith, i.e. non-reference services:

- standby transmission access.

[4] There are no excluded transmission or distribution services in Western Power's current AA.

5.1.2 Non-revenue cap services (non-reference services)

Western Power provides non-revenue cap services to customers on request. These services are ancillary to the revenue cap services and are not subject to regulation by the ERA. Non-revenue cap services are always non-reference services.

The commercial terms and conditions (e.g. fees) for non-revenue cap services are negotiated between the parties. Western Power's business and regulatory objectives require these negotiations be reasonable and in good faith.

Examples of Western Power's non-revenue cap services include:

> high load escorts

> transmission enquiry and connection applications, distribution connection applications, access contract modifications

> transmission line relocations.

Non-revenue cap services are restricted to operating works. They do not include work that is capitalised.

5.1.3 Capital contributions

Western Power receives capital contributions from developers and customers toward the extension or augmentation of electricity infrastructure to facilitate network connection. These contributions can be in the form of either cash or gifted (vested) network assets.

The terms and conditions (e.g. fees) for capital contributions are in accordance with Western Power's contributions policy and are agreed with the ERA via the AA[5].

Examples of where Western Power receives capital contributions include:

> work performed for developers, e.g. the construction of electricity infrastructure within a subdivision

> handover works, e.g. upon Western Power's approval, electricity infrastructure constructed by developers is gifted (vested)

> upgrade and new connections: customers (e.g. generators) contribute to the upgrade or extension of electricity infrastructure.

[5] Refer to DM 9726191 for Western Power's *Contributions Policy*.

5.2 Our system management unregulated services

During the 2016/17 financial year, Western Power transferred full responsibility for system management services provided under the Wholesale Electricity Market (**WEM**)[6] rules to the AEMO. This was to support institutional reforms under the previous State Government's electricity market review (**EMR**)[7].

The transferred services included:

> the operation and control of generator facilities, transmission and distribution networks and large customer retailer supply management including demand side management

> the scheduling of generator, transmission and certain distribution outages, and management of real-time operation of the power system.

Although full responsibility has been transferred, Western Power continues to provide the following unregulated services per commercial terms and conditions negotiated with the AEMO:

> system operation services on behalf of the AEMO, i.e. under an operating agreement between 1 July 2016 and 31 October 2016; and

> information and communication technology services and facilities for the AEMO, i.e. under a service agreement from 1 November 2016.

5.3 Our unregulated services (contestable)

Western Power provides unregulated services to customers that are contestable by other suppliers. These services are not regulated by the ERA because they are subject to natural competition.

The commercial terms and conditions (e.g. fees) for unregulated services are negotiated between the parties. Western Power's business and regulatory objectives require these negotiations be reasonable and in good faith.

Examples of Western Power's unregulated services include:

> fleet, information technology and power training services

> private vegetation management

> sales/salvage of materials (including undergrounding)

> undergrounding 'pillar to customer meter' work.

[6] The Western Australian WEM was introduced in 2006 as part of the State Government's progressive deregulation of the electricity market. It covers wholesale electricity sales within the SWIS between sellers (i.e. generators and demand side management facilities) and buyers (i.e. retailers and large users).

[7] The previous Western Australian state government launched the EMR in 2014 to examine the structure of the electricity generation, wholesale and retail sectors within the SWIS, and the incentives for industry participants to make efficient investments and minimise costs.

6 Cost and revenue allocation

Western Power's cost and revenue items are allocated to business services and segments in accordance with the Guidelines.

Western Power broadly categorises these allocations into one of two methods:

1. direct attribution method (refer section 6.5)
2. indirect allocation method (refer section 6.6).

The remainder of this section provides an overview of Western Power's cost and revenue allocation method.

6.1 The Guidelines

Clause 3.5 of the Guidelines requires cost and revenue items to be allocated based on the following principles:

1. Items that are directly attributable to a business component are attributed accordingly
2. Items that are not directly attributable to a business component are to be allocated, where practicable, on a causation basis
3. Items that are not directly attributable and cannot be practicably allocated on a causation basis shall be allocated by a method determined by the service provider. In such cases, a supporting note for each item allocated indicating the following is required:
   - the basis for allocation
   - the reason for choosing that basis
   - an explanation for why no causal relationship could be established.

6.2 Our principles

In support of the above, Western Power commits to the following principles:

1. A cost or revenue item will not be attributed and/or allocated more than once
2. A direct cost or revenue item will only be attributed to one category of service
3. An indirect cost or revenue item will only be allocated once between business segments
4. The same cost or revenue item will not be treated as both a direct and an indirect cost or revenue item
5. The same cost will only be recovered once through tariffs and fees
6. Unregulated costs will be allocated to the unregulated business segments and will be ring-fenced from the recovery of costs through regulated services
7. The allocation of a cost or revenue item will be determined by the substance of the transaction or event rather than the legal form
8. An avoided cost allocation method (or any other method of allocation not specifically referred to within this CRAM) is not currently applied to allocate cost or revenue items.

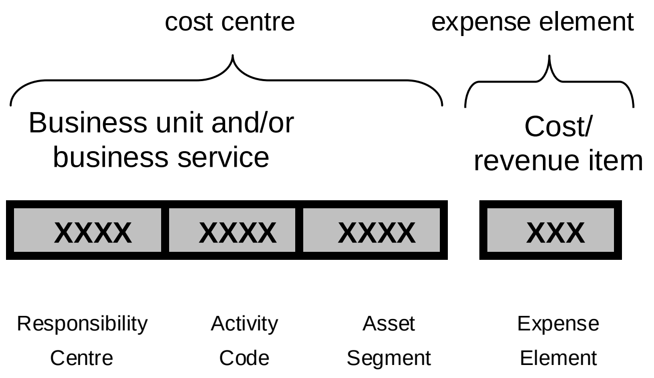
6.3 Our account code structure

All cost and revenue items are recorded in Western Power's financial system via the account code structure[8]. The account code structure enables the production of management, statutory and regulatory reports.

Western Power's account code structure comprises 15 characters made up of a 12 character cost centre (refer section 6.3.1) and a three character expense element (refer section 6.3.2).

Figure 6.3 illustrates the segments of Western Power's account code structure.

Figure 6.3: Our account code structure



6.3.1 Cost centre

A cost centre is assigned to each of Western Power's projects and work orders. The three segments of the cost centre are explained as follows:

1. Responsibility centre: comprises the first group of four characters of the cost centre. The characters are numeric and are used to identify the business unit and/or function, e.g. unique responsibility centres are used to directly attribute unregulated system management costs and revenue.
2. Activity code: comprises the second group of four characters of the cost centre. The characters are numeric and are used to identify the business service, e.g. 1@@@ denotes external work, 2@@@ denotes operating work and 3@@@ denotes capital work.
3. Asset segment: comprises the third group of four characters of the cost centre. The characters are numeric and are used to identify the asset segment, i.e. 1@@@ denotes corporate-related, 2@@@ denotes transmission, 3@@@ denotes distribution and 4@@@ denotes network planning & operations (including unregulated system management).

6.3.2 Expense element

An expense element is assigned to a cost centre (via a project and/or work order) to form a complete account code when a transaction is recorded within Western Power's financial system. The expense element comprises the last three characters of the account code. The characters are numeric and are used to identify the cost or revenue items, e.g. 1@@ denotes revenue and 2@@ denotes labour.

[8] Refer to DM 12873053 for Western Power's *Chart of Accounts* including a list of cost centre segments and expense elements.

6.4 Our allocation categories

For cost and revenue allocation purposes, Western Power uses two categories:

1. Direct costs and revenue, i.e. where the underlying transactions can be directly identified and attributed to business services and/or segments. These items are directly attributed using the account code structure (refer section 6.5).
2. Shared costs and revenue, i.e. where the underlying transactions cannot be directly attributed to business segments. These items are allocated using either:
   > the 'indirect cost allocation method', e.g. for network shared costs (refer section 6.6.1)

   > a method that most appropriately reflects the causal correlation of the underlying transaction, e.g. for corporate shared costs and other income (refer sections 6.6.2 and 6.6.3)

6.5 Our direct attribution: costs and revenue

Western Power's direct items include the following:

> direct costs, e.g. labour, materials and services associated with completing the annual program of work (**PoW**). The PoW is a complete schedule of operational and capital works Western Power undertakes annually to meet the needs of the network in terms of public safety, operating risks, regulatory compliance, capacity expansion, maintaining service standards and the reliability needs of customers. The PoW includes both regulated and unregulated services.

> direct revenue, e.g. revenue cap, capital contributions, unregulated system management

These cost and revenue items are directly identified and attributed to business services and/or segments via the account codes of the underlying transactions (typically booked via a project and/or work order), i.e. per the:

> cost centres (refer section 6.3.1); and/or

> expense elements (refer section 6.3.2).

Western Power's asset profiles in the fixed asset register are also used to directly attribute proceeds and written down value on the disposal of assets, e.g. 53 denotes unregulated fleet assets.

Readers should refer to Appendix A to C for a more detailed list of Western Power's direct cost and revenue items.

6.6 Our indirect allocation: costs and revenue

Western Power's indirect items include the following:

> network shared costs (refer section 6.6.1)

> corporate shared costs (refer section 6.6.2)

> indirect revenue, e.g. interest received (refer section 6.6.3).

These cost and revenue items are identified via the account codes of the underlying transactions (typically booked via a project and/or work order), i.e. per the:

> cost centres (refer section 6.3.1); and/or

> expense elements (refer section 6.3.2).

Shared cost and revenue items are allocated using the method that most appropriately reflects the causal correlation of the underlying transaction (refer sections 6.6.1 to 6.6.3).

Readers should refer to Appendix A to C for a more detailed list of Western Power's shared cost and revenue items, and the allocation method applied.

6.6.1 Network shared costs (allocation method)

Western Power's network shared costs cannot be directly attributed to specific services within the PoW, e.g. training, travel and non-timesheet labour. Instead, these costs are identified in a 'shared cost pool' and allocated across the PoW using Western Power's 'indirect cost allocation method'. Network shared costs relate to both regulated and unregulated services.

The 'indirect cost allocation method' allocates the 'shared cost pool' across the PoW by applying network shared costs proportionally based on the direct costs incurred by each specific service. The proportional rate at which this occurs (i.e. the 'indirect cost recovery rate') is calculated annually during the budget process and is monitored on a monthly basis to review against the actual recovery. Quarterly adjustments are made if the recovery of costs through the 'indirect cost allocation method' varies from the actual indirect overheads incurred.

The rationale for the 'indirect cost allocation method' is that the amount of network shared costs incurred by a specific service in the PoW is likely to be related to the amount of direct costs incurred by the service. This 'indirect cost allocation method' does not differentiate between operational and capital expenditures. It capitalises network shared costs that are allocated to capital projects, while network shared costs allocated to the maintenance program are treated as operating expenditure.

This allocation method allows Western Power to allocate network shared costs to specific services in the PoW. The allocation across the whole PoW ensures a transparent method of allocating network shared costs. This ensures that projects and programs in the PoW receive both the allocation of their direct costs and a fair portion of related network shared costs. The application of the method achieves:

> standardised cost allocation rules and a consistent allocation of non-attributable network shared costs

> accountability for the allocation of network shared costs, and sensible and relevant cost allocation.

Further information on how network shared costs are allocated can be found in Western Power's *Internal (Indirect) Cost Allocation Procedure*[9].

[9] Refer to DM 4495224 for Western Power's *Internal (Indirect) Cost Allocation Procedures*.

6.6.2 Corporate shared costs (causal correlation)

Western Power’s corporate shared costs include:

> common or shared functions that support all parts of the business, but that are not directly attributed or indirectly allocated to specific services within the PoW, e.g. Finance, Treasury & Risk function and Governance & Assurance business unit costs

> costs that do not fall within operating expenditure costs per clause 3.8.2 of the Guidelines, e.g. depreciation and amortisation, bad debts, borrowing costs, book value on the disposal of assets and tax equivalent.

Western Power allocates corporate shared costs to the business segments using the method that most appropriately reflects the causal correlation of the underlying transaction. The most common causal correlation methods are as follows:

1. Full time staff equivalents (**FTE**): allocation on a FTE basis is applied when the underlying transaction has a causal correlation to the consumption of staff/labour, e.g. fringe benefits tax. FTE is determined by the ratio of FTE within a specific business segment to total FTE.
2. Property, plant and equipment, and intangible assets (**PPE**): allocation on a PPE basis is applied when the underlying transaction has a causal correlation to Western Power’s principal service of building, maintaining and operating the transmission and distribution networks, e.g. insurance. PPE is determined by the ratios of PPE in the transmission and distribution asset segments to total transmission and distribution PPE.

6.6.3 Indirect revenue (causal correlation)

Western Power’s indirect revenue includes:

> proceeds from the disposal of network planning & operations (excluding unregulated system management) and corporate-related fixed assets, e.g. information and communication technology

> other income, e.g. interest and discounts received.

Western Power allocates indirect revenue to the business segments using the method that most appropriately reflects the causal correlation of the underlying transaction. PPE is the most common causal allocation method used where a direct attribution is not available (refer section 6.6.2).

7 Other financial statement allocation

7.1 Our balance sheet[10]

Western Power's inception-to-date assets and liabilities are allocated to business services and segments based on the substance (and not the legal form) of the underlying transactions. This is typically identified via the correlating cost or revenue items and attributed/allocated accordingly (refer section 6).

Consistent with this, assets and liabilities that cannot be directly attributed to business services and/or segments are allocated using the method that most appropriately reflects the causal correlation of the underlying transaction. FTE and PPE are the common causal allocation methods applied for this purpose, i.e. where a direct attribution is not available (refer section 6.6.2).

Readers should refer to Appendix D for a more detailed list of assets and liabilities, and the allocation method applied.

7.2 Our cash flow statement

Western Power's cash transactions are recorded collectively in a single bank account. For the production of the annual regulatory cash flow statement, these transactions are allocated to business services and segments using the method that most appropriately reflects the causal correlation of the underlying transaction. This is typically identified by the correlating costs, revenue or balance sheet items and attributed/allocated accordingly (refer sections 6 and 7.1).

Cash is only allocated to the transmission and distribution business segments when preparing the annual regulatory balance sheet. PPE is the causal allocation method applied for this purpose, i.e. where a direct attribution is not available (refer section 6.6.2).

[10] The allocation of the balance sheet occurs on the inception-to-date balances. This has the impact of annually realigning the balance sheet (i.e. via year-to-date movements) to reflect the most recent and accurate causal allocation basis.

8 Regulatory adjustments

When preparing the annual regulatory financial statements, Western Power adjusts the audited statutory financial statements (base accounts) for differences in:

> accounting policies - differences between the statutory (i.e. Australian accounting standards) and regulatory (i.e. Guidelines) accounting policies (refer section 8.1)

> accounting disclosures - differences between the statutory (i.e. Australian accounting standards) and regulatory (i.e. Western Power's AA forecast) accounting disclosures (refer section 8.2)

> capital expenditure/additions - differences between the statutory (i.e. Australian accounting standards) and regulatory (i.e. regulated asset base (**RAB**)) capital expenditure/additions (refer section 8.3).

Any tax equivalent associated with the above is also adjusted for, using the tax rates enacted or substantially enacted as at the reporting date.

The remainder of this section provides an overview of Western Power's regulatory adjustments.

8.1 Our accounting policy adjustments

Clause 3.6 of the Guidelines requires Western Power to make adjustments to the regulatory financial statements where the regulatory accounting policies differ to those in the audited statutory financial statements (base accounts).

Western Power currently reports the following regulatory adjustments for accounting policies.

8.1.1 Capital contributions

<u>Regulatory financial statements</u> - all capital contributions received in the reporting period are recognised as revenue in Western Power's regulatory profit and loss account. This is in compliance with clause 3.8.4 of the Guidelines.

<u>Statutory financial statements</u> - capital contributions received in the reporting period are recognised as revenue in Western Power's statutory profit and loss account only when the capital works for which the contribution relates has been energised/connected to the network. Until then, contributions are deferred to the statutory balance sheet. This is in compliance with *AASB Interpretation 18 Transfers of Assets from Customers*.

As a result, regulatory adjustments are required for the following:

> restate contributions in the regulatory profit and loss account for capital contributions received in the reporting period but which were deferred in the statutory balance sheet (and hence not recognised in the statutory profit and loss account)[11]

> remove deferred income (for capital contributions only) from the regulatory balance sheet which have now been recognised in the regulatory profit and loss account.

[11] Transmission capital contributions adjusted in the regulatory profit and loss account are directly attributed to the regulatory categories based on the activity codes of the parent capital projects underlying the contributions. Distribution capital contributions are indirectly allocated to the regulatory categories that most appropriately reflect the causal correlation of the contributions, i.e. customer driven or state underground power project.

8.1.2 Borrowing costs

Regulatory financial statements - all borrowing costs are expensed to Western Power's regulatory profit and loss account and hence, excluded from recovery through regulated network tariffs/fees[12]. This is in compliance with clause 3.8.1 of the Guidelines.

Statutory financial statements - all borrowing costs are expensed to Western Power's statutory profit and loss account unless they are directly attributable to the acquisition, construction or production of qualifying assets[13]. In this instance, borrowing costs are capitalised to the statutory balance sheet. This is in compliance with *AASB 123 Borrowing Costs*.

As a result, regulatory adjustments are required for the following:

> restate borrowing costs in the regulatory profit and loss account for those which were capitalised to the statutory balance sheet (and hence not recognised in the statutory profit and loss account)

> remove capitalised borrowing costs from regulatory capital additions which have now been recognised in the regulatory profit and loss account

> remove capitalised borrowing costs from property, plant and equipment, and intangible assets in the regulatory balance sheet which have now been recognised in the regulatory profit and loss account.

8.2 Our accounting disclosure adjustments

Western Power currently reports the following regulatory adjustments for accounting disclosures:

8.2.1 Depreciation

Regulatory financial statements - unregulated fleet depreciation is recognised as operating expenditure costs in Western Power's regulatory profit and loss account. This is in line with the forecast assumptions and expenditure disclosures in Western Power's current AA.

Statutory financial statements - unregulated fleet depreciation is recognised as depreciation and amortisation in Western Power's statutory profit and loss account. This is in compliance with *AASB 116 Property, Plant and Equipment*.

As a result, a regulatory adjustment is required for the following:

> transfer unregulated fleet depreciation to operating expenditure costs in the regulatory profit and loss account which were recognised as depreciation and amortisation in the statutory profit and loss account.

This adjustment (including the adjustment amount) is authorised by the Enterprise & Regulation Planning & Reporting Manager in the Business Reporting & Planning function.

8.3 Our regulated asset base (RAB) adjustments

There are currently no regulatory RAB adjustments.

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[12] This occurs because Western Power's regulated revenue cap already includes a return on the capital component (calculated as the sum of the RAB multiplied by the weighted average cost of capital).

[13] Qualifying assets are defined as assets that necessarily take a substantial period of time to be ready for their intended use.

9 Maintenance of records

Western Power maintains accounting records and transactions in accordance with:

> Board approved policies and supporting frameworks, guidelines and/or standards (as relevant)

> Australian accounting standards

> other legislative and regulatory requirements.

These records and transactions include (but are not limited to), the financial system (including the account code structure within), account reconciliations, subsidiary ledger systems and supports, invoices, supporting documentation (e.g. submissions, correspondence letters/memos, minutes from Board meetings) and work papers (e.g. calculation models/spreadsheet).

Western Power's accounting records and transactions are made available to the external auditors for the purpose of the annual:

> audit of the statutory financial statements

> review of the regulatory financial statements.

Appendix A: Our cost allocation method

Clause 3.8.2 of the Guidelines requires Western Power to report at a minimum, within each business segment, the following operating expenditure cost categories:

1. Operations
2. Maintenance
3. Customer service and billing
4. Corporate
5. Other operating expenditure

The remainder of this appendix presents a list of costs for each of these categories, and the allocation method applied.

1. Operational expenditure

Operational expenditure includes costs associated with the operation of the transmission and distribution networks. This expenditure is allocated as follows:

Table A.1: Operational expenditure allocation

Operational Expenditure	Transmission	Distribution	System Management (unregulated)	Unregulated
Access Applications	Direct	Direct	n/a	n/a
Reliability Operations	Direct	Direct	n/a	n/a
SCADA[14] and Communications	Direct	Direct	n/a	n/a
Transmission Line Relocations	Direct	Direct	n/a	n/a
Works in Vicinity	Direct	Direct	n/a	n/a
Other Non-Revenue Cap (e.g. extended metering services, investigations and high load escorts)	Direct	Direct	n/a	n/a
Network Operations (excluding unregulated system management)	FTE	FTE	n/a	n/a
Material Sales/Salvage (excluding inventory write downs)	n/a	n/a	n/a	Direct
Perth Solar City	n/a	n/a	n/a	Direct
Stand Alone Power Systems	n/a	n/a	n/a	Direct
State Underground Power Project ('pillar to customer meter' work)	n/a	n/a	n/a	Direct

[14] The Supervisory Control and Data Acquisition (**SCADA**) system is Western Power's critical information technology tool for managing the transmission and distribution networks, both day-to-day and in emergencies.

2. Maintenance expenditure

Maintenance expenditure includes costs associated with maintaining the transmission and distribution networks. This expenditure is allocated as follows:

Table A.2: Maintenance expenditure allocation

Maintenance Expenditure	Transmission	Distribution	System Management (unregulated)	Unregulated
Corrective Deferred	Direct	Direct	n/a	n/a
Corrective Emergency	Direct	Direct	n/a	n/a
Preventative Condition	Direct	Direct	n/a	n/a
Preventative Routine	Direct	Direct	n/a	n/a

3. Customer service and billing expenditure

Customer service and billing expenditure includes costs associated with the ongoing operations of the call centre, and provision of metering (excluding unregulated and extended metering services) and connection related services. This expenditure is allocated as follows:

Table A.3: Customer service and billing expenditure allocation

Customer Service and Billing Expenditure	Transmission	Distribution	System Management (unregulated)	Unregulated
Call Centre	Direct	Direct	n/a	n/a
Cancelled Project Design (distribution customer driven)	Direct	Direct	n/a	n/a
Guaranteed Service Payment	Direct	Direct	n/a	n/a
Metering (including electrical system inspections, excluding extended metering services)	Direct	Direct	n/a	n/a
Power Training Services	n/a	n/a	n/a	Direct

4. Corporate expenditure

Corporate expenditure includes common or shared functions that support all parts of the business. This expenditure is allocated as follows:

Table A.4: Corporate expenditure allocation

Corporate Expenditure	Transmission	Distribution	System Management (unregulated)	Unregulated
Supply Extension Scheme/ Contributory Extension Scheme	Direct	Direct	n/a	n/a
Information & Communication Technology Services	n/a	n/a	n/a	Direct
Metering Services	n/a	n/a	n/a	Direct
Rental Properties	n/a	n/a	n/a	Direct
Chief Executive Officer	FTE	FTE	n/a	FTE
Customer & Corporate Services (excluding: > metering and customer service centre > unregulated activities, e.g. fleet services, external service level agreements, rental properties > annual rates and taxes, inventory write downs)	FTE	FTE	n/a	FTE
Fringe Benefits Tax	FTE	FTE	n/a	FTE
Inventory Write Downs	Inventory	Inventory	n/a	n/a
Annual Rates and Taxes	PPE	PPE	n/a	n/a
Asset Management & Asset Operations[1] (excluding unregulated system management and Network Operations)	PPE	PPE	n/a	FTE
Finance & Regulation[1] (excluding ERA costs under *ERA (Electricity Network Access Funding Regulations)*, Energy*Safety* Levy, insurance, bad debts)	PPE	PPE	n/a	FTE
Governance & Assurance[1] (excluding licence fees)	PPE	PPE	n/a	FTE
Insurance[1]	PPE	PPE	n/a	FTE
Change & Innovation[1]	PPE	PPE	n/a	FTE
Energy*Safety* Levy	PPE	PPE	n/a	n/a
ERA Costs	PPE	PPE	n/a	n/a
License Fees	PPE	PPE	n/a	n/a
Realised Gains/Losses on Foreign Exchange	PPE	PPE	n/a	n/a

[1] Asset Management & Operations, Finance & Regulation, Governance & Assurance, Insurance and Change & Innovation costs are allocated in two steps. First, they are allocated to the unregulated business segment on an FTE basis. Second, the remaining regulated costs are indirectly allocated on a PPE basis to the transmission and distribution business segments. This allocation method is also applied to the correlating assets and liabilities in accordance with section 7.1., e.g. prepayments and payables.

5. Other operating expenditure

Other operating expenditure includes costs that are not associated with operations, maintenance, customer services and billing, and corporate. This expenditure is allocated as follows:

Table A.5: Other operating expenditure allocation

Other Operating Expenditure	Transmission	Distribution	System Management (unregulated)	Unregulated
Cancelled Projects (internally driven, distribution quotation and management)	Direct	Direct	n/a	n/a
Network Planning Costs	Direct	Direct	n/a	n/a
Non Recurring Operating Expenditure	Direct	Direct	n/a	n/a
Tariff Equalisation Contribution	n/a	Direct	n/a	n/a
System Management	n/a	n/a	Direct	n/a
Fleet Services	n/a	n/a	n/a	Direct
Private Vegetation Management	n/a	n/a	n/a	Direct
Other (including service level agreements)	n/a	n/a	n/a	Direct

6. Other expenditure

Other expenditure includes costs that do not fall within clause 3.8.2 of the Guidelines. This expenditure is allocated as follows:

Table A.6: Other expenditure allocation

Other Expenditure	Transmission	Distribution	System Management (unregulated)	Unregulated
Depreciation and Amortisation[1,2]	Direct & then PPE for remaining	Direct & then PPE for remaining	Direct	Direct (excluding fleet[2])
Bad Debts	Network Services Revenue	Network Services Revenue	n/a	Network Services Revenue
Borrowing Costs[3]	PPE (reported)	PPE (reported)	Direct	PPE (reported)
Book Value on Disposal of Assets[4]	Direct & then PPE for remaining	Direct & then PPE for remaining	Direct	Direct
Tax Equivalent	Earnings before Tax Equivalent	Earnings before Tax Equivalent	Earnings before Tax Equivalent	Earnings before Tax Equivalent

[1] Depreciation and amortisation is allocated in two steps. First, direct depreciation and amortisation is attributed to the transmission, distribution and unregulated (including system management) business segments. Second, the remaining depreciation and amortisation (e.g. capitalised depreciation, network planning & operations (excluding unregulated system management), corporate-related and unregulated fleet depreciation[2]) is indirectly allocated on a PPE basis to the transmission and distribution business segments.

[2] Unregulated fleet depreciation is allocated to the transmission and distribution business segments consistent with their disclosure as operating expenditure costs in Western Power's current AA (refer section 8.2.1).

[3] Borrowing costs are allocated in two steps. First, unregulated system management borrowing costs are directly attributed using the method outlined in the System Management *Financial Management Procedure*[15]. Second, the remaining borrowing costs are indirectly allocated on a PPE (as reported in the regulatory balance sheet) basis to the transmission, distribution and unregulated business segments.

[4] Book value on the disposal of assets is allocated in two steps. First, direct disposals are attributed to the transmission, distribution and unregulated (including system management) business segments. Second, the remaining disposals (e.g. network planning & operations (excluding unregulated system management) and corporate-related) are indirectly allocated on a PPE basis to the transmission and distribution business segments.

[15] Refer to DM 10239216 for Western Power's System Management *Financial Management Procedure*.

Appendix B: Our capital expenditure allocation method

Clause 3.8.1 of the Guidelines requires Western Power to report at a minimum, within each business segment, the following capital expenditure regulatory categories:

1. Growth

   Capital expenditure for the purposes of increasing the capacity of assets or construction of new assets to meet growth in demand, e.g.:

   > transmission: capacity expansion, customer driven

   > distribution: capacity expansion, customer driven, gifted network assets.

2. Asset replacement and renewal

   Capital expenditure for the purposes of replacing assets and maintaining service levels, e.g.:

   > transmission: asset replacement

   > distribution: asset replacement, state underground power project, metering, wood pole management.

3. Improvement in service

   Capital expenditure for the purposes of improving service levels and reliability to meet customer preferences, e.g.:

   > transmission: SCADA and communications

   > distribution: reliability driven, SCADA and communications.

4. Compliance

   Capital expenditure for the purposes of meeting regulatory obligations, e.g.:

   > transmission and distribution: regulatory compliance (safety, environmental, statutory).

5. Corporate

   Capital expenditure for corporate-related activities, e.g.:

   > transmission and distribution: information technology, business support (corporate shared costs).

1. Direct attribution

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[16], i.e.:

> the activity code identifies the regulatory category of capital expenditure

> the asset segment identifies the business segment.

The responsibility centre is also used to directly attribute capital expenditure to:

> the unregulated system management business segment

> some corporate shared cost categories (business support) (refer table B.2).

[16] Where capital expenditure is not posted to a project (e.g. strategic spares not yet issued to a service), the asset segment and capital expenditure regulatory category is determined using a method that most appropriately reflects the causal correlation of the underlying transaction (e.g. typically asset replacement).

2. Indirect allocation

Capital expenditure that cannot be directly attributed to business segments is allocated using the method that most appropriately reflects the causal correlation of the underlying transaction. PPE is the most common causal allocation method applied for this purpose, i.e. where a direct attribution is not available (refer section 6.6.2).

Tables B.1 and B.2 list Western Power's indirect capital expenditure, and the allocation method applied.

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 (business support) capital expenditure allocation

Corporate Shared (Business Support) Capital Expenditure	Transmission	Distribution	System Management (unregulated)	Unregulated
Corporate Real Estate	PPE	PPE	n/a	n/a
Other Plant and Equipment[1]	Direct & then PPE for remaining	Direct & then PPE for remaining	n/a	n/a

[1] Other plant and equipment capital expenditure is allocated in two steps. First, the direct capital expenditure is attributed to the transmission and distribution business segments. Second, the remaining capital expenditure is indirectly allocated on a PPE basis to the transmission and distribution business segments.

Appendix C: Our revenue allocation method

1. Revenue cap (regulated)

Western Power's revenue cap services are explained in section 5.1.1. Revenue from these services is allocated as follows:

Table C.1: Revenue cap services allocation (Network services (revenue cap) line item)

Network Services: Revenue Cap	Transmission	Distribution	System Management (unregulated)	Unregulated
Tariff	Direct	Direct	n/a	n/a

2. Non-revenue cap (regulated)

Western Power's non-revenue cap services are explained in section 5.1.2. Revenue from these services is reported by the following categories:

1. network services: non-revenue cap - this is revenue from non-revenue cap services where there is a direct linkage to the expenses associated with the service, e.g. high load escorts and transmission line relocations (refer table C.2.1)
2. network services: other - this is revenue from non-revenue cap services where there is no direct linkage to the expenses associated with the service, e.g. car versus pole damage, streetlight security maintenance and network inspections (refer table C.2.2).

Tables C.2.1 and C.2.2 list Western Power's non-revenue cap services, and the allocation method applied.

Table C.2.1: Non-revenue cap services allocation (Network services (non-revenue cap) line item)

Network Services: Non-Revenue Cap	Transmission	Distribution	System Management (unregulated)	Unregulated
Access Applications	Direct	Direct	n/a	n/a
Metering Extended Services	Direct	Direct	n/a	n/a
Transmission Line Relocations	Direct	Direct	n/a	n/a
Other (e.g. high load escorts, temporary supply and disconnection, works in vicinity)	Direct	Direct	n/a	n/a

Table C.2.2: Other network services allocation (Network services (other) line item)

Network Services: Other	Transmission	Distribution	System Management (unregulated)	Unregulated
Cancelled Project Design (distribution customer driven)	Direct	Direct	n/a	n/a
Corrective Deferred and Emergency Maintenance (e.g. damage)	Direct	Direct	n/a	n/a
Metering Inspections and Maintenance	Direct	Direct	n/a	n/a
SCADA and Communications	Direct	Direct	n/a	n/a
Supply Extension Scheme/ Contributory Extension Scheme	Direct	Direct	n/a	n/a
Tax Recoveries on Capital Contributions	Direct	Direct	n/a	n/a
Support Services[1]	Direct & then PPE for remaining	Direct & then PPE for remaining	n/a	n/a

[1] Support services revenue is allocated in two steps. First, the direct revenue is attributed to the transmission and distribution business segments. Second, the remaining revenue is indirectly allocated on a PPE basis to the transmission and distribution business segments.

3. Capital contributions (regulated)

Western Power's capital contributions are explained in section 5.1.3. They are allocated as follows:

Table C.3: Contributions allocation

Contributions[1]	Transmission	Distribution	System Management (unregulated)	Unregulated
Customer Funded	Direct	Direct	n/a	n/a
Gifted Network Assets	n/a	Direct	n/a	n/a
State Underground Power Project	n/a	Direct	n/a	n/a

[1] Where capital contributions have been received for projects later cancelled, the contributions are subsequently recognised as non-revenue cap. This is to offset any applicable project costs.

4. Unregulated revenue

Western Power's unregulated services are explained in sections 5.2 and 5.3. Revenue from these services is allocated as follows:

Table C.4: Unregulated revenue allocation (Network services (other) line item)

Network Services: Unregulated	Transmission	Distribution	System Management (unregulated)	Unregulated
System Management	n/a	n/a	Direct	n/a
Fleet Services	n/a	n/a	n/a	Direct
Information & Communication Technology Services	n/a	n/a	n/a	Direct
Material Sales/Salvage	n/a	n/a	n/a	Direct
Metering Services	n/a	n/a	n/a	Direct
Private Vegetation Management	n/a	n/a	n/a	Direct
Power Training Services	n/a	n/a	n/a	Direct
State Underground Power Project ('pillar to customer meter' work)	n/a	n/a	n/a	Direct
Other (including service level agreements)	n/a	n/a	n/a	Direct

5. Proceeds from disposal of assets

Proceeds are generated from the disposal of Western Power's assets and are allocated as follows:

Table C.5: Proceeds from disposal of assets allocation

Proceeds from Disposal of Assets	Transmission	Distribution	System Management (unregulated)	Unregulated
Proceeds from Disposal of Assets[1]	Direct & then PPE for remaining	Direct & then PPE for remaining	Direct	Direct

[1] Proceeds on the disposal of assets are allocated in two steps. First, direct disposals are attributed to the transmission, distribution and unregulated (including system management) business segments. Second, the remaining disposals (e.g. network planning & operations (excluding unregulated system management) and corporate-related) are indirectly allocated on a PPE basis to the transmission and distribution business segments.

6. Other income

Other income is generated from services incidental to the core activities of Western Power's business and is identified and recognised in line with statutory reporting requirements. It is allocated as follows:

Table C.6: Other income

Other income	Transmission	Distribution	System Management (unregulated)	Unregulated
Insurance Recoveries	Direct	Direct	n/a	n/a
Support Services	Direct	Direct	n/a	n/a
Interest Received	PPE	PPE	Direct	n/a
Discounts Received	PPE	PPE	n/a	n/a
Employee Rental Properties	n/a	n/a	n/a	Direct

Appendix D: Our balance sheet allocation method[17]

1. Current assets

Current assets are allocated as follows:

Table D.1: Current assets allocation

Current Assets	Transmission	Distribution	System Management (unregulated)	Unregulated
Cash and Cash Equivalents[1]	PPE	PPE	n/a	n/a
Trade and Other Receivables (including Current Tax Equivalent Assets)[2]	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[3]	Direct & then PPE &/or FTE for remaining	Direct & then PPE &/or FTE for remaining	Direct	Direct & then FTE for remaining
Accrued Revenue[4]	Direct & then Accrued Revenue for remaining	Direct & then Accrued Revenue for remaining	n/a	n/a
Inventories[5]	Direct & then Inventories for remaining	Direct & then Inventories for remaining	n/a	Direct
Derivative Financial Instruments	PPE	PPE	n/a	n/a

1 Cash and cash equivalents are recorded collectively within a single bank account, and are indirectly allocated on a PPE basis to the transmission and distribution business segments.

2 Trade and other receivables are allocated in two steps. First, direct receivables are attributed to the transmission, distribution and unregulated (including system management) business segments. Second, the remaining receivables are indirectly allocated on a network services revenue (e.g. general receivables and provision for doubtful debts), accrued revenue (e.g. network access receivables) or PPE (reported) (e.g. current tax equivalent assets) basis to the transmission, distribution, and/or unregulated (including system management) business segments.

3 Prepayments are allocated in two steps. First, direct prepayments are attributed to the transmission, distribution and unregulated (including system management) business segments. Second, the remaining prepayments are indirectly allocated on a PPE (e.g. information technology and insurance) or FTE (e.g. employee-related) basis to the transmission, distribution and/or unregulated business segments.

4 Accrued revenue is allocated in two steps. First, direct accrued revenue is attributed to the transmission and distribution business segments. Second, the remaining accrued revenue (e.g. disputed amounts) is indirectly allocated on a direct accrued revenue basis to the transmission and distribution business segments.

5 Inventories are allocated in two steps. First, direct inventories are attributed to the transmission, distribution and unregulated business segments. Second, the remaining inventories (e.g. inventory write downs) are indirectly allocated on a direct inventories basis to the transmission and distribution business segments.

17 The allocation of the balance sheet occurs on the inception-to-date balances. This has the impact of annually realigning the balance sheet (i.e. via year-to-date movements) to reflect the most recent and accurate causal allocation basis.

2. Non-current assets

Non-current assets are allocated as follows:

Table D.2: Non-current assets allocation

Non-Current Assets	Transmission	Distribution	System Management (unregulated)	Unregulated
Property, Plant and Equipment, and Intangible Assets[1]	Direct & then PPE for remaining	Direct & then PPE for remaining	Direct	Direct
Trade and Other Receivables[2]	Direct & then Network Services Revenue	Direct & then Network Services Revenue	Direct	Direct & then Network Services Revenue
Derivative Financial Instruments	PPE	PPE	n/a	n/a

[1] Property, plant and equipment, and intangible assets are allocated in two steps. First, direct property, plant and equipment, and intangible assets are attributed to the transmission, distribution and unregulated (including system management) business segments. Second, the remaining property, plant and equipment, and intangible assets (e.g. network planning & operations (excluding unregulated system management) and corporate-related) are indirectly allocated on a PPE basis to the transmission and distribution business segments. Works under construction are not allocated to the unregulated business segment until commissioned to a specific unregulated asset.

[2] Trade and other receivables are allocated in two steps. First, direct receivables are attributed to the transmission, distribution and unregulated (including system management) business segments. Second, the remaining receivables are indirectly allocated on a network services revenue (e.g. general receivables) basis to the transmission, distribution and unregulated business segments.

3. Current liabilities

Current liabilities are allocated as follows:

Table D.3: Current liabilities allocation

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 Tax Equivalent[1]	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[2]	Direct & PPE for remaining	Direct & PPE for remaining	Direct	Direct
Provisions[3]	Direct & then PPE &/ or FTE for remaining	Direct & then PPE &/ or FTE for remaining	Direct & then FTE for remaining	Direct & then FTE for remaining

[1] Trade and other payables, and current tax equivalent are allocated in two steps. First, direct payables are attributed to the transmission, distribution and unregulated (including system management) business segments. Second, the remaining payables and current tax equivalent are indirectly allocated on a PPE (e.g. trade and other payables, accruals and current tax equivalent), FTE (e.g. employee-related) or operating expenditure costs (e.g. unregulated trade payables and accruals) basis to the transmission, distribution and/or unregulated (including system management) business segments.

[3] Deferred income is allocated in two steps. First, direct deferred income is attributed to the transmission, distribution and unregulated (including system management) business segments. Second, the remaining deferred income is indirectly allocated on a PPE basis to the transmission and distribution business segments.

[3] Provisions are allocated in two steps. First, direct provisions are attributed to the transmission, distribution and unregulated (including system management) business segments. Second, the remaining provisions are indirectly allocated on a PPE (e.g. rehabilitation and environmental costs) or FTE (e.g. employee entitlements) basis to the transmission, distribution and/or unregulated (including system management) business segments.

4. Non-current liabilities

Non-current liabilities are allocated as follows:

Table D.4: Non-current liabilities allocation

Non-Current Liabilities	Transmission	Distribution	System Management (unregulated)	Unregulated
Borrowings[1]	Net assets (before borrowings)	Net assets (before borrowings)	= PPE (reported)	Net assets (before borrowings)
Trade and Other Payables[2]	Direct & then PPE for remaining	Direct & then PPE for remaining	Direct	Direct
Derivative Financial Instruments	PPE	PPE	n/a	n/a
Deferred Tax Equivalent Liabilities	PPE (reported)	PPE (reported)	PPE (reported)	PPE (reported)
Deferred Income	Direct	Direct	n/a	n/a
Provisions[3]	Direct & then PPE &/ or FTE for remaining	Direct & then PPE &/ or FTE for remaining	Direct & then FTE for remaining	Direct & then FTE for remaining

[1] Borrowings are allocated in two steps. First, borrowings are indirectly allocated to the unregulated system management business segment to equal reported PPE. This is in accordance with the System Management *Financial Management Procedure*[18]. Second, the remaining borrowings are indirectly allocated on a net assets (before borrowings) basis to the transmission, distribution and unregulated business segments.

[2] Trade and other payables are allocated in two steps. First, direct payables are attributed to the transmission, distribution and unregulated (including system management) business segments. Second, the remaining payables are indirectly allocated on a PPE (e.g. other payables) basis to the transmission and distribution business segments.

[3] Provisions are allocated in two steps. First, direct provisions are attributed to the transmission, distribution and unregulated (including system management) business segments. Second, the remaining provisions are indirectly allocated on a PPE (e.g. rehabilitation and environmental costs) or FTE (e.g. employee entitlements) basis to the transmission, distribution and/or unregulated (including system management) business segments.

[18] Refer to DM 10239216 for Western Power's System Management *Financial Management Procedure*.

Acronyms

Acronym	Description
Access Arrangement (**AA**)	Western Power's AA: > defines services to be delivered, services levels to be achieved, tariffs/fees to be charged, general policies, and the terms and conditions for obtaining access to the Western Power Network, e.g. by retailers and generators (like Synergy) to transport electricity to customers > details the future investment plan to ensure customers continue to enjoy a good quality of service, whilst improving network safety, security and capacity. The AA needs to support fair prices, quality services and choice. It is approved by the ERA.
Australian Accounting Standards Board (**AASB**)	The AASB is responsible for developing, issuing and maintaining Australian accounting standards and related pronouncements. Where applicable, Western Power complies with these standards/pronouncement when preparing the statutory financial statements (base accounts).
Australian Energy Market Operator (**AEMO**)	The AEMO provides system management services under the WEM rules. These services include: > the operation and control of generator facilities, transmission and distribution networks and large customer retailer supply management including demand side management > the scheduling of generator, transmission and certain distribution outages, and management of real-time operation of the power system. Until the end of the 2015/16 financial year, Western Power provided these regulated services.
Cost and Revenue Allocation Method (**CRAM**)	Western Power's CRAM is an approved document presenting and explaining the method applied to allocate and adjust cost and revenue items to regulated and unregulated business segments in the annual regulatory financial statements.
Electricity Market Review (**EMR**)	The EMR was launched in 2014 by the previous Western Australian State Government to examine: > the structure of the electricity generation, wholesale and retail sectors within the SWIS; and > the incentives for industry participants to make efficient investments and minimise costs.
Economic Regulation Authority (**ERA**)	The ERA: > is an independent body reporting directly to the Western Australian parliament > regulates Western Power to ensure delivery of an efficient service at a fair price. The primary review functions performed by the ERA include Western Power's AA and technical licenses.
Full time equivalents (**FTE**)	FTE is the allocation method Western Power applies when the underlying transaction has a casual correlation to the consumption of staff/labour, e.g. fringe benefits tax. It is generally determined by the ratio of FTE within a specific business segment to total FTE.
Government Trading Enterprise (**GTE**)	A GTE is a government owned body incorporated under an act establishing it with the same functions as a private sector enterprise, e.g. *Electricity Corporations Act 2005*.
Guidelines for Access Arrangement Information Guidelines 2010 (**Guidelines**)	The Guidelines set out in detail the information required within Western Power's AA for the purposes of informing the ERA, applicants and users. Section 3 of the Guidelines requires Western Power to prepare regulatory financial statements.
Property, plant and equipment, intangible assets (**PPE**)	PPE is the allocation method Western Power applies when the underlying transaction has a casual correlation to the principal service of building, maintaining and operating the transmission and distribution networks, e.g. insurance. It is determined by the ratios of PPE in the transmission and distribution asset segments to total transmission and distribution PPE.
Program of Work (**PoW**)	The PoW is a complete schedule of operational and capital works Western Power undertakes annually to meet the needs of the network in terms of public safety, operating risks, regulatory compliance, capacity expansion, maintaining service standards and the reliability needs of customers. The PoW includes both regulated and unregulated services.

Acronym	Description
Public Utilities Office (**PUO**)	The PUO: > is a government office within the Western Australian Department of Finance > sets the guiding rules for the ERA and overall energy policy in Western Australia.
Regulated asset base (**RAB**)	Western Power's RAB is used to determine the capital costs (the return on and return of components) to be recovered through regulated network tariffs/fees.
Supervisory Control and Data Acquisition (**SCADA**)	The SCADA system is Western Power's critical information technology tool for managing the transmission and distribution networks, both day-to-day and in emergencies.
South West Interconnected Network (**SWIN**)	The SWIN is the network component of the SWIS, including all the small pockets of infrastructure, Western Power does not own or manage.
South West Interconnected System (**SWIS**)	The SWIS comprises the Western Power Network together with electricity generators. Western Power does not own the SWIS.
Wholesale Electricity Market (**WEM**)	The WEM: > was introduced in 2006 as part of the Western Australian government's progressive deregulation of the electricity market > covers wholesale electricity sales within the SWIS between sellers (i.e. generators and demand side management facilities) and buyers (i.e. retailers and large users).