Electricity Networks Corporation
Trading as Western Power
Regulatory Financial Statements (reviewed)

for the year ended 30 June 2013

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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**) *Guidelines for Access Arrangement Information* December 2010 (**the Guidelines**).

Corporate information

Western Power is incorporated under the *Electricity Corporations Act 2005* (WA) (**the 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 2013 annual report (including the audited statutory financial statements) available on Western Power's website www.westernpower.com.au.

Likely developments

Likely developments in the operations of Western Power that were not finalised at the date of this special purpose financial report include the matters set out below.

- ***Access arrangement 3***

  On 29 November 2012 the ERA approved Western Power's third access arrangement for the five year period from 1 July 2012 to 30 June 2017 (**AA3**), including regulated capital expenditure totalling $5.8 billion (excluding gifted assets) and regulated operating expenditure totalling $2.6 billion. The ERA sets service performance targets and network tariffs and charges that are best for the Western Australian community. The ERA's final determination in respect of AA3 represents a major efficiency challenge for Western Power over the forward estimates period.

  State budget funding for regulated capital expenditure of $4.7 billion has been confirmed in respect of the AA3 period, including $1.627 billion in respect of safety-related programs. However, the funding does not include Western Power's request for full levels of AA3 capital expenditure in 2016/17 and AA3 levels of non-growth capital expenditure over the forward estimates period.

  To enable Western Power to deliver on the full spectrum of commitments included in AA3, it requires $1,085 million of additional funding above currently budgeted levels. The government has requested Western Power to prepare business cases to justify this additional capital expenditure. The expenditure ($531.2 million of growth capital expenditure, including $32 million of gifted assets, and $553.8 million of non-growth capital expenditure, including $14 million of unregulated capital expenditure) has already been endorsed by the ERA as part of AA3 but is not currently included in the forward estimates.

  If the additional funding is not provided or Western Power is unable to identify further efficiency savings, there is an increased risk that the safety and reliability outcomes expected in AA3 will not be achieved. Additional funding will be required in order to further improve these performance levels.

  Forecasting customer demand requirements in the current economic conditions presents an ongoing challenge for Western Power. Declining consumption is driven by a combination of changing consumer behaviour, more efficient appliances and increasing numbers of photovoltaic systems being installed across the network.

- ***Asset management and public safety***

  Western Power has a vast electrical network with infrastructure that crosses both public and private property, above and below ground. Whilst an inherent risk exists in any electrical network, Western Power has a responsibility to apply a prudent and diligent approach to managing the public safety risk associated with its assets.

  With approximately 25% of its wood poles located in 'extreme' or 'high' bushfire risk areas, the potential for electricity network assets to ignite bushfires is one of the most significant public safety risks for the Western Power network. The potential for electric shock is also inherent in distribution network assets such as overhead customer service connections.

  Western Power's challenge is to ensure these distribution assets continue to operate safely and are replaced before they reach the end of their useful life. In September 2013 Western Power will publish its inaugural state of the infrastructure report, which provides further details of the challenge facing Western Power in its management of the risks inherent in the network assets.

  During the AA3 period, a primary focus will be on investing in activities that minimise the risk of harm to the public and reduce the potential for bushfires to be initiated by Western Power's network assets. Details of Western Power's proposed investment program to reduce the public safety risk can be found in Western Power's AA3 submission to the ERA.

  Western Power is reliant on funding from its shareholder to meet these and any additional regulatory requirements.

Directors' overview (continued)

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 2013 statutory financial statements.

Regulatory allocations

In compliance with the ERA's Guidelines, these financial statements present Western Power's audited 2013 statutory financial statements (base accounts) disaggregated into the following business segments:

- Covered Transmission (regulated transmission services)
- Covered Distribution (regulated distribution services)
- System Management (Markets) (regulated system operation services)
- Unregulated (contestable services)

The disaggregation is in accordance with the ERA's Guidelines and Western Power's approved 2013 cost and revenue allocation method, 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

Regulatory adjustments

In compliance with the ERA's Guidelines, these financial statements include regulatory adjustments that primarily reflect differences in accounting policies between the 2013 statutory financial statements (base accounts) and the 2013 regulatory financial statements, i.e.:

- ***Developer and customer 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.

- ***Capitalised 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, including those for disclosure purposes only and prior period adjustments, refer to the 'regulatory adjustments' section within this report.

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 veracity of the regulatory financial statements
- The consistency with stated accounting policies, principles and methods
- The arithmetic accuracy

1. Profit and loss account (disaggregated) for the year ended 30 June 2013

Account code	Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (Markets) $'000	Unregulated $'000
1100	Network services (revenue cap)	1,235,394	387,303	835,207	12,884	-
1100	Network services (non-revenue cap)	35,831	11,934	23,897	-	-
1100	Network services (products and services)	84,437	-	-	-	84,437
1200	Contributions (excluding gifted assets)	119,605	18,238	101,367	-	-
1200	Gifted assets	57,585	-	57,585	-	-
1300	Proceeds from disposal of assets	7,294	3,003	862	-	3,429
1400	Other revenue	5,164	2,492	866	-	1,806
	Total revenue	**1,545,310**	**422,970**	**1,019,784**	**12,884**	**89,672**
2100	Operating expenditure costs	(719,999)	(114,391)	(519,838)	(11,383)	(74,387)
	Operations	(138,383)	(30,897)	(46,687)	-	(60,799)
	Maintenance	(255,681)	(44,202)	(211,479)	-	-
	Customer service and billing	(41,307)	-	(39,156)	-	(2,151)
	Corporate	(83,868)	(28,568)	(51,969)	-	(3,331)
	Other operating expenditure	(200,760)	(10,724)	(170,547)	(11,383)	(8,106)
2200	Depreciation and amortisation	(232,861)	(88,509)	(142,293)	(2,059)	-
2300	Bad debts	(652)	(194)	(417)	-	(41)
2400	Borrowing costs	(311,873)	(102,631)	(204,199)	(676)	(4,367)
2500	Book value on disposal of assets	(10,445)	(4,638)	(2,195)	-	(3,612)
	Total expenses	**(1,275,830)**	**(310,363)**	**(868,942)**	**(14,118)**	**(82,407)**
	Earnings before taxation equivalent	**269,480**	**112,607**	**150,842**	**(1,234)**	**7,265**
2600	**Taxation equivalent**	**(78,103)**	**(32,484)**	**(43,513)**	**-**	**(2,106)**
	Profit/(loss) after taxation equivalent	**191,377**	**80,123**	**107,329**	**(1,234)**	**5,159**

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

Total revenue and total expenses in the regulatory financial statements each differ by $7.294 million from total revenue 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 loss of $3.151 million.

2. Profit and loss account (regulatory financial statement) for the year ended 30 June 2013

Covered Transmission

Account code	Description	Base account $'000	Adjustment $'000	Regulatory account $'000	Support reference #	Prior period adjustment (Ref 12.4 &12.6) $'000	Prior period adjustment (Ref 12.5 &12.6) $'000	Revised regulatory account $'000
1100	Network services (revenue cap)	387,303	-	387,303		-	-	387,303
1100	Network services (non-revenue cap)	11,934	-	11,934		-	-	11,934
1200	Contributions (excluding gifted assets)	18,238	(428)	17,810	**11,12.1**	-	-	17,810
1300	Proceeds from disposal of assets	3,003	-	3,003		-	-	3,003
1400	Other revenue	2,492	-	2,492		-	-	2,492
	Total revenue	**422,970**	**(428)**	**422,542**		**-**	**-**	**422,542**
2100	Operating expenditure costs	(114,391)	(4,269)	(118,660)	**9,10,12.3**	(35,832)	(4,370)	(158,862)
	Operations	(30,897)	-	(30,897)		(1,523)	504	(31,916)
	Maintenance	(44,202)	-	(44,202)		-	1,484	(42,718)
	Corporate	(28,568)	(4,269)	(32,837)		(10,162)	-	(42,999)
	Other operating expenditure	(10,724)	-	(10,724)		(24,147)	(6,358)	(41,229)
2200	Depreciation and amortisation	(88,509)	4,269	(84,240)	**12.3**	-	-	(84,240)
2300	Bad debts	(194)	-	(194)		-	-	(194)
2400	Borrowing costs	(102,631)	(7,019)	(109,650)	**12.2**	-	-	(109,650)
2500	Book value on disposal of assets	(4,638)	-	(4,638)		-	-	(4,638)
	Total expenses	**(310,363)**	**(7,019)**	**(317,382)**		**(35,832)**	**(4,370)**	**(357,584)**
	Earnings before taxation equivalent	**112,607**	**(7,447)**	**105,160**		**(35,832)**	**(4,370)**	**64,958**
2600	**Taxation equivalent**	**(32,484)**	**2,234**	**(30,250)**	**12.6**	**10,750**	**1,311**	**(18,189)**
	Profit after taxation equivalent	**80,123**	**(5,213)**	**74,910**		**(25,082)**	**(3,059)**	**46,769**

Covered Distribution

Account code	Description	Base account $'000	Adjustment $'000	Regulatory account $'000	Support reference #	Prior period adjustment (Ref 12.4 &12.6) $'000	Prior period adjustment (Ref 12.5 &12.6) $'000	Revised regulatory account $'000
1100	Network services (revenue cap)	835,207	-	835,207		-	-	835,207
1100	Network services (non-revenue cap)	23,897	-	23,897		-	-	23,897
1200	Contributions (excluding gifted assets)	101,367	(11,312)	90,055	**11,12.1**	-	-	90,055
1200	Gifted assets	57,585	-	57,585	**11,12.1**	-	-	57,585
1300	Proceeds from disposal of assets	862	-	862		-	-	862
1400	Other revenue	866	-	866		-	-	866
	Total revenue	**1,019,784**	**(11,312)**	**1,008,472**		**-**	**-**	**1,008,472**
2100	Operating expenditure costs	(519,838)	(8,466)	(528,304)	**9,10,12.3**	(842)	(1,862)	(531,008)
	Operations	(46,687)	-	(46,687)		-	91	(46,596)
	Maintenance	(211,479)	-	(211,479)		-	693	(210,786)
	Customer service and billing	(39,156)	-	(39,156)		-	34	(39,122)
	Corporate	(51,969)	(8,466)	(60,435)		(338)	-	(60,773)
	Other operating expenditure	(170,547)	-	(170,547)		(504)	(2,680)	(173,731)
2200	Depreciation and amortisation	(142,293)	8,466	(133,827)	**12.3**	-	-	(133,827)
2300	Bad debts	(417)	-	(417)		-	-	(417)
2400	Borrowing costs	(204,199)	-	(204,199)	**12.2**	-	-	(204,199)
2500	Book value on disposal of assets	(2,195)	-	(2,195)		-	-	(2,195)
	Total expenses	**(868,942)**	**-**	**(868,942)**		**(842)**	**(1,862)**	**(871,646)**
	Earnings before taxation equivalent	**150,842**	**(11,312)**	**139,530**		**(842)**	**(1,862)**	**136,826**
2600	**Taxation equivalent**	**(43,513)**	**3,394**	**(40,119)**	**12.6**	**253**	**559**	**(39,307)**
	Profit after taxation equivalent	**107,329**	**(7,918)**	**99,411**		**(589)**	**(1,303)**	**97,519**

2. Profit and loss account (regulatory financial statement) for the year ended 30 June 2013

System Management (Markets)

Account code		Description	System Management (Markets)* $'000	System Management $'000	System Management Non Trading (Simcoa) $'000
1100	**	Network services (revenue cap)	12,884	9,956	2,928
		Total revenue	**12,884**	**9,956**	**2,928**
2100		Operating expenditure costs	(11,383)	(8,453)	(2,930)
		Other operating expenditure	(11,383)	(8,453)	(2,930)
2200		Depreciation and amortisation	(2,059)	(2,059)	-
2400		Borrowing costs	(676)	(676)	-
		Total expenses	**(14,118)**	**(11,188)**	**(2,930)**
		Earnings before taxation equivalent	**(1,234)**	**(1,232)**	**(2)**
2600		**Taxation equivalent**	**-**	**-**	**-**
		Loss after taxation equivalent	**(1,234)**	**(1,232)**	**(2)**

* System Management (Markets) has the following market participant registrations under the Wholesale Electricity Market (**WEM**) rules:
1) System Management
2) System Management Non Trading.

** Network services in relation to the System Management (Markets) business segment refers to provision of system operation services under Part 9 of the *Electricity Industry Act 2004* , which established the WEM.

3. Cash flow statement (disaggregated) for the year ended 30 June 2013

Account code	Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (Markets) $'000	Unregulated $'000
	Operating activities					
1100	*Receipts*	1,606,530	468,770	1,031,847	12,016	93,897
2100	*Payments*	(879,943)	(182,922)	(613,103)	(11,245)	(72,673)
	Net operating cash flow	**726,587**	**285,848**	**418,744**	**771**	**21,224**
	Investing activities					
1300	*Receipts*	7,294	3,003	862	-	3,429
2800	*Payments*	(1,027,405)	(237,750)	(742,774)	(7,233)	(39,648)
	Net investing cash flow	**(1,020,111)**	**(234,747)**	**(741,912)**	**(7,233)**	**(36,219)**
	Financing activities					
2700	*Receipts*	10,315,985	3,360,488	6,767,677	22,980	164,840
2800	*Payments*	(10,022,758)	(3,281,113)	(6,561,769)	(22,067)	(157,809)
	Net financing cash flow	**293,227**	**79,375**	**205,908**	**913**	**7,031**
	Net increase/(decrease) in cash	**(297)**	**130,476**	**(117,260)**	**(5,549)**	**(7,964)**
	Cash at beginning of reporting year	22,928				
	Net decrease in cash	(297)				
	Cash at end of reporting year *	**22,631**	**7,586**	**15,045**		

* Cash 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 2013

Covered Transmission

Account code	Description	Base account $'000	Adjustment $'000	Regulatory account $'000	Support reference #
	Operating activities				
1100	*Receipts*	468,770	-	468,770	
2100	*Payments*	(182,922)	-	(182,922)	
	Net operating cash flow	**285,848**	**-**	**285,848**	
	Investing activities				
1300	*Receipts*	3,003	-	3,003	
2800	*Payments*	(237,750)	-	(237,750)	
	Net investing cash flow	**(234,747)**	**-**	**(234,747)**	
	Financing activities				
2700	*Receipts*	3,360,488	-	3,360,488	
2800	*Payments*	(3,281,113)	-	(3,281,113)	
	Net financing cash flow	**79,375**	**-**	**79,375**	
	Net increase in cash	**130,476**	**-**	**130,476**	

Covered Distribution

Account code	Description	Base account $'000	Adjustment $'000	Regulatory account $'000	Support reference #
	Operating activities				
1100	*Receipts*	1,031,847	-	1,031,847	
2100	*Payments*	(613,103)	-	(613,103)	
	Net operating cash flow	**418,744**	**-**	**418,744**	
	Investing activities				
1300	*Receipts*	862	-	862	
2800	*Payments*	(742,774)	-	(742,774)	
	Net investing cash flow	**(741,912)**	**-**	**(741,912)**	
	Financing activities				
2700	*Receipts*	6,767,677	-	6,767,677	
2800	*Payments*	(6,561,769)	-	(6,561,769)	
	Net financing cash flow	**205,908**	**-**	**205,908**	
	Net decrease in cash	**(117,260)**	**-**	**(117,260)**	

5. Balance sheet (disaggregated) as at 30 June 2013

Account code	Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (Markets) $'000	Unregulated $'000
	Current assets					
8100	*Cash and cash equivalents*	22,631	7,586	15,045	-	-
8200	*Trade and other receivables, & derivatives*	30,111	9,216	15,717	2,507	2,671
8200	*Prepayments*	18,319	6,130	12,188	-	1
8200	*Accrued revenue*	161,396	43,909	117,487	-	-
8300	*Inventories*	132,002	36,450	68,989	-	26,563
	Total current assets	**364,459**	**103,291**	**229,426**	**2,507**	**29,235**
	Non-current assets					
8400	*Property, plant and equipment, & intangibles*	7,792,457	2,565,365	5,104,155	13,786	109,151
8200	*Trade and other receivables, & derivatives*	10,443	3,493	6,950	-	-
8200	*Retirement benefit obligation surplus*	210	43	167	-	-
	Total non-current assets	**7,803,110**	**2,568,901**	**5,111,272**	**13,786**	**109,151**
	Total assets	**8,167,569**	**2,672,192**	**5,340,698**	**16,293**	**138,386**
	Current liabilities					
8600	*Trade and other payables, & derivatives*	(223,808)	(84,454)	(131,234)	(1,254)	(6,866)
8900	*Deferred income*	(106,592)	(26,860)	(72,206)	-	(7,526)
8700	*Provisions*	(36,455)	(11,663)	(24,186)	(273)	(333)
	Total current liabilities	**(366,855)**	**(122,977)**	**(227,626)**	**(1,527)**	**(14,725)**
	Non-current liabilities					
8500	*Borrowings*	(6,188,044)	(2,015,783)	(4,059,586)	(13,786)	(98,889)
8600	*Trade and other payables, tax & derivatives*	(279,721)	(89,560)	(185,877)	(480)	(3,804)
8900	*Deferred income*	(5,390)	(5,390)	-	-	-
8700	*Provisions*	(29,770)	(14,891)	(14,537)	(154)	(188)
	Total non-current liabilities	**(6,502,925)**	**(2,125,624)**	**(4,260,000)**	**(14,420)**	**(102,881)**
	Total liabilities	**(6,869,780)**	**(2,248,601)**	**(4,487,626)**	**(15,947)**	**(117,606)**
	Net assets	**1,297,789**	**423,591**	**853,072**	**346**	**20,780**
	Equity					
	Share capital	821,239				
	*Accumulated profits/reserves**	476,550				
	Total equity	**1,297,789**				
	*Accumulated profits/reserves					
	At start of reporting year	380,060				
	Profit after taxation equivalent	191,377				
	Other comprehensive income	7,248				
	Distributions paid/provided in year	(102,135)				
	At end of reporting year	**476,550**				

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

6. Balance sheet (regulatory financial statement) as at 30 June 2013

Covered Transmission

Account code	Description	Base account $'000	Adjustment $'000	Regulatory account $'000	Support reference #	Prior period adjustments (Ref 12.6) $'000	Revised regulatory account $'000
	Current assets						
8100	*Cash and cash equivalents*	7,586	-	7,586		-	7,586
8200	*Trade and other receivables, & derivatives*	9,216	-	9,216		-	9,216
8200	*Prepayments*	6,130	-	6,130		-	6,130
8200	*Accrued revenue*	43,909	-	43,909		-	43,909
8300	*Inventories*	36,450	-	36,450		-	36,450
	Total current assets	**103,291**	**-**	**103,291**		**-**	**103,291**
	Non-current assets						
8400	*Property, plant and equipment, & intangibles*	2,565,365	(66,960)	2,498,405	**12.2**	-	2,498,405
8200	*Trade and other receivables, & derivatives*	3,493	-	3,493		-	3,493
8200	*Retirement benefit obligation surplus*	43	-	43		-	43
	Total non-current assets	**2,568,901**	**(66,960)**	**2,501,941**		**-**	**2,501,941**
	Total assets	**2,672,192**	**(66,960)**	**2,605,232**		**-**	**2,605,232**
	Current liabilities						
8600	*Trade and other payables, & derivatives*	(84,454)	7,727	(76,727)	**12.1,12.6**	12,061	(64,666)
8900	*Deferred income*	(26,860)	25,887	(973)	**12.1**	-	(973)
8700	*Provisions*	(11,663)	-	(11,663)		-	(11,663)
	Total current liabilities	**(122,977)**	**33,614**	**(89,363)**		**12,061**	**(77,302)**
	Non-current liabilities						
8500	*Borrowings*	(2,015,783)	-	(2,015,783)		-	(2,015,783)
8600	*Trade and other payables, tax & derivatives*	(89,560)	-	(89,560)		-	(89,560)
8900	*Deferred income*	(5,390)	5,390	-	**12.1**	-	-
8700	*Provisions*	(14,891)	-	(14,891)		-	(14,891)
	Total non-current liabilities	**(2,125,624)**	**5,390**	**(2,120,234)**		**-**	**(2,120,234)**
	Total liabilities	**(2,248,601)**	**39,004**	**(2,209,597)**		**12,061**	**(2,197,536)**
	Net assets	**423,591**	**(27,956)**	**395,635**		**12,061**	**407,696**

6. Balance sheet (regulatory financial statement) as at 30 June 2013

Covered Distribution

Account code	Description	Base account $'000	Adjustment $'000	Regulatory account $'000	Support reference #	Prior period adjustments (Ref 12.6) $'000	Revised regulatory account $'000
	Current assets						
8100	*Cash and cash equivalents*	15,045	-	15,045		-	15,045
8200	*Trade and other receivables, & derivatives*	15,717	-	15,717		-	15,717
8200	*Prepayments*	12,188	-	12,188		-	12,188
8200	*Accrued revenue*	117,487	-	117,487		-	117,487
8300	*Inventories*	68,989	-	68,989		-	68,989
	Total current assets	**229,426**	**-**	**229,426**		**-**	**229,426**
	Non-current assets						
8400	*Property, plant and equipment, & intangibles*	5,104,155	-	5,104,155	**12.2**	-	5,104,155
8200	*Trade and other receivables, & derivatives*	6,950	-	6,950		-	6,950
8200	*Retirement benefit obligation surplus*	167	-	167		-	167
	Total non-current assets	**5,111,272**	**-**	**5,111,272**		**-**	**5,111,272**
	Total assets	**5,340,698**	**-**	**5,340,698**		**-**	**5,340,698**
	Current liabilities						
8600	*Trade and other payables, & derivatives*	(131,234)	3,394	(127,840)	**12.1,12.6**	812	(127,028)
8900	*Deferred income*	(72,206)	72,206	-	**12.1**	-	-
8700	*Provisions*	(24,186)	-	(24,186)		-	(24,186)
	Total current liabilities	**(227,626)**	**75,600**	**(152,026)**		**812**	**(151,214)**
	Non-current liabilities						
8500	*Borrowings*	(4,059,586)	-	(4,059,586)		-	(4,059,586)
8600	*Trade and other payables, tax & derivatives*	(185,877)	-	(185,877)		-	(185,877)
8700	*Provisions*	(14,537)	-	(14,537)		-	(14,537)
	Total non-current liabilities	**(4,260,000)**	**-**	**(4,260,000)**		**-**	**(4,260,000)**
	Total liabilities	**(4,487,626)**	**75,600**	**(4,412,026)**		**812**	**(4,411,214)**
	Net assets	**853,072**	**75,600**	**928,672**		**812**	**929,484**

7. Capital expenditure (disaggregated) for the year ended 30 June 2013

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (Markets) $'000	Unregulated $'000
Capital additions					
Capacity expansion	162,238	113,767	48,471	-	-
Customer driven	226,119	37,628	188,491	-	-
Gifted assets	57,585	-	57,585	-	-
Asset replacement	74,811	26,027	48,784	-	-
State Underground Power Project (SUPP)	29,690	-	29,690	-	-
Metering	11,318	-	11,318	-	-
Smart grid	781	-	781	-	-
Wood pole management	216,856	-	216,856	-	-
Reliability driven	2,911	1,217	1,694	-	-
Supervisory Control and Data Acquisition (SCADA) & communications	8,748	5,674	3,074	-	-
Regulatory compliance	149,373	20,818	128,555	-	-
Information technology	28,160	9,440	18,720	-	-
Business support	30,826	10,923	19,903	-	-
Capitalised interest	7,019	7,019	-	-	-
Market reform	6,412	-	-	6,412	-
Mobile plant and vehicles	35,526	-	-	-	35,526
Total capital additions	**1,048,373**	**232,513**	**773,922**	**6,412**	**35,526**

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 2013

Covered Transmission

Description	Base account $'000	Adjustment $'000	Regulatory account $'000	Support reference #	Prior period adjustment (Ref 12.4) $'000	Prior period adjustment (Ref 12.5) $'000	Revised regulatory account $'000
Growth							
Capacity expansion	113,767	-	113,767		(33,927)	(674)	79,166
Customer driven	37,628	-	37,628		(1,542)	(1,842)	34,244
	151,395	-	151,395		(35,469)	(2,516)	113,410
Asset replacement and renewal							
Asset replacement	26,027	-	26,027		(23)	(865)	25,139
Improvement in service							
Reliability driven	1,217	-	1,217		(5)	(7)	1,205
SCADA and communications	5,674	-	5,674		(226)	(404)	5,044
	6,891	-	6,891		(231)	(411)	6,249
Compliance							
Regulatory compliance	20,818	-	20,818		(109)	(578)	20,131
Corporate							
Information technology	9,440	-	9,440		-	-	9,440
Business support	10,923	-	10,923		-	-	10,923
	20,363	-	20,363		-	-	20,363
Other							
Capitalised interest	7,019	(7,019)	-	**12.2**	-	-	-
Total capital additions	**232,513**	**(7,019)**	**225,494**		**(35,832)**	**(4,370)**	**185,292**

Covered Distribution

Description	Base account $'000	Adjustment $'000	Regulatory account $'000	Support reference #	Prior period adjustment (Ref 12.4) $'000	Prior period adjustment (Ref 12.5) $'000	Revised regulatory account $'000
Growth							
Capacity expansion	48,471	-	48,471		(554)	(159)	47,758
Customer driven	188,491	-	188,491		-	(582)	187,909
Gifted assets	57,585	-	57,585		-	-	57,585
	294,547	-	294,547		(554)	(741)	293,252
Asset replacement and renewal							
Asset replacement	48,784	-	48,784		(46)	(592)	48,146
SUPP	29,690	-	29,690		-	(111)	29,579
Metering	11,318	-	11,318		-	(47)	11,271
Smart grid	781	-	781		-	(13)	768
Wood pole management	216,856	-	216,856		-	-	216,856
	307,429	-	307,429		(46)	(763)	306,620
Improvement in service							
Reliability driven	1,694	-	1,694		(240)	(30)	1,424
SCADA and communications	3,074	-	3,074		-	(12)	3,062
	4,768	-	4,768		(240)	(42)	4,486
Compliance							
Regulatory compliance	128,555	-	128,555		(2)	(316)	128,237
Corporate							
Information technology	18,720	-	18,720		-	-	18,720
Business support	19,903	-	19,903		-	-	19,903
	38,623	-	38,623		-	-	38,623
Total capital additions	**773,922**	**-**	**773,922**		**(842)**	**(1,862)**	**771,218**

System Management (Markets)

Description	Base account $'000	Adjustment $'000	Regulatory account $'000	Support reference #	Prior period adjustment (Ref 12.4) $'000	Prior period adjustment (Ref 12.5) $'000	Revised regulatory account $'000
Corporate							
Market reform	6,412	-	6,412		-	-	6,412
Total capital additions	**6,412**	**-**	**6,412**		**-**	**-**	**6,412**

9. Operating expenditure (disaggregated) for the year ended 30 June 2013

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (Markets) $'000	Unregulated $'000
Directly attributed costs					
Operations	(114,082)	(24,230)	(29,053)	-	(60,799)
Maintenance	(255,681)	(44,202)	(211,479)	-	-
Customer service and billing	(41,307)	-	(39,156)	-	(2,151)
Corporate	(2,933)	-	(307)	-	(2,626)
Other operating expenditure	(46,760)	(10,724)	(16,547)	(11,383)	(8,106)
Total directly attributed costs	**(460,763)**	**(79,156)**	**(296,542)**	**(11,383)**	**(73,682)**
Causally allocated costs					
Operations	(24,301)	(6,667)	(17,634)	-	-
Maintenance	-	-	-	-	-
Customer service and billing	-	-	-	-	-
Corporate	(80,935)	(28,568)	(51,662)	-	(705)
Other operating expenditure	(154,000)	-	(154,000)	-	-
Total causally allocated costs	**(259,236)**	**(35,235)**	**(223,296)**	**-**	**(705)**
Total operating expenditure costs	**(719,999)**	**(114,391)**	**(519,838)**	**(11,383)**	**(74,387)**

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 2013

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (Markets) $'000	Unregulated $'000
Superannuation for defined benefit schemes	(81)	(25)	(56)	-	-
Non-revenue cap services	(31,620)	(12,614)	(19,006)	-	-
License fees	(60)	(20)	(39)	-	(1)
Energy*Safety* levy	(4,016)	(1,346)	(2,670)	-	-
Network control services	(1,959)	-	(1,959)	-	-
ERA costs under *ERA (Electricity Network Access Funding Regulations) 2012*	(714)	(237)	(470)	-	(7)
Total operating expenditure costs to be excluded from gain sharing mechanism	**(38,450)**	**(14,242)**	**(24,200)**	**-**	**(8)**

10. Operating expenditure (regulatory financial statement) for the year ended 30 June 2013

Covered Transmission

Description	Base account $'000	Adjustment $'000	Regulatory account $'000	Support reference #	Prior period adjustment (Ref 12.4) $'000	Prior period adjustment (Ref 12.5) $'000	Revised regulatory account $'000
Operations							
SCADA and communications	(11,616)	-	(11,616)		-	355	(11,261)
Non-revenue cap services	(12,614)	-	(12,614)		(1,523)	149	(13,988)
Network operations	(6,667)	-	(6,667)		-	-	(6,667)
	(30,897)	-	(30,897)		(1,523)	504	(31,916)
Maintenance							
Preventative condition	(9,780)	-	(9,780)		-	380	(9,400)
Preventative routine	(22,091)	-	(22,091)		-	679	(21,412)
Corrective deferred	(10,183)	-	(10,183)		-	338	(9,845)
Corrective emergency	(2,148)	-	(2,148)		-	87	(2,061)
	(44,202)	-	(44,202)		-	1,484	(42,718)
Corporate							
Business support	(28,568)	(4,269)	(32,837)	**12.3**	(10,162)	-	(42,999)
Other operating expenditure							
Non-recurring expenditure	(10,724)	-	(10,724)		(24,147)	(6,358)	(41,229)
Total operating expenditure costs	**(114,391)**	**(4,269)**	**(118,660)**		**(35,832)**	**(4,370)**	**(158,862)**

Covered Distribution

Description	Base account $'000	Adjustment $'000	Regulatory account $'000	Support reference #	Prior period adjustment (Ref 12.4) $'000	Prior period adjustment (Ref 12.5) $'000	Revised regulatory account $'000
Operations							
Reliability operations	(1,718)	-	(1,718)		-	10	(1,708)
SCADA and communications	(4,623)	-	(4,623)		-	13	(4,610)
Non-revenue cap services	(19,006)	-	(19,006)		-	58	(18,948)
Network operations	(17,633)	-	(17,633)		-	-	(17,633)
Smart grid	(3,707)	-	(3,707)		-	10	(3,697)
	(46,687)	-	(46,687)		-	91	(46,596)
Maintenance							
Preventative condition	(59,119)	-	(59,119)		-	159	(58,960)
Preventative routine	(43,259)	-	(43,259)		-	165	(43,094)
Corrective deferred	(27,852)	-	(27,852)		-	89	(27,763)
Corrective emergency	(81,249)	-	(81,249)		-	280	(80,969)
	(211,479)	-	(211,479)		-	693	(210,786)
Customer service and billing							
Call centre	(7,165)	-	(7,165)		-	-	(7,165)
Metering	(25,090)	-	(25,090)		-	5	(25,085)
Guaranteed service level payments	892	-	892		-	-	892
Distribution quotations	(7,793)	-	(7,793)		-	29	(7,764)
	(39,156)	-	(39,156)		-	34	(39,122)
Corporate							
Business support	(51,969)	(8,466)	(60,435)	**12.3**	(338)	-	(60,773)
Other operating expenditure							
Non-recurring expenditure	(16,547)	-	(16,547)		(504)	(2,680)	(19,731)
Tariff equalisation contribution	(154,000)	-	(154,000)		-	-	(154,000)
	(170,547)	-	(170,547)		(504)	(2,680)	(173,731)
Total operating expenditure costs	**(519,838)**	**(8,466)**	**(528,304)**		**(842)**	**(1,862)**	**(531,008)**

11. Contributions for the year ended 30 June 2013

Covered Transmission

Reason for contributions	Base account $'000	Adjustment $'000	Regulatory account $'000	Support reference #
Capacity expansion	(14)	-	(14)	
Customer driven	18,379	(428)	17,951	
Asset replacement	45	-	45	
SCADA and communications	6	-	6	
Regulatory compliance	(178)	-	(178)	
Total contributions	**18,238**	**(428)**	**17,810**	**12.1**

Covered Distribution

Reason for contributions (including gifted assets)	Base account $'000	Adjustment $'000	Regulatory account $'000	Support reference #
Capacity expansion	4	-	4	
Customer driven	82,345	(7,033)	75,312	
Gifted assets	57,585	-	57,585	
State Underground Power Project (SUPP)	18,601	(4,279)	14,322	
Metering	417	-	417	
Total contributions (including gifted assets)	**158,952**	**(11,312)**	**147,640**	**12.1**

12. Regulatory adjustments for the year ended 30 June 2013

	Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (Markets) $'000	Unregulated $'000
	Accounting policy adjustments					
12.1	**Capital contributions (including gifted assets)**	**177,190**	**18,238**	**158,952**	**-**	**-**
	less opening deferred capital contributions	(120,716)	(37,198)	(83,518)	-	-
	add closing deferred capital contributions	103,483	31,277	72,206	-	-
	Net movement in reporting year	(17,233)	(5,921)	(11,312)	-	-
	Capital contributions accrued for refund	5,493	5,493	-	-	-
	Capital contributions cash adjustment	(11,740)	(428)	(11,312)	-	-
	Capital contributions (including gifted assets) received	**165,450**	**17,810**	**147,640**	**-**	**-**

To align Western Power's statutory accounting policy with regulatory accounting policy, i.e. customer and developer 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 (Markets) $'000	Unregulated $'000
12.2	**Expensed 'capitalised borrowing costs' b/fwd**	(59,941)	(59,941)	-	-	-
	Net movement in reporting year	(7,019)	(7,019)	-	-	-
	Expensed 'capitalised borrowing costs' c/fwd	**(66,960)**	**(66,960)**	**-**	**-**	**-**

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).

Accounting disclosure adjustments

12.3 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'.

	Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (Markets) $'000	Unregulated $'000
	PRIOR PERIOD ADJUSTMENTS: Regulated asset base (RAB) adjustments					
12.4	**Capitalised 'cancelled/deferred project costs' b/fwd**	36,674	35,832	842	-	-
	Net movement in reporting year	(36,674)	(35,832)	(842)	-	-
	Capitalised 'cancelled/deferred project costs' c/fwd	**-**	**-**	**-**	**-**	**-**

To reverse prior period RAB adjustments reported in the regulatory financial statements that were not accepted by the ERA when establishing the opening value of the RAB for the new AA3 period, i.e. per the ERA's final decision capital expenditure for cancelled/deferred capital projects did not meet the new facilities investment test (**NFIT**) and therefore were not added to the opening value of the RAB for the new AA3 period.

	Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (Markets) $'000	Unregulated $'000
12.5	**Capitalised 'early strategic planning costs' b/fwd**	6,232	4,370	1,862	-	-
	Net movement in reporting year	(6,232)	(4,370)	(1,862)	-	-
	Capitalised 'early strategic planning costs' c/fwd	**-**	**-**	**-**	**-**	**-**

To reverse prior period RAB adjustments reported in the regulatory financial statements that were not accepted by the ERA when establishing the opening value of the RAB for the new AA3 period, i.e. per the ERA's final decision capital expenditure for early strategic planning costs did not meet the NFIT and therefore were not added to the opening value of the RAB for the new AA3 period.

12.6 The tax equivalent is calculated on regulatory adjustments at a rate of 30% and is adjusted against current 'trade creditors and accruals' 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 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*

Western Power has been classified to be a not-for-profit entity 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 interest (or like allowance) incurred during construction is expensed (and not capitalised as permitted by AASB 123 *Borrowing costs*)
- Any contributions for capital projects are recognised as revenue when received (and not deferred in the balance sheet until the project is completed as required by AASB Interpretation 18 *Transfer of assets from customers*)

(b) Accrual accounting and historical cost convention

These financial statements are prepared on the accrual accounting basis and in accordance with the historical cost convention, except for the following:

- Derivative financial instruments measured as fair value: note 13(m)
- Certain provisions and employee benefit liabilities measured at present value: notes 13(s), 13(t) and 13(u)

(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 revenue, 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 year in which the estimate is revised and any future 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 referenced in the following notes:

- Revenue (unbilled network tariff revenue): note 13(g)
- Trade and other receivables (impairment provision): note 13(k)
- Property, plant and equipment and intangibles (residual values and useful lives): notes 13(n) and 13(o)
- Provisions and employee benefit liabilities (present value): notes 13(s), 13(t) and 13(u)

(d) Rounding

All financial information presented in Australian dollars has been rounded to the nearest thousand 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

Functional and presentation currency

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

Transactions and balances

Transactions in currency other than the functional currency of Western Power are translated into the functional currency at the rates of exchange prevailing on 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. All foreign currency translation differences are recognised on a net basis in profit or loss, except where deferred in equity for translation differences of qualifying cash flow hedges.

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, net of the amount of goods and services tax. The following specific criteria must also be met before revenues are recognised:

Network charges

Western Power receives network services revenue from the transmission and distribution of electricity, and provision of related services including system operations. 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 2013: $161.396 million). Unbilled network tariff revenue is an estimate of electricity transported to customers that has not been billed 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 of electricity infrastructure to facilitate network connection. Contributions are recognised when received. 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 expected 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

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.

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

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

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 expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted 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.

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) 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 2013 Western Power does 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 are charged to profit and loss on a straight-line basis over the term of the lease.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and other short-term deposits that have an original maturity of three months or less, net of outstanding bank overdrafts.

13. Summary of significant accounting policies (continued)

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost less provision for impairment. They are usually settled on 14 or 30 day payment terms, unless contractually agreed otherwise. Receivables are classified as current assets unless collection is not expected for more than 12 months after the reporting date.

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, 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 is immaterial. Amounts impaired are recognised in profit and 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 and loss.

(l) Inventories

Inventories are stated 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 costs of completion and the estimated selling costs.

(m) Derivative and hedging activities

Derivative financial instruments

Derivative financial instruments are used to hedge exposures to movements in interest rates, foreign exchange rates and commodity prices. Western Power uses derivative financial instruments in accordance with Board approved policy. Speculative trading of derivatives is strictly prohibited.

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. Changes in the fair value of derivative financial instruments are included in profit and loss to the extent that hedge accounting is not applied.

Financial instruments are derecognised when Western Power no longer controls the contractual rights that comprise the financial instrument.

Hedge accounting

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.

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 and loss immediately. When the cash flows occur, the amount that has been deferred to equity is transferred to either the carrying value of the asset, in the case of non-financial assets, or reclassified to profit or loss as appropriate.

When a hedging instrument expires or is sold or 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.

(n) Property, plant and equipment

Cost

Property, plant and equipment 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 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 when received.

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 and loss during the reporting year in which they are incurred.

13. Summary of significant accounting policies (continued)

(n) Property, plant and equipment (continued)

Depreciation

Depreciation is calculated using the straight-line method over the estimated useful economic lives presented below, making allowances where appropriate for residual values.

Depreciation periods for categories of property, plant and equipment	Years
Substations, transformers, poles and cables	45 - 50
Buildings	40
Meters, streetlights	20 - 25
Pole reinforcements, smart meters	15
Furniture and fittings, refurbishments	10
Other plant and equipment	10
Communications	6.5 - 10
Fleet	5 - 10
Computer hardware	4
Low value pool	3
Leasehold improvements	Life of lease

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

The residual value, 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.

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.

(o) Intangibles

Cost

Intangibles represent identifiable capitalised software costs and intellectual property, and are recognised at historical cost less accumulated amortisation in accordance with AASB 138 *Intangible assets* . Intangibles are not equal to the RAB. Subsequent costs are included in intangibles 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 intangibles 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

Amortisation is calculated using the straight-line method over the estimated useful economic lives listed below, making allowances where appropriate for residual values.

Amortisation periods for categories of intangibles	Years
Intellectual property	25
Software (major developments/enhancements)	5 - 10
Software (minor purchases/enhancements)	2.5

The residual value, useful lives and amortisation methods of intangibles are reviewed annually, and adjusted as appropriate at the end of each reporting year, with any changes recognised as a change in accounting estimate.

Derecognition

An intangible 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 and loss.

(p) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost. They are usually settled within 30 days of recognition. Trade and other payables are classified as current liabilities unless payment is not due for at least 12 months after the reporting date.

13. Summary of significant accounting policies (continued)

(q) 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 a pre-determined interest rate. These borrowings are entered into with the objective of minimising interest rate risks, and are recognised as a derivative financial instrument in the period between entering into the forward lending agreement and draw down of the loan principal. Once the loan is drawn down, the principal is accounted for like any other borrowing.

(r) Borrowing costs

Borrowing costs are expensed when incurred.

(s) Provisions

Provisions are recognised when Western Power has 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 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 increase in the provision due to the passage of time is recognised as a borrowing cost.

Restructuring costs

A provision for restructuring costs is recognised when a detailed and formal restructuring plan has been approved by the Board, and the restructuring has either commenced or has been announced publicly.

Rehabilitation costs

A provision for site rehabilitation costs is recognised when there is either a legal or constructive obligation to rehabilitate a site; the land is contaminated; it is probable a rehabilitation expense will be incurred; and the costs can be reliably estimated.

The amount of the provision for future rehabilitation costs is capitalised into the cost of the related plant, property and equipment, and depreciated over the expected useful life.

(t) Employee benefits

Wages and salaries, annual leave

Liabilities arising in respect of employee benefits that are expected to be settled 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, salaries and annual leave is recognised in other payables. The liability for all other short-term employee benefits is recognised in the provision for employee benefits.

Long service leave

The liability for unconditional long service leave is recognised in the provision for employee benefits, and measured as 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 and settlement dates. Expected future payments are discounted using the Commonwealth Bond rates whose terms most closely match the terms of the related liabilities. Actuarial valuations are carried out at each reporting date.

The 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.

Termination benefits

Termination benefits are recognised as an expense when Western Power is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised where Western Power has made an offer encouraging voluntary redundancy; it is probable that the offer will be accepted; and the number of acceptances can be reliably estimated. Benefits falling due more than 12 months after the end of the reporting date are discounted to present value.

13. Summary of significant accounting policies (continued)

(u) Retirement benefit obligations

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity 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 as they become payable.

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 as the present value of the defined benefit obligation in respect of services provided by employees up to the reporting date, adjusted for unrecognised actuarial gains/losses, the fair value of any fund assets at that date and any unrecognised past service cost.

The present value of the 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. Actuarial valuations are carried out at each reporting date.

Current service cost is recognised in full in profit or loss in the reporting year in which the obligation increases as a result of employee services. Interest cost is also recognised, although this is offset by the expected return on assets. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions (including changes in the bond rate) are recognised directly in other comprehensive income.

(v) 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.

(w) Goods & services taxation (GST)

Revenue, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it 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 financial 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 (**the 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 dated 3 September 2013.

A Mulgrew
Board Chair

3 September 2013

J Cahill
Board Deputy Chair

Office of the Auditor General
Serving the Public Interest

Our Ref: 5563-04

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Chairman of Directors
Electricity Networks Corporation
363 Wellington Street
PERTH WA 6000

Dear Sir

AGREED UPON PROCEDURES ENGAGEMENT ON WESTERN POWER'S REGULATORY FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

Attached is the Report on agreed upon procedures for the regulatory financial statements for the year ending 30 June 2013, 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 me on 6557 7501 if you would like to discuss these matters further.

Yours faithfully

COLIN MURPHY
AUDITOR GENERAL
5 September 2013

Attach

Appendix A Scope of agreed upon procedures and findings

Regulatory Financial Statements (RFS)

Procedure:

1. *Obtain the 30 June 2013 RFS and agree the base account numbers to Western Power's 30 June 2013 financial statements for:*
   (a) *Total revenue, total expenses, profit/(loss) after taxation equivalent*
   (b) *Net operating cash flow, net investing cash flow, net financing cash flow, net increase/(decrease) in cash held*
   (c) *Total Assets, total liabilities, net Assets, equity.*

Findings:

We have agreed the base numbers within the RFS for 30 June 2013 to Western Power's 30 June 2013 financial statements as follows:

Category	Agreed without exception	Notes
Total Revenue	No	1
Total Expenses	No	1
Profit/(Loss) after taxation equivalent	Yes	
Net operating cash flow	Yes	
Net investing cash flow	Yes	
Net financing cash flow	Yes	
Net increase/(decrease) in cash held	Yes	
Total Assets	Yes	
Total Liabilities	Yes	
Net Assets	Yes	
Equity	Yes	

Notes 1:

Total revenue and total expenses does not agree to the 30 June 2013 Financial Statements. Explanation of this variance is noted in the 30 June 2013 RFS on page 1. A difference of $7 294 000 arises for each category. This is due to gross amounts being disclosed for proceeds & write-down on the disposal of assets within the RFS, whilst this balance is disclosed on a net basis within the 30 June 2013 financial statements.

Procedure:

2. *Agree the allocations of revenue (e.g. network services – revenue cap; non-revenue cap; unregulated), contributions (excluding gifted assets), gifted assets, proceeds from disposal of assets and other revenue) as disclosed in the 30 June 2013 RFS profit and loss account to the CRAM (business segment).*

Findings:

The CRAM provides for the following allocation with respect to revenue:

'All revenue items are recorded in our financial system via our account code structure.'

Our account code structure comprises 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 our cost centre. The characters are numeric and are used to identify our business services, e.g. 1@@@ denotes external work, 2@@@ denotes operating work and 3@@@ denotes capital work.'

'Asset segment: comprises the third group of four characters of our cost centre. The characters are numeric and are used to identify our business segments, i.e. 1@@@ denotes corporate-related, 2@@@ denotes transmission, 3@@@ denotes distribution and 4@@@ denotes system management (non-market and market related).'

Appendix C of the CRAM also stipulates the methodology for revenue allocation.

The RFS revenue categories (e.g. Network services, contributions, other revenue) each comprise a number of general ledger accounts, which are further comprised of a number of sub-ledgers. We have 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 (Senior Business Analyst – BP&R Branch) 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 on the following page.

The sample selected and reviewed is shown below:

Revenue category and $ (**as disclosed in the RFS**)	**Chart of accounts description and account code**	**$ and RFS business segment**	**Period of transaction**	**Type of allocation**	**Account coding agreed to CRAM**
Network services (revenue cap) $1,235,394,000	Other Rev Electricity Non Energy (815041004000)	$734,600 (system management)	May 2013	Direct	Yes
Network service (non-revenue cap) $35,831,000	Other Rev Electricity Non Energy (532012772000)	$14,544 (transmission)	December 2012	Direct	Yes
Network services (unregulated) $84,437,000	Other Rev Electricity Non Energy (633310001000)	$1,296,053 (unregulated)	September 2012	Direct	Yes
Contributions (excl. gifted assets) $119,605,000	Other Rev Electricity Non Energy (602630543000)	$69,893,022 (distribution)	November 2012	Direct	Yes
Gifted assets $57,585,000	Dvlpr & Capt Contributions Rev – Clients (602530563000)	$7,044,865 (distribution)	March 2013	Direct	Yes
Proceeds from disposal of assets $7,294,000	ISUZU FVR950 CRANE/(F1131 31) WPC1986	$36,261 (unregulated)	June 2013	Direct	Yes, 1
Other revenue $5,164,000	Misc Rev Property Rental Income (174011201000)	$16,829 (unregulated)	February 2013	Direct	Yes

Notes 1:

As per section 6.5, 6.6.3 & section 5 in Appendix C of the CRAM, proceeds from the disposal of fixed assets are directly attributed based on the profile of the asset. As the asset selected for sampling is fleet and based on the CRAM, external sales and fleet services are allocated to unregulated revenue.

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 the 30 June 2013 RFS profit and loss account to the CRAM (business segment and regulatory category).*

Findings:

The CRAM provides for the following allocation with respect to operating expenditure costs:

'All cost items are recorded in our financial system via our account code structure.'

Our account code structure comprises 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 our cost centre. The characters are numeric and are used to identify our business services, e.g. 1@@@ denotes external work, 2@@@ denotes operating work and 3@@@ denotes capital work.'

'Asset segment: comprises the third group of four characters of our cost centre. The characters are numeric and are used to identify our business segments, i.e. 1@@@ denotes corporate-related, 2@@@ denotes transmission, 3@@@ denotes distribution and 4@@@ denotes system management (non-market and market related).'

The CRAM Appendix A also details the methodology for the allocation of operating expenditure costs.

The RFS operating expenditure categories each comprise a number of general ledger accounts, which are further comprised of a number of sub-ledgers. We have selected our operating expenditure 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 (Senior Business Analyst, BP&R Branch) 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 documented on the following page.

The sample selected and reviewed is shown below:

Expenditure category and $ **(as disclosed in the RFS)**	**Chart of accounts description and account code**	**$ and RFS business segment**	**Period of transaction**	**Type of allocation**	**Account coding agreed to CRAM**
Operations $138,383,000	Mats-Elect Wire, Light & Pwr Distn Equip (633310001000)	$33,864 (Unregulated)	February 2013	Direct	Yes
Maintenance $255,681,000	Contractors – Operational (602520613000)	$866,370 (distribution)	May 2013	Direct	Yes
Customer service and billing $41,307,000	Comms Postage (946343203000)	$5,712 (distribution)	March 2013	Direct	Yes
Corporate $83,868,000	Labour payroll (145065481000)	$286 (transmission $91, distribution $195)	November 2012	Indirect	Yes , 1
Other operating expenditure $200,760,000	Contractors recovery (815071524000)	$15,743 (System Management)	March 2013	Direct	Yes

Notes 1:

This transaction relates to corporate services and has been allocated to the transmission and distribution business segments within the RFS on the FTE basis. This is consistent with the CRAM.

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 30 June 2013 RFS profit and loss account to the CRAM (business segment).*

Findings:

The allocation as per the CRAM is as follows (as extracted from Appendix A, Table 6 of the CRAM):

Table A.6: Other expenditure allocation

Other Expenditure	Transmissio n	Distribution	System Management (Markets)	Unregulated
Depreciation and Amortisation	Direct & then PPE for remaining	Direct & then PPE for remaining	Direct	Direct
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. The allocation methodology applied is consistent with the CRAM. The procedures applied included:

- Review of management allocation work papers.
- Re-performed and checked the allocation calculation for those categories that were based on a ratio calculation.

Other Expenditure	CRAM allocation method applied
Depreciation and Amortisation	Yes
Bad Debts	Yes
Borrowing Costs	Yes
Book Value on Disposal of Fixed Assets	Yes
Taxation equivalent	Yes

Procedure:

5. *Agree the allocations of cash flows for operating activities, investing activities and financing activities (i.e. receipts and payments) as disclosed in the 30 June 2013 RFS cash flow statement to the CRAM (business segment).*

Findings:

Each cash flow item above 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 hence are in accordance with the CRAM.

We have re-performed and checked the allocations for all activities that have been based on ratio calculation and note no exceptions.

Procedure:

6. *Agree the allocation of assets and liabilities as disclosed in the 30 June 2013 RFS balance sheet to the CRAM (business segment).*

Findings:

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

Table D.1: Current assets allocation

Current Assets	Transmission	Distribution	System Management (Markets)	Unregulated
Cash and Cash Equivalents	PPE	PPE	n/a	n/a
Trade and Other Receivables (including derivatives)	Direct & then Network Services Revenue, Accrued Revenue or PPE for remaining	Direct & then Network Services Revenue, Accrued Revenue or PPE for remaining	Direct	Direct & then Network Services Revenue or PPE for remaining
Prepayments	Direct & then PPE, L&B or FTE for remaining	Direct & then PPE, L&B 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

Table D.2: Non-current assets allocation

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

Table D.3: Current liabilities allocation

Current Liabilities	Transmission	Distribution	System Management (Markets)	Unregulated
Trade and Other Payables (including derivatives)	Direct & then PPE or FTE for remaining	Direct & then PPE or FTE for remaining	Direct & then PPE or FTE for remaining	Direct & then PPE, FTE or operating expenditure costs
Deferred Income	Direct	Direct	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

Table D.4: Non-current liabilities allocation

Non-Current Liabilities	Transmission	Distribution	System Management (Markets)	Unregulated
Borrowings	Net assets (before borrowings)	Net assets (before borrowings)	PPE (reported)	Net assets (before borrowings)
Retirement Benefit Obligations	Direct & then FTE for remaining	Direct & then FTE for remaining	n/a	n/a
Trade and Other Payables (including taxation & derivatives)	Direct & then PPE for remaining	Direct & then PPE for remaining	Direct & then PPE for remaining	Direct & then PPE for remaining
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

We have reviewed each of the asset and liability allocations and compared the allocation to the CRAM. The allocation methodology applied is consistent with the CRAM.

Procedure:

7. *Agree the allocations of capital expenditure as disclosed in the 30 June 2013 RFS to the CRAM (business segment and regulatory category).*

Findings:

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 our business services and 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 (Markets)	Unregulated
Information Technology (strategic, business, infrastructure)	PPE	PPE	n/a	n/a

Table B.2: Business support capital expenditure allocation

Business Support Capital Expenditure	Transmission	Distribution	System Management (Markets)	Unregulated
Corporate Real Estate	PPE	PPE	n/a	n/a
East Perth Control Centre	PPE	PPE	n/a	n/a
Intellectual Property	Direct & then PPE for remaining	Direct & then PPE for remaining	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

The RFS capital expenditure categories each comprise of a number of accounts, which are further comprised of a number of sub-accounts. We have selected our 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 (Senior Business Analyst - BP&P Branch) 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 documented on the following page.

The sample selected and reviewed is shown below:

Capital expenditure category and $ (as disclosed in the RFS)	Chart of accounts description and asset segment code	$ and RFS business segment	Period of transaction	Type of allocation	Account coding agreed to CRAM
Asset replacement $74,811,000	AA2 Replacement- CANNINGTON POWER (2000)	$16,279 (transmission)	November 2012	Direct	Yes
Customer driven $226,119,000	BEL-KDL 81: RELOC PWOD 38-45 MRWA (2000)	$101,065 (transmission)	May 2013	Direct	Yes
Metering $11,318,000	Metro Domestic Meters & Connections (3000)	$104,458 (distribution)	November 2012	Direct	Yes
State Underground Power Project (SUPP) $29,690,000	Hamilton Hill E Materials - St Services (3000)	$352,833 (distribution)	February 2013	Direct	Yes
Mobile plant and vehicles $35,526,000	Fleet planning vehicle replacement (1000)	$42,480 (unregulated)	December 2012	Direct	Yes

Procedure:

8. *Select two regulatory adjustments as disclosed in the 30 June 2013 RFS and agree the supporting documentation and/or underlying methodology and calculations.*

Findings:

We have randomly selected the adjustment in respect to developer/customer contributions and the adjustment in respect of the treatment of capitalised borrowing costs. We note these adjustments are required in accordance with the guidelines for the access arrangement. The basis for these adjustments are outlined below:

(i) Developer contributions: The base accounts include developer contributions as revenue when assets are energised; however the guidelines for the access arrangement require revenue to be recognised with respect to developer contributions when received.

(ii) Borrowing costs: The base accounts include capitalised borrowing costs; however the guidelines for the access arrangement require all borrowing costs to be expensed.

As part of our procedures we have reviewed the adjustments included within the RFS for each of these areas and note they are consistent with the access arrangement guidelines.

It is noted additional adjustments have been made. As these have not been selected for testing we have understood the rationale for these adjustments and reviewed management support only. The adjustments can be seen in the RFS 12.3 – 12.6.

Procedure:

9. *Check the mathematical accuracy and perform an internal cross-reference of the balances disclosed within the 30 June 2013 RFS.*

Findings:

We have checked the mathematical accuracy by recalculation and have reviewed the internal consistency of the 30 June 2013 Regulatory Financial Statements.

Electricity Networks Corporation
Trading as Western Power
Regulatory Financial Statements (reviewed)

for the year ended 30 June 2014

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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**) *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 2014 annual report (including the audited statutory financial statements) available on Western Power's website www.westernpower.com.au.

Likely developments

Likely developments in the operations of Western Power that were not finalised at the date of this special purpose financial report include the matters set out below.

Access arrangement 3 and ongoing funding

Western Power's access arrangement for the third regulatory period (**AA3**) was approved by the ERA on 29 November 2012. The AA3:
- covers the five year period from 1 July 2012 to 30 June 2017
- includes regulated capital expenditure totalling $5.8 billion (excluding gifted assets) and regulated operating expenditure totalling $2.6 billion
- establishes service performance targets and network tariffs and charges that, in the ERA's opinion, are appropriate for the Western Australian community

The ERA's AA3 determination represents a major efficiency challenge for Western Power.

The 2012/13 State budget mid-year review confirmed funding for regulated capital expenditure of $4.7 billion in respect of the AA3 period, including $1.6 billion for safety-related programs. However, the funding did not include Western Power's request for full levels of the AA3 capital expenditure in 2016/17 and the AA3 levels of non-growth capital expenditure over the forward estimates period. The State Government deferred consideration of the additional capital investment related to AA3 until a future time, subject to the submission of suitable business cases.

Since the commencement of the AA3 period, Western Power has identified $1.6 billion of reductions in planned asset investment through the development and implementation of key strategic initiatives.

As part of the 2014/15 State budget process, Western Power requested $1.1 billion of capital expenditure over the period 2013/14 to 2016/17 to replace or treat ageing network assets and to meet the following obligations and commitments:
- Energy*Safety* inspector's Order 01-2009 in relation to management of Western Power's wood pole network
- State Government's commitments in its response to Parliament on the recommendations set out in the Standing Committee on Public Administration's report no. 14 ('*Unassisted Failure*')
- Delivery of the safety and reliability commitments included in the AA3

Western Power submitted four business cases for capital expenditure to the Minister for Energy for consideration. Conscious of the affordability of electricity for the Western Australian community, Western Power constrained the capital expenditure amount requested in these four business cases to the total capital expenditure allowed for in AA3. As a result there is no increase on network tariffs arising from the approval of these four business cases.

Of the $1.1 billion proposed by Western Power, the State Government endorsed $113 million, deferring consideration of the remainder of the proposed capital expenditure until the 2015/16 State budget process.

In 2013/14, Western Power invested significantly in key safety programs. The primary focus of activity in the safety capital expenditure categories was to target network risk to reduce the risk of harm to people, property and the environment. So as to not exceed Western Power's approved 2013/14 asset investment program (**AIP**) expenditure allocation allowed for in the State budget, Western Power was required to reprioritise capital expenditure from non-safety funding categories including from growth related expenditure. This reprioritisation did not have an impact on State net debt.

The 2014/15 State budget also included a five per cent reduction in the cost of delivering asset investment programs across the forward estimates period for the whole of government. As a result, Western Power will be required to reduce its network-related asset investment expenditure by $186.9 million across the forward estimates, with a $43.1 million reduction to be delivered in 2014/15.

Without additional funding there is an increased prospect that the safety and reliability outcomes outlined in AA3 may not be met. The business case process will continue to be the process for Western Power to seek State Government approval for increased funding as contemplated in the State budget process until the end of the AA3 period.

Asset management and public safety

Western Power has a vast electrical network with infrastructure that crosses both public and private property, above and below ground. Whilst an inherent risk exists in any electrical network, Western Power applies a prudent and diligent approach to managing the public safety risk associated with its assets.

With approximately 25% of Western Power's wood poles located in 'extreme' or 'high' bushfire risk areas, the potential for electricity network assets to ignite bushfires is one of the most significant public safety risks for the Western Power network. The potential for electric shock is also inherent in distribution network assets such as overhead customer service connections.

Directors' overview (continued)

Likely developments (continued)

Asset management and public safety (continued)

Western Power's challenge is to maintain and replace these distribution assets in an orderly and appropriate manner to continue safe and reliable operations. In September 2013 Western Power published its inaugural state of the infrastructure report, which provides further details of the challenge facing Western Power in its management of the risks inherent in the network assets.

During AA3, a primary focus will be on investing in activities that minimise the risk of harm to the public and reduce the potential for bushfires to be initiated by Western Power's network assets. Details of Western Power's proposed investment program to reduce the public safety risk can be found in Western Power's AA3 submission to the ERA.

Western Power is reliant on funding from its shareholder to meet these and any additional regulatory requirements.

Impact on revenue due to changing customer consumption

Western Power's network revenue is currently exposed to volume risk (the amount of electricity transported through the network) while maximum demand is the key driver of investment. Western Power charges electricity retailers a network tariff per unit of consumption to recover the total revenue approved by the ERA for the AA3 period.

There is a risk that Western Power will not recover the total revenue in any given year due to falling electricity consumption. This risk is contemplated in the regulatory framework and a correction to the network tariff is made in the following year.

Future volumes are likely to be affected by changing consumption patterns as a consequence of:
- consumers responding to increases in electricity prices
- a range of new technology including energy efficiency and photovoltaic systems

resulting in declining revenues.

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 2014 statutory financial statements.

Regulatory allocations

In compliance with the ERA's Guidelines, these financial statements present Western Power's audited 2014 statutory financial statements (base accounts) disaggregated into the following business segments:
- Covered Transmission (regulated transmission services)
- Covered Distribution (regulated distribution services)
- System Management (regulated system operation services)
- Unregulated (contestable services)

The disaggregation is in accordance with the ERA's Guidelines and Western Power's approved 2014 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

Regulatory adjustments

In compliance with the ERA's Guidelines, these financial statements include regulatory adjustments that primarily reflect differences in accounting policies between the 2014 statutory financial statements (base accounts) and the 2014 regulatory financial statements, i.e.:
- ***Developer and customer 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.
- ***Capitalised 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 <u>all</u> regulatory adjustments applied in these financial statements refer to the 'regulatory adjustments' section within this report.

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 2014

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management $'000	Unregulated $'000
Network services (revenue cap)	1,347,433	363,667	968,278	15,488	-
Network services (non-revenue cap)	14,566	4,595	9,971	-	-
Network services (other)	87,905	166	6,433	-	81,306
Contributions (excluding gifted assets)	132,313	23,404	108,909	-	-
Gifted assets	59,138	-	59,138	-	-
Proceeds from disposal of assets *	4,360	791	285	-	3,284
Other revenue	7,515	4,656	708	4	2,147
Total revenue	**1,653,230**	**397,279**	**1,153,722**	**15,492**	**86,737**
Operating expenditure costs	(767,202)	(113,385)	(573,012)	(10,993)	(69,812)
Operations	(116,330)	(23,235)	(35,482)	-	(57,613)
Maintenance	(247,457)	(41,095)	(206,362)	-	-
Customer service and billing	(38,067)	-	(36,815)	-	(1,252)
Corporate	(111,490)	(36,556)	(71,967)	-	(2,967)
Other operating expenditure	(253,858)	(12,499)	(222,386)	(10,993)	(7,980)
Depreciation and amortisation	(259,767)	(92,989)	(163,882)	(2,896)	-
Bad debts	(1,083)	(278)	(744)	-	(61)
Borrowing costs	(322,592)	(104,854)	(212,680)	(724)	(4,334)
Book value on disposal of assets	(11,799)	(6,026)	(2,116)	-	(3,657)
Total expenses	**(1,362,443)**	**(317,532)**	**(952,434)**	**(14,613)**	**(77,864)**
Earnings before taxation equivalent	**290,787**	**79,747**	**201,288**	**879**	**8,873**
Taxation equivalent	**(87,841)**	**(24,090)**	**(60,805)**	**(266)**	**(2,680)**
Profit after taxation equivalent	**202,946**	**55,657**	**140,483**	**613**	**6,193**

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

* Total revenue and total expenses in the regulatory financial statements each differ by $4.360 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 loss of $7.439 million.

2. Profit and loss account (regulatory financial statement) for the year ended 30 June 2014

Covered Transmission

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Network services (revenue cap)	363,667	-	363,667	
Network services (non-revenue cap)	4,595	-	4,595	
Network services (other)	166	-	166	
Contributions (excluding gifted assets)	23,404	(21,653)	1,751	11, 12.1
Proceeds from disposal of assets	791	-	791	
Other revenue	4,656	-	4,656	
Total revenue	**397,279**	**(21,653)**	**375,626**	
Operating expenditure costs	(113,385)	(3,635)	(117,020)	9, 10, 12.3
Operations	(23,235)	-	(23,235)	
Maintenance	(41,095)	-	(41,095)	
Corporate	(36,556)	(3,635)	(40,191)	
Other operating expenditure	(12,499)	-	(12,499)	
Depreciation and amortisation	(92,989)	3,635	(89,354)	12.3
Bad debts	(278)	-	(278)	
Borrowing costs	(104,854)	(11,724)	(116,578)	12.2
Book value on disposal of assets	(6,026)	-	(6,026)	
Total expenses	**(317,532)**	**(11,724)**	**(329,256)**	
Earnings before taxation equivalent	**79,747**	**(33,377)**	**46,370**	
Taxation equivalent	**(24,090)**	**10,013**	**(14,077)**	12.4
Profit after taxation equivalent	**55,657**	**(23,364)**	**32,293**	

Covered Distribution

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Network services (revenue cap)	968,278	-	968,278	
Network services (non-revenue cap)	9,971	-	9,971	
Network services (other)	6,433	-	6,433	
Contributions (excluding gifted assets)	108,909	(6,340)	102,569	11, 12.1
Gifted assets	59,138	-	59,138	
Proceeds from disposal of assets	285	-	285	
Other revenue	708	-	708	
Total revenue	**1,153,722**	**(6,340)**	**1,147,382**	
Operating expenditure costs	(573,012)	(7,393)	(580,405)	9, 10, 12.3
Operations	(35,482)	-	(35,482)	
Maintenance	(206,362)	-	(206,362)	
Customer service and billing	(36,815)	-	(36,815)	
Corporate	(71,967)	(7,393)	(79,360)	
Other operating expenditure	(222,386)	-	(222,386)	
Depreciation and amortisation	(163,882)	7,393	(156,489)	12.3
Bad debts	(744)	-	(744)	
Borrowing costs	(212,680)	-	(212,680)	12.2
Book value on disposal of assets	(2,116)	-	(2,116)	
Total expenses	**(952,434)**	**-**	**(952,434)**	
Earnings before taxation equivalent	**201,288**	**(6,340)**	**194,948**	
Taxation equivalent	**(60,805)**	**1,902**	**(58,903)**	12.4
Profit after taxation equivalent	**140,483**	**(4,438)**	**136,045**	

2. Profit and loss account (regulatory financial statement) for the year ended 30 June 2014

System Management *

	Description	Total System Management $'000	System Management $'000	System Management (Non Trading) $'000
**	Network services (revenue cap)	15,488	12,540	2,948
	Other revenue	4	4	-
	Total revenue	**15,492**	**12,544**	**2,948**
	Operating expenditure costs	(10,993)	(8,045)	(2,948)
	Other operating expenditure	(10,993)	(8,045)	(2,948)
	Depreciation and amortisation	(2,896)	(2,896)	-
	Borrowing costs	(724)	(724)	-
	Total expenses	**(14,613)**	**(11,665)**	**(2,948)**
	Earnings before taxation equivalent	**879**	**879**	**-**
	Taxation equivalent	**(266)**	**(266)**	**-**
	Profit after taxation equivalent	**613**	**613**	**-**

* System Management has the following market participant registrations under the Wholesale Electricity Market (**WEM**) rules:
1) System Management
2) System Management Non Trading (Simcoa)

** Network services in relation to the System Management business segment refers to provision of system operation services under Part 9 of the *Electricity Industry Act 2004 (WA)* , which established the WEM.

3. Cash flow statement (disaggregated) for the year ended 30 June 2014

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management $'000	Unregulated $'000
Operating activities					
Receipts	1,694,387	429,866	1,167,833	15,518	81,170
Payments	(933,015)	(158,280)	(693,790)	(12,172)	(68,773)
Net operating cash flow	**761,372**	**271,586**	**474,043**	**3,346**	**12,397**
Investing activities					
Receipts	4,360	791	285	-	3,284
Payments	(1,014,457)	(317,777)	(673,023)	(325)	(23,332)
Net investing cash flow	**(1,010,097)**	**(316,986)**	**(672,738)**	**(325)**	**(20,048)**
Financing activities					
Receipts	9,480,581	3,036,684	6,292,798	15,724	135,375
Payments	(9,229,016)	(2,974,877)	(6,108,181)	(15,384)	(130,574)
Net financing cash flow	**251,565**	**61,807**	**184,617**	**340**	**4,801**
Net increase/(decrease) in cash	**2,840**	**16,407**	**(14,078)**	**3,361**	**(2,850)**
Cash at beginning of reporting year	22,631				
Net increase in cash	2,840				
Cash at end of reporting year *	**25,471**	**8,395**	**17,076**		

* Cash 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 2014

Covered Transmission

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Operating activities				
Receipts	429,866	-	429,866	
Payments	(158,280)	-	(158,280)	
Net operating cash flow	**271,586**	**-**	**271,586**	
Investing activities				
Receipts	791	-	791	
Payments	(317,777)	-	(317,777)	
Net investing cash flow	**(316,986)**	**-**	**(316,986)**	
Financing activities				
Receipts	3,036,684	-	3,036,684	
Payments	(2,974,877)	-	(2,974,877)	
Net financing cash flow	**61,807**	**-**	**61,807**	
Net increase in cash	**16,407**	**-**	**16,407**	

Covered Distribution

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Operating activities				
Receipts	1,167,833	-	1,167,833	
Payments	(693,790)	-	(693,790)	
Net operating cash flow	**474,043**	**-**	**474,043**	
Investing activities				
Receipts	285	-	285	
Payments	(673,023)	-	(673,023)	
Net investing cash flow	**(672,738)**	**-**	**(672,738)**	
Financing activities				
Receipts	6,292,798	-	6,292,798	
Payments	(6,108,181)	-	(6,108,181)	
Net financing cash flow	**184,617**	**-**	**184,617**	
Net decrease in cash	**(14,078)**	**-**	**(14,078)**	

5. Balance sheet (disaggregated) as at 30 June 2014

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management $'000	Unregulated $'000
Current assets					
Cash and cash equivalents	25,471	8,395	17,076	-	-
Trade and other receivables	24,569	6,184	14,331	2,477	1,577
Prepayments	34,472	16,637	17,602	162	71
Accrued revenue	174,170	40,167	134,003	-	-
Inventories	133,692	35,561	73,798	-	24,333
Total current assets	**392,374**	**106,944**	**256,810**	**2,639**	**25,981**
Non-current assets					
Property, plant and equipment, & intangibles	8,689,213	2,826,929	5,734,009	11,422	116,853
Trade and other receivables	526	143	383	-	-
Total non-current assets	**8,689,739**	**2,827,072**	**5,734,392**	**11,422**	**116,853**
Total assets	**9,082,113**	**2,934,016**	**5,991,202**	**14,061**	**142,834**
Current liabilities					
Borrowings	(13,148)	(4,239)	(8,719)	-	(190)
Trade and other payables, & derivatives	(255,620)	(96,513)	(144,043)	(470)	(14,594)
Deferred income	(85,047)	(13,007)	(67,830)	-	(4,210)
Provisions	(79,376)	(29,913)	(48,450)	(524)	(489)
Total current liabilities	**(433,191)**	**(143,672)**	**(269,042)**	**(994)**	**(19,483)**
Non-current liabilities					
Borrowings	(6,820,166)	(2,195,279)	(4,515,296)	(11,422)	(98,169)
Trade and other payables, taxation & derivatives	(377,792)	(120,709)	(251,998)	(453)	(4,632)
Deferred income	(3,567)	(3,567)	-	-	-
Provisions	(31,057)	(14,466)	(16,291)	(155)	(145)
Total non-current liabilities	**(7,232,582)**	**(2,334,021)**	**(4,783,585)**	**(12,030)**	**(102,946)**
Total liabilities	**(7,665,773)**	**(2,477,693)**	**(5,052,627)**	**(13,024)**	**(122,429)**
Net assets	**1,416,340**	**456,323**	**938,575**	**1,037**	**20,405**

Equity	
Share capital	896,101
*Accumulated profits/reserves **	520,239
Total equity	**1,416,340**
* Accumulated profits/reserves	
At start of reporting period	476,550
Profit after taxation equivalent	202,946
Other comprehensive income	(34,862)
Distributions paid/provided in year	(124,395)
At end of reporting period	**520,239**

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

6. Balance sheet (regulatory financial statement) as at 30 June 2014

Covered Transmission

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Current assets				
Cash and cash equivalents	8,395	-	8,395	
Trade and other receivables	6,184	(2,308)	3,876	12.1
Prepayments	16,637	-	16,637	
Accrued revenue	40,167	-	40,167	
Inventories	35,561	-	35,561	
Total current assets	**106,944**	**(2,308)**	**104,636**	
Non-current assets				
Property, plant and equipment, & intangibles	2,826,929	(78,684)	2,748,245	12.2
Trade and other receivables	143	-	143	
Total non-current assets	**2,827,072**	**(78,684)**	**2,748,388**	
Total assets	**2,934,016**	**(80,992)**	**2,853,024**	
Current liabilities				
Borrowings	(4,239)	-	(4,239)	
Trade and other payables, & derivatives	(96,513)	6,344	(90,169)	12.1, 12.4
Deferred income	(13,007)	12,034	(973)	12.1
Provisions	(29,913)	-	(29,913)	
Total current liabilities	**(143,672)**	**18,378**	**(125,294)**	
Non-current liabilities				
Borrowings	(2,195,279)	-	(2,195,279)	
Trade and other payables, taxation & derivatives	(120,709)	-	(120,709)	
Deferred income	(3,567)	3,567	-	12.1
Provisions	(14,466)	-	(14,466)	
Total non-current liabilities	**(2,334,021)**	**3,567**	**(2,330,454)**	
Total liabilities	**(2,477,693)**	**21,945**	**(2,455,748)**	
Net assets	**456,323**	**(59,047)**	**397,276**	

6. Balance sheet (regulatory financial statement) as at 30 June 2014

Covered Distribution

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Current assets				
Cash and cash equivalents	17,076	-	17,076	
Trade and other receivables	14,331	(1,964)	12,367	12.1
Prepayments	17,602	-	17,602	
Accrued revenue	134,003	-	134,003	
Inventories	73,798	-	73,798	
Total current assets	**256,810**	**(1,964)**	**254,846**	
Non-current assets				
Property, plant and equipment, & intangibles	5,734,009	-	5,734,009	12.2
Trade and other receivables	383	-	383	
Total non-current assets	**5,734,392**	**-**	**5,734,392**	
Total assets	**5,991,202**	**(1,964)**	**5,989,238**	
Current liabilities				
Borrowings	(8,719)	-	(8,719)	
Trade and other payables, & derivatives	(144,043)	1,902	(142,141)	12.1, 12.4
Deferred income	(67,830)	67,830	-	12.1
Provisions	(48,450)	-	(48,450)	
Total current liabilities	**(269,042)**	**69,732**	**(199,310)**	
Non-current liabilities				
Borrowings	(4,515,296)	-	(4,515,296)	
Trade and other payables, taxation & derivatives	(251,998)	-	(251,998)	
Provisions	(16,291)	-	(16,291)	
Total non-current liabilities	**(4,783,585)**	**-**	**(4,783,585)**	
Total liabilities	**(5,052,627)**	**69,732**	**(4,982,895)**	
Net assets	**938,575**	**67,768**	**1,006,343**	

7. Capital expenditure (disaggregated) for the year ended 30 June 2014

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management $'000	Unregulated $'000
Capital additions					
Capacity expansion	245,537	206,206	39,331	-	-
Customer driven	219,152	40,311	178,841	-	-
Gifted assets	59,138	-	59,138	-	-
Asset replacement	87,804	42,594	45,210	-	-
State Underground Power Project (SUPP)	18,964	-	18,964	-	-
Metering	11,518	-	11,518	-	-
Smart grid	549	-	549	-	-
Wood pole management	282,461	-	282,461	-	-
Reliability driven	364	269	95	-	-
Supervisory Control and Data Acquisition (SCADA) & communications	13,015	10,502	2,513	-	-
Regulatory compliance	164,171	18,788	145,383	-	-
Information technology	19,440	6,407	13,033	-	-
Business support	4,321	1,804	2,517	-	-
Capitalised interest	11,724	11,724	-	-	-
Market reform	532	-	-	532	-
Mobile plant and vehicles	37,815	-	-	-	37,815
Total capital additions	**1,176,505**	**338,605**	**799,553**	**532**	**37,815**

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 2014

Covered Transmission

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Growth				
Capacity expansion	206,206	-	206,206	
Customer driven	40,311	-	40,311	
	246,517	-	246,517	
Asset replacement and renewal				
Asset replacement	42,594	-	42,594	
Improvement in service				
Reliability driven	269	-	269	
SCADA and communications	10,502	-	10,502	
	10,771	-	10,771	
Compliance				
Regulatory compliance	18,788	-	18,788	
Corporate				
Information technology	6,407	-	6,407	
Business support	1,804	-	1,804	
	8,211	-	8,211	
Other				
Capitalised interest	11,724	(11,724)	-	12.2
Total capital additions	**338,605**	**(11,724)**	**326,881**	

Covered Distribution

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Growth				
Capacity expansion	39,331	-	39,331	
Customer driven	178,841	-	178,841	
Gifted assets	59,138	-	59,138	
	277,310	-	277,310	
Asset replacement and renewal				
Asset replacement	45,210	-	45,210	
SUPP	18,964	-	18,964	
Metering	11,518	-	11,518	
Smart grid	549	-	549	
Wood pole management	282,461	-	282,461	
	358,702	-	358,702	
Improvement in service				
Reliability driven	95	-	95	
SCADA and communications	2,513	-	2,513	
	2,608	-	2,608	
Compliance				
Regulatory compliance	145,383	-	145,383	
Corporate				
Information technology	13,033	-	13,033	
Business support	2,517	-	2,517	
	15,550	-	15,550	
Total capital additions	**799,553**	**-**	**799,553**	

System Management

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Corporate				
Market reform	532	-	532	
Total capital additions	**532**	**-**	**532**	

9. Operating expenditure (disaggregated) for the year ended 30 June 2014

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management $'000	Unregulated $'000
Directly attributed costs					
Operations	(93,318)	(15,191)	(20,514)	-	(57,613)
Maintenance	(247,457)	(41,095)	(206,362)	-	-
Customer service and billing	(38,067)	-	(36,815)	-	(1,252)
Corporate	(2,402)	-	(210)	-	(2,192)
Other operating expenditure	(44,858)	(12,499)	(13,386)	(10,993)	(7,980)
Total directly attributed costs	**(426,102)**	**(68,785)**	**(277,287)**	**(10,993)**	**(69,037)**
Causally allocated costs					
Operations	(23,012)	(8,044)	(14,968)	-	-
Maintenance	-	-	-	-	-
Customer service and billing	-	-	-	-	-
Corporate	(109,088)	(36,556)	(71,757)	-	(775)
Other operating expenditure	(209,000)	-	(209,000)	-	-
Total causally allocated costs	**(341,100)**	**(44,600)**	**(295,725)**	**-**	**(775)**
Total operating expenditure costs	**(767,202)**	**(113,385)**	**(573,012)**	**(10,993)**	**(69,812)**

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 2014

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management $'000	Unregulated $'000
Superannuation for defined benefit schemes	(495)	(118)	(377)	-	-
Non-revenue cap services	(16,744)	(4,563)	(12,181)	-	-
License fees	(45)	(15)	(30)	-	-
Energy*Safety* levy	(4,111)	(1,355)	(2,756)	-	-
Network control services	(1,707)	-	(1,707)	-	-
ERA costs under *ERA (Electricity Network Access Funding Regulations) 2012*	(791)	(261)	(530)	-	-
Total operating expenditure costs to be excluded from gain sharing mechanism	**(23,893)**	**(6,312)**	**(17,581)**	**-**	**-**

10. Operating expenditure (regulatory financial statement) for the year ended 30 June 2014

Covered Transmission

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Operations				
SCADA and communications	(10,628)	-	(10,628)	
Non-revenue cap services	(4,563)	-	(4,563)	
Network operations	(8,044)	-	(8,044)	
	(23,235)	-	(23,235)	
Maintenance				
Preventative condition	(9,250)	-	(9,250)	
Preventative routine	(20,909)	-	(20,909)	
Corrective deferred	(8,842)	-	(8,842)	
Corrective emergency	(2,094)	-	(2,094)	
	(41,095)	-	(41,095)	
Corporate				
Business support	(36,556)	(3,635)	(40,191)	12.3
Other operating expenditure				
Non-recurring expenditure	(12,499)	-	(12,499)	
Total operating expenditure costs	**(113,385)**	**(3,635)**	**(117,020)**	

Covered Distribution

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Operations				
Reliability operations	(1,433)	-	(1,433)	
SCADA and communications	(4,702)	-	(4,702)	
Non-revenue cap services	(12,181)	-	(12,181)	
Network operations	(14,969)	-	(14,969)	
Smart grid	(2,197)	-	(2,197)	
	(35,482)	-	(35,482)	
Maintenance				
Preventative condition	(47,425)	-	(47,425)	
Preventative routine	(48,296)	-	(48,296)	
Corrective deferred	(26,352)	-	(26,352)	
Corrective emergency	(84,289)	-	(84,289)	
	(206,362)	-	(206,362)	
Customer service and billing				
Call centre	(5,344)	-	(5,344)	
Metering	(23,926)	-	(23,926)	
Guaranteed service level payments	(1,212)	-	(1,212)	
Distribution quotations	(6,333)	-	(6,333)	
	(36,815)	-	(36,815)	
Corporate				
Business support	(71,967)	(7,393)	(79,360)	12.3
Other operating expenditure				
Non-recurring expenditure	(13,386)	-	(13,386)	
Tariff equalisation contribution	(209,000)	-	(209,000)	
	(222,386)	-	(222,386)	
Total operating expenditure costs	**(573,012)**	**(7,393)**	**(580,405)**	

11. Contributions for the year ended 30 June 2014

Covered Transmission

Reason for contributions	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Capacity expansion	(30)	-	(30)	
Customer driven	23,246	(21,653)	1,593	
Regulatory compliance	188	-	188	
Total contributions	**23,404**	**(21,653)**	**1,751**	**12.1**

Covered Distribution

Reason for contributions (including gifted assets)	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Capacity expansion	9	-	9	
Customer driven	90,796	(1,384)	89,412	
Gifted assets	59,138	-	59,138	
Asset replacement	72	-	72	
SUPP	14,995	(4,956)	10,039	
Metering	3,037	-	3,037	
Total contributions (including gifted assets)	**168,047**	**(6,340)**	**161,707**	**12.1**

12. Regulatory adjustments for the year ended 30 June 2014

	Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management $'000	Unregulated $'000
	Accounting policy adjustments					
12.1	Capital contributions (including gifted assets) recognised	**191,451**	**23,404**	**168,047**	**-**	**-**
	Capital contributions cash adjustment					
	Net balance sheet movement in reporting year					
	Opening deferred capital contributions	(103,483)	(31,277)	(72,206)	-	-
	Closing deferred capital contributions	83,431	15,601	67,830	-	-
		(20,052)	(15,676)	(4,376)	-	-
	Capital contributions invoiced but not yet received	(4,272)	(2,308)	(1,964)	-	-
	Capital contributions accrued but not yet refunded	(3,669)	(3,669)	-	-	-
	Total capital contributions cash adjustment	**(27,993)**	**(21,653)**	**(6,340)**	**-**	**-**
	Capital contributions (including gifted assets) received	**163,458**	**1,751**	**161,707**	**-**	**-**

To align Western Power's statutory accounting policy with regulatory accounting policy, i.e. developer and customer 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 $'000	Unregulated $'000
12.2	**Expensed 'capitalised borrowing costs' b/fwd**	(66,960)	(66,960)	-	-	-
	Net movement in reporting year	(11,724)	(11,724)	-	-	-
	Expensed 'capitalised borrowing costs' c/fwd	**(78,684)**	**(78,684)**	**-**	**-**	**-**

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).

Accounting disclosure adjustments

12.3 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'.

12.4 The taxation equivalent is calculated on regulatory adjustments at a rate of 30% and is adjusted against current 'trade creditors and accruals, & derivatives' 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 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 108 *Accounting policies, changes in accounting estimates and errors*
- AASB 7 *Financial instruments: disclosures*

Western Power has been classified to be a not-for-profit entity and accordingly applies the not-for-profit elections available in the Australian accounting standards where applicable.

New and amended accounting standards adopted

Western Power has applied the following standards and amendments for the first time for the annual reporting year commencing 1 July 2013:

- AASB 13 *Fair value measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards (* ***AAS*** *) arising from AASB 13*
- AASB 119 *Employee benefits* (September 2011) and AASB 2011-10 *Amendments to AAS arising from AASB 119* (September 2011)

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

- Any interest (or like allowance) incurred during construction is expensed (and not capitalised as permitted by AASB 123 *Borrowing costs*)
- Any contributions for capital projects are recognised as revenue when received (and not deferred in the balance sheet until the project is completed as required by AASB Interpretation 18 *Transfer of assets from customers*)

(b) Accrual accounting and historical cost convention

These financial statements are prepared on the accrual accounting basis and in accordance with the historical cost convention, except for the following:

- capital contributions are recognised when received or refunded
- derivative financial instruments are measured at fair value
- certain provisions and employee benefit liabilities are 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 revenue, 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 year in which the estimate is revised and any future 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 referenced in the following notes:

- Estimation of unbilled network tariff revenue: note 13(g)
- Estimation of fair values of derivative financial instruments: note 13(m)
- Estimation of retirement benefit obligations: note 13(u)

(d) Rounding

All financial information presented in Australian dollars has been rounded 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.

13. Summary of significant accounting policies (continued)

(f) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Transactions in currency other than the functional currency of Western Power are translated into the functional currency 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. All foreign currency translation differences are recognised on a net basis in profit or loss, except when deferred in equity for translation differences of qualifying cash flow hedges, to the extent the hedge is effective.

(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, net of the amount of goods and services tax. The following specific criteria must also be met before revenues are recognised:

Network charges

Western Power receives network services revenue from the transmission and distribution of electricity, and provision of related services including system operations. 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 2014: $174.170 million). Unbilled network tariff revenue is an estimate of electricity transported to customers that has not been billed 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 expected 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

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.

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

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

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 expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted 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.

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) 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 2014, Western Power does 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 and loss on a straight-line basis over the term of the lease.

13. Summary of significant accounting policies (continued)

(j) Cash and cash equivalents

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

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost less provision for impairment. They are usually settled on 14 or 30 day payment terms, unless contractually agreed otherwise. Receivables are classified as current assets unless collection is not expected for more than 12 months after the reporting date.

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, 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 and 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 and loss.

(l) Inventories

Inventories are stated 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.

(m) Derivative and hedging activities

Derivative financial instruments

Derivative financial instruments are used to hedge exposures to movements in interest rates, foreign exchange rates and commodity prices. 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.

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. Changes in the fair value of derivative financial instruments are included in profit and loss to the extent that hedge accounting is not applied.

Financial instruments are derecognised when Western Power no longer controls the contractual rights that comprise the financial instrument.

Hedge accounting

Western Power designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges). The fair value of hedging derivatives is classified as current unless the remaining maturity of the hedging relationship is not expected for more than 12 months after the reporting date.

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.

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 and loss immediately. When the cash flows occur, the amount that has been deferred to equity is transferred to either the carrying value of the asset, in the case of non-financial assets, or reclassified to profit or loss as appropriate in the same period as the hedged item affects the profit or loss.

When a hedging instrument expires or is sold or 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)

(n) Property, plant and equipment

Cost

Property, plant and equipment 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 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 when received.

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 and loss during the reporting year in which they are incurred.

Depreciation

Depreciation is calculated using the straight-line method over the estimated useful economic lives presented below, making allowances where appropriate for residual values.

Depreciation periods for categories of property, plant and equipment	Years
Substations, transformers, poles and cables	45 - 50
Buildings	40
Meters, streetlights	20 - 25
Pole reinforcements, smart meters	15
Furniture and fittings, refurbishments, other plant & 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 their residual useful economic lives. No depreciation is provided on freehold land, easements and assets in the course of construction.

The residual value, 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.

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.

(o) Intangibles

Cost

Intangibles represent identifiable capitalised software costs and intellectual property, and are recognised at historical cost less accumulated amortisation in accordance with AASB 138 *Intangible assets* . Intangibles are not equal to the RAB. Subsequent costs are included in intangibles 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 intangibles 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

Amortisation is calculated using the straight-line method over the estimated useful economic lives listed below, making allowances where appropriate for residual values.

Amortisation periods for categories of intangibles	Years
Intellectual property	3 - 25
Software (major developments/enhancements)	5 - 10
Software (minor purchases/enhancements)	2.5

The residual value, useful lives and amortisation methods of intangibles are reviewed annually, and adjusted as appropriate at the end of each reporting year, with any changes recognised as a change in accounting estimate.

Derecognition

An intangible 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 and loss.

13. Summary of significant accounting policies (continued)

(p) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost. They are usually settled within 30 days of recognition. Trade and other payables are classified as current liabilities unless payment is not due for at least 12 months after the reporting date.

(q) Borrowings

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

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 a pre-determined interest rate. 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 lending 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 life of the loan.

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.

(r) Borrowing costs

Borrowing costs are expensed when incurred.

(s) Provisions

Provisions are recognised when Western Power has 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 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 increase 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; the land is contaminated; it is probable a rehabilitation expense will be incurred; and the costs can be reliably estimated.

The amount of the provision for future rehabilitation costs is capitalised into the cost of the related plant, property and equipment, and depreciated over the expected useful life.

(t) Employee benefits

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 other payables. The liability for all other short-term employee benefits is recognised in the provision for employee benefits.

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 the provision for employee benefits and measured as 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.

The 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.

13. Summary of significant accounting policies (continued)

(t) Employee benefits (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 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 end of the reporting period are discounted to present value.

(u) 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 as they become payable.

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 the 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. Independent actuarial valuations are carried out at each reporting date.

The annual net defined benefit interest expense/income is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability/asset. It is recognised immediately along with all other defined benefit plan expenses including past services costs, in employee related expenses 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 period in which they occur, directly in other comprehensive income. They are included in retained earnings 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.

(v) 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.

(w) Goods & services taxation (GST)

Revenue, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it 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 financial 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 (**the 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.

A Mulgrew
Board Chair

J Cahill
Board Deputy Chair

2 September 2014

Office of the Auditor General
Serving the Public Interest

7th Floor, Albert Facey House
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Our Ref: 5563-04

Chairman of Directors
Electricity Networks Corporation
363 Wellington Street
PERTH WA 6000

Dear Sir

AGREED UPON PROCEDURES ENGAGEMENT ON WESTERN POWER'S REGULATORY FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

Attached is the Report on agreed upon procedures for the regulatory financial statements for the year ending 30 June 2014, 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 me on 6557 7501 if you would like to discuss these matters further.

Yours faithfully

COLIN MURPHY
AUDITOR GENERAL
3 September 2014

Attach

Appendix A

Scope of agreed upon procedures and findings

Regulatory Financial Statements (RFS)

Procedure:

1. Obtain the 30 June 2014 RFS and agree the base account numbers to Western Power's 30 June 2014 financial statements for:

a. Total revenue, total expenses, profit/(loss) after taxation equivalent

b. Net operating cash flow, net investing cash flow, net financing cash flow, net increase/(decrease) in cash

c. Total assets, total liabilities, net assets, equity.

Findings:

We have agreed the base numbers within the RFS for 30 June 2014 to Western Power's 30 June 2014 financial statements as follows:

Category	Agreed without exception	Notes
Total Revenue	No	1
Total Expenses	No	1
Profit/(Loss) after taxation equivalent	Yes	
Net operating cash flow	Yes	
Net investing cash flow	Yes	
Net financing cash flow	Yes	
Net increase/(decrease) in cash held	Yes	
Total Assets	Yes	
Total Liabilities	Yes	
Net Assets	Yes	
Equity	Yes	

Note 1:

Total revenue and total expenses does not agree to the 30 June 2014 Financial Statements. Explanation of this variance is noted in the 30 June 2014 RFS on page 1. A difference of $4 360 000 arises for each category. This is due to gross amounts being disclosed for proceeds & write-down on the disposal of assets within the RFS, whilst this balance is disclosed on a net basis within the 30 June 2014 financial statements.

Appendix A

Procedure:

2. Agree the allocations of revenue (e.g. network services – revenue cap; non-revenue cap; unregulated), contributions (excluding gifted assets), gifted assets, proceeds from disposal of assets and other revenue) as disclosed in the 30 June 2014 RFS profit and loss account to the Cost & Revenue Allocation Method (CRAM) (business segment).

Findings:

The CRAM provides for the following allocation with respect to revenue:

'All revenue items are recorded in our financial system via our account code structure.'

Our account code structure comprises 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 our cost centre. The characters are numeric and are used to identify our business services, e.g. 1@@@ denotes external work, 2@@@ denotes operating work and 3@@@ denotes capital work.'

'Asset segment: comprises the third group of four characters of our cost centre. The characters are numeric and are used to identify our business segments, i.e. 1@@@ denotes corporate-related, 2@@@ denotes transmission, 3@@@ denotes distribution and 4@@@ denotes Network Planning and Operations (including System Management).'

Appendix C of the CRAM also stipulates the methodology for revenue allocation.

The RFS revenue categories (e.g. Network services, contributions, other revenue) each comprise a number of general ledger accounts, which are further comprised of a number of sub-ledgers. We have 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 (Senior Financial Analyst – BP&R function) 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 on the following page.

Appendix A

The sample selected and reviewed is shown below:

Revenue category and $ (as disclosed in the RFS)	Chart of accounts description and account code	$ and RFS business segment	Period of transaction	Type of allocation	Account coding agreed to CRAM
Network services (revenue cap) $1 347 433 000	Other Rev Electricity Non Energy (815041004000)	$1 097 873 (system management)	February 2014	Direct	Yes
Network service (non-revenue cap) $14 566 000	Other Rev Electricity Non Energy (533012772000)	$34 232 (transmission)	November 2013	Direct	Yes
Network services (other and unregulated) $87 905 000	Other Rev Electricity Non Energy (634510001000)	$235 794 (unregulated)	March 2014	Direct	Yes
Contributions (excl. gifted assets) $132 313 000	Other Rev Electricity Non Energy (602530153000)	$1 115 234 (distribution)	February 2014	Direct	Yes
Gifted assets $59 138 000	Dvlpr & Capt Contributions Rev – Clients (602530563000)	$4 925 880 (distribution)	January 2014	Direct	Yes
Proceeds from disposal of assets $4 360 000	LOT 138 (NO.435) DE HAR RD, WANDI (2000)	$790 876 (transmission)	June 2014	Direct	Yes
Other revenue $7 515 000	Misc Rev Property Rental Income (100161552000)	$2 800 000 (unregulated)	June 2014	Direct	Yes

Appendix A

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 the 30 June 2014 RFS profit and loss account to the CRAM (business segment and regulatory category).

Findings:

The CRAM provides for the following allocation with respect to operating expenditure costs:

'All cost items are recorded in our financial system via our account code structure.'

Our account code structure comprises 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 our cost centre. The characters are numeric and are used to identify our business services, e.g. 1@@@ denotes external work, 2@@@ denotes operating work and 3@@@ denotes capital work.'

'Asset segment: comprises the third group of four characters of our cost centre. The characters are numeric and are used to identify our business segments, i.e. 1@@@ denotes corporate-related, 2@@@ denotes transmission, 3@@@ denotes distribution and 4@@@ denotes Network Planning and Operations (including System Management).'

Appendix C of the CRAM also stipulates the methodology for revenue allocation.

The RFS revenue categories (e.g. Network services, contributions, other revenue) each comprise a number of general ledger accounts, which are further comprised of a number of sub-ledgers. We have 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 (Senior Financial Analyst – BP&R function) 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 on the following page.

Appendix A

The sample selected and reviewed is shown below:

Expenditure category and $ (as disclosed in the RFS)	Chart of accounts description and account code	$ and RFS business segment	Period of transaction	Type of allocation	Account coding agreed to CRAM
Operations $116 330 000	Supply Chain - materials to developers (633310001000)	$333 902 (Unregulated)	October 2013	Direct	Yes
Maintenance $247 457 000	Corrective Emergency (602524153000)	$419 716 (distribution)	January 2014	Direct	Yes
Customer service and billing $38 067 000	Metering (excl. unreg) (991313003000)	$281 662 (distribution)	February 2014	Direct	Yes
Corporate $111 490 000	FTE - CEO (160060051000)	$295 072 (distribution)	November 2013	Indirect	Yes , 1
Other operating expenditure $253 858 000	System Management (815041004000)	$248 400 (System Management)	April 2014	Direct	Yes

Notes 1:

This transaction relates to the Chief Executive Officer and has been allocated to the transmission and distribution business segments within the RFS on the full time equivalent basis (FTE). This is consistent with the CRAM.

Appendix A

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 30 June 2014 RFS profit and loss account to the CRAM (business segment).

Findings:

The allocation as per the CRAM is as follows (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
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. The allocation methodology applied is consistent with the CRAM. The procedures applied included:

- Review of management allocation work papers.
- Re-performed and checked the allocation calculation for those categories that were based on a ratio calculation.

Other Expenditure	CRAM allocation method applied
Depreciation and Amortisation	Yes
Bad Debts	Yes
Borrowing Costs	Yes
Book Value on Disposal of Fixed Assets	Yes
Taxation equivalent	Yes

Table A.6: Other expenditure allocation

Appendix A

Procedure:

5. Agree the allocations of cash flows for operating activities, investing activities and financing activities (i.e. receipts and payments) as disclosed in the 30 June 2014 RFS cash flow statement to the CRAM (business segment).

Findings:

Each cash flow item above 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 hence are in accordance with the CRAM.

We have re-performed and checked the allocations for all activities that have been based on ratio calculation and note no exceptions.

Appendix A

Procedure:

6. Agree the allocation of assets and liabilities as disclosed in the 30 June 2014 RFS balance sheet to the CRAM (business segment).

Findings:

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

Table D.1: Current assets allocation

Current Assets	Transmission	Distribution	System Management	Unregulated
Cash and Cash Equivalents	PPE	PPE	n/a	n/a
Trade and Other Receivables, & Derivatives	Direct & then Network Services Revenue, Accrued Revenue or PPE for remaining	Direct & then Network Services Revenue, Accrued Revenue or PPE for remaining	Direct	Direct & then Network Services Revenue for remaining
Prepayments	Direct & then PPE, L&B or FTE for remaining	Direct & then PPE, L&B or FTE for remaining	Direct & then FTE for remaining	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

Table D.2: Non-current assets allocation

Non-Current Assets	Transmission	Distribution	System Management	Unregulated
Property, Plant and Equipment, & Intangibles	Direct & then PPE for remaining	Direct & then PPE for remaining	Direct	Direct
Trade and Other Receivables, & Derivatives	Direct & then Network Services Revenue or PPE for remaining	Direct & then Network Services Revenue or PPE for remaining	Direct	Direct
Retirement Benefit Obligations	Direct & then FTE for remaining	Direct & then FTE for remaining	n/a	n/a

Appendix A

Table D.3: Current liabilities allocation

Current Liabilities	Transmission	Distribution	System Management	Unregulated
Borrowings	Borrowings (non-current)	Borrowings (non-current)	n/a	Borrowings (non-current)
Trade and Other Payables, & Derivatives	Direct & then PPE, L&B or FTE for remaining	Direct & then PPE, L&B or FTE for remaining	Direct & then FTE for remaining	Direct & then FTE or operating expenditure costs
Deferred Income	Direct	Direct	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

Table D.4: Non-current liabilities allocation

Non-Current Liabilities	Transmission	Distribution	System Management	Unregulated
Borrowings	Net assets (before borrowings)	Net assets (before borrowings)	PPE (reported)	Net assets (before borrowings)
Retirement Benefit Obligations	Direct & then FTE for remaining	Direct & then FTE for remaining	n/a	n/a
Trade and Other Payables, Taxation & Derivatives	Direct & then PPE for remaining	Direct & then PPE for remaining	Direct & then PPE for remaining	Direct & then PPE for remaining
Deferred Income	Direct	Direct	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

We have reviewed each of the asset and liability allocations and compared the allocation to the CRAM. The allocation methodology applied is consistent with the CRAM.

Appendix A

Procedure:

7. Agree the allocations of capital expenditure as disclosed in the 30 June 2014 RFS to the CRAM (business segment and regulatory category).

Findings:

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 our business services and 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
Information Technology (strategic, business, infrastructure)	PPE	PPE	n/a	n/a

Table B.2: Business support capital expenditure allocation

Business Support Capital Expenditure	Transmission	Distribution	System Management	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

The RFS capital expenditure categories each comprise of a number of accounts, which are further comprised of a number of sub-accounts. We have selected our 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 (Senior Financial Analyst – BP&R function) 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 documented on the following page.

Appendix A

The sample selected and reviewed is shown below:

Capital expenditure category and $ (as disclosed in the RFS)	Asset segment code	$ and RFS business segment	Period of transaction	Type of allocation	Account coding agreed to CRAM
Capacity expansion $245 537 000	2000	$12 461 178 (transmission)	February 2014	Direct	Yes
Customer driven $219 152 000	3000	$4 320 349 (distribution)	October 2013	Direct	Yes
Gifted assets $59 138 000	3000	$4 383 385 (distribution)	August 2013	Direct	Yes
Asset replacement $87 804 000	2000	$1 631 272 (transmission)	November 2013	Direct	Yes
State Underground Power Project $18 964 000	3000	$500 456 (distribution)	September 2013	Direct	Yes
Metering $11 518 000	3000	$2 963 652 (distribution)	May 2014	Direct	Yes
Smart Grid $549 000	3000	$28 954 (distribution)	January 2014	Direct	Yes
Wood Pole management $282 461 000	3000	$14 689 146 (distribution)	November 2013	Direct	Yes
Reliability driven $364 000	2000	$36 205 (transmission)	November 2013	Direct	Yes
Supervisory Control and Data Acquisition & communications $13 015 000	2000	$1 638 746 (transmission)	May 2013	Direct	Yes
Regulatory compliance $164 171 000	3000	$2 962 983 (distribution)	December 2013	Direct	Yes

Appendix A

Information technology $19 440 000	1000	$56 240 (transmission)	December 2013	Indirect	Yes
Business support $4 321 000	2000	$44 919 (transmission)	May 2014	Direct	Yes
Capitalised interest $11 724 000	2000	$1 157 123 (transmission)	June 2014	Direct	Yes
Market reform $532 000	4000	$108 741 (System management)	July 2013	Direct	Yes
Mobile plant and vehicles $37 815 000	1000	$10 255 714 (unregulated)	June 2014	Direct	Yes

Appendix A

Procedure:

8. Select two regulatory adjustments as disclosed in the 30 June 2014 RFS and agree the supporting documentation and/or underlying methodology and calculations.

Findings:

We have randomly selected the adjustment in respect to developer/customer contributions and the adjustment in respect of the treatment of capitalised borrowing costs. We note these adjustments are required in accordance with the guidelines for the access arrangement. The basis for these adjustments are outlined below:

(i) Developer/customer contributions: The base accounts include developer contributions as revenue when assets are energised; however the guidelines for the access arrangement require revenue to be recognised with respect to developer contributions when received.

(ii) Borrowing costs: The base accounts include capitalised borrowing costs; however the guidelines for the access arrangement require all borrowing costs to be expensed.

As part of our procedures we have reviewed the adjustments included within the RFS for each of these areas and note they are consistent with the access arrangement guidelines.

It is noted additional adjustments have been made. As these have not been selected for testing we have understood the rationale for these adjustments and reviewed management support only. The adjustments can be seen in the RFS 12.3 – 12.6.

Appendix A

Procedure:

9. Check the mathematical accuracy and perform an internal cross-reference of the balances disclosed within the 30 June 2014 RFS.

Findings:

We have checked the mathematical accuracy by recalculation and have reviewed the internal consistency of the 30 June 2014 Regulatory Financial Statements.

Electricity Networks Corporation
Trading as Western Power
Regulatory Financial Statements (final)

for the year ended 30 June 2015

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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**) *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 2015 annual report (including the audited 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.

Electricity Market Review

On 6 March 2014, the Minister for Energy launched the Electricity Market Review (**EMR**). The review examines the structures of the electricity generation, wholesale and retail sectors within the South West Interconnected System in Western Australia and the incentives for industry participants to make efficient investments and minimise costs.

The EMR is being undertaken in two phases. Phase 2 was launched by the Minister for Energy on 24 March 2015. It aims to give effect to the State Government's preferred reform options to achieve the EMR objectives. The EMR reform options that would, if implemented, affect Western Power are:

- Network regulation
  This work stream will look at transferring regulation of the Western Power network including price, connection and access, from the Western Australian regime to be regulated under the National Electricity Law and relevant National Electricity Rules. It will also involve applying the relevant National Electricity Rules to regulate metering services within the Western Power network area.
- Institutional arrangements
  This work stream involves combining the Independent Market Operator and System Management.

Western Power is committed to implementing any enacted reforms arising from the EMR Phase 2.

Ageing network assets

The South West Interconnected Network (**SWIN**) was largely built prior to 1965. In general, older networks pose a greater risk, with the frequency and severity of defects expected to increase as the assets continue to age. It is anticipated that on average, the SWIN assets will continue to age. The State of the Infrastructure report published by Western Power details the current level of performance and highlights the risk associated with the network assets.

In response to this, Western Power is committed to managing the network:

- based on condition and risk consequence including enhanced inspection programs, targeted asset replacements and reinforcements, installing underground power and network automation
- by minimising the consequence of failing assets through vegetation management, insulating conductors and sufficient insurance cover
- in accordance with stakeholder and community concerns

Western Power will continue to manage these risks in line with available funding at the time. Should additional funding be required to address these risks Western Power will engage with the State Government through the business case process.

Public safety

Western Power is required to maintain and replace network assets in a way that acceptably delivers a safe and reliable connection to electricity at the lowest cost to customers. All overhead electrical networks in Australia including the 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 manages its network in a reasonable and appropriate manner considering the risk posed and funding available.

Report No. 14 of the Standing Committee on Public Administration

On 20 January 2012, the Standing Committee on Public Administration (**Standing Committee**) published its Report No.14 (*'Unassisted Failure'*). The report commented on Western Power's performance in several respects, including wood pole management, compliance and relationship with key regulators, parliamentary accountability and organisational culture. Western Power accepted the views of the Standing Committee, and in June 2012, via the State Government's response tabled in Parliament, provided a detailed action plan.

Western Power has taken direct action to address the findings of the Standing Committee's report. In the 2014/15 financial year, Western Power replaced 17,765 wooden power poles and reinforced an additional 53,976 (30 June 2014: 23,711 and 67,641 respectively). This sustained focus on wooden power pole management continues Western Power's commitment to the initiatives implemented in response to the Standing Committee's Report No. 14 (*'Unassisted Failure'*) and the Energy*Safety* order 01-2009. During 2015/16 it is anticipated that Energy*Safety* will assess Western Power's performance against this order.

Impact on revenue due to changing customer consumption

Customers are increasingly deploying new technologies and changing their behaviour in response to emerging technologies and increased electricity costs. These factors will impact the way Western Power manages the network and the timing of when costs are recovered under the current regulatory regime.

Overall, future volumes of electricity transported are likely to be affected by changing consumption patterns as a consequence of:

- changes in customer behaviour in response to increases in electricity prices
- increase in user installation of on-site energy production, e.g. photovoltaic systems
- early adoption of energy storage systems, e.g. batteries

Directors' overview (continued)

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 2014/15 statutory financial statements.

Regulatory allocations

In compliance with the ERA's Guidelines, these financial statements present Western Power's audited 2014/15 statutory financial statements (base accounts) disaggregated into the following business segments:

- Covered Transmission (regulated transmission services)
- Covered Distribution (regulated distribution services)
- System Management (regulated system operation services)
- Unregulated (contestable services)

The disaggregation is in accordance with the ERA's Guidelines and Western Power's approved 2014/15 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

Regulatory adjustments

In compliance with the ERA's Guidelines, these financial statements include regulatory adjustments that primarily reflect differences in accounting policies between the 2014/15 statutory financial statements (base accounts) and the 2014/15 regulatory financial statements, i.e.:

- ***Developer and customer 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.

- ***Capitalised 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 <u>all</u> regulatory adjustments applied in these financial statements refer to the 'regulatory adjustments' section within this report.

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 2015

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management $'000	Unregulated $'000
Network services (revenue cap)	1,410,812	350,264	1,043,275	17,273	-
Network services (non-revenue cap)	13,650	3,133	10,517	-	-
Network services (other)	87,077	801	6,182	-	80,094
Contributions (excluding gifted network assets)	104,433	13,195	91,238	-	-
Gifted network assets	147,877	-	147,877	-	-
Proceeds from disposal of assets*	15,414	8,251	4,789	-	2,374
Other income	3,580	1,048	185	1	2,346
Total income	**1,782,843**	**376,692**	**1,304,063**	**17,274**	**84,814**
Operating expenditure costs	(669,920)	(113,336)	(478,827)	(10,724)	(67,033)
Operations	(114,150)	(20,816)	(36,370)	-	(56,964)
Maintenance	(247,118)	(42,346)	(204,772)	-	-
Customer service and billing	(31,613)	-	(30,235)	-	(1,378)
Corporate	(89,521)	(28,081)	(58,797)	-	(2,643)
Other operating expenditure	(187,518)	(22,093)	(148,653)	(10,724)	(6,048)
Depreciation and amortisation	(283,818)	(98,901)	(181,953)	(2,964)	-
Bad debts	(742)	(176)	(526)	-	(40)
Borrowing costs	(315,524)	(96,890)	(214,016)	(536)	(4,082)
Book value on disposal of assets*	(16,757)	(7,276)	(6,402)	-	(3,079)
Total expenses	**(1,286,761)**	**(316,579)**	**(881,724)**	**(14,224)**	**(74,234)**
Earnings before taxation equivalent	**496,082**	**60,113**	**422,339**	**3,050**	**10,580**
Taxation equivalent	**(147,406)**	**(17,862)**	**(125,494)**	**(906)**	**(3,144)**
Profit after taxation equivalent	**348,676**	**42,251**	**296,845**	**2,144**	**7,436**

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 $15.414 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 loss of $1.343 million.

2. Profit and loss account (regulatory financial statement) for the year ended 30 June 2015

Covered Transmission

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Network services (revenue cap)	350,264	-	350,264	
Network services (non-revenue cap)	3,133	-	3,133	
Network services (other)	801	-	801	
Contributions (excluding gifted network assets)	13,195	(8,323)	4,872	11, 12.1
Proceeds from disposal of assets	8,251	-	8,251	
Other income	1,048	-	1,048	
Total income	**376,692**	**(8,323)**	**368,369**	
Operating expenditure costs	(113,336)	(3,676)	(117,012)	9, 10, 12.3
Operations	(20,816)	-	(20,816)	
Maintenance	(42,346)	-	(42,346)	
Corporate	(28,081)	(3,676)	(31,757)	
Other operating expenditure	(22,093)	-	(22,093)	
Depreciation and amortisation	(98,901)	3,676	(95,225)	12.3
Bad debts	(176)	-	(176)	
Borrowing costs	(96,890)	(11,895)	(108,785)	12.2
Book value on disposal of assets	(7,276)	-	(7,276)	
Total expenses	**(316,579)**	**(11,895)**	**(328,474)**	
Earnings before taxation equivalent	**60,113**	**(20,218)**	**39,895**	
Taxation equivalent	**(17,862)**	**6,065**	**(11,797)**	12.4
Profit after taxation equivalent	**42,251**	**(14,153)**	**28,098**	

Covered Distribution

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Network services (revenue cap)	1,043,275	-	1,043,275	
Network services (non-revenue cap)	10,517	-	10,517	
Network services (other)	6,182	-	6,182	
Contributions (excluding gifted network assets)	91,238	(14,023)	77,215	11, 12.1
Gifted network assets	147,877	-	147,877	
Proceeds from disposal of assets	4,789	-	4,789	
Other income	185	-	185	
Total income	**1,304,063**	**(14,023)**	**1,290,040**	
Operating expenditure costs	(478,827)	(8,140)	(486,967)	9, 10, 12.3
Operations	(36,370)	-	(36,370)	
Maintenance	(204,772)	-	(204,772)	
Customer service and billing	(30,235)	-	(30,235)	
Corporate	(58,797)	(8,140)	(66,937)	
Other operating expenditure	(148,653)	-	(148,653)	
Depreciation and amortisation	(181,953)	8,140	(173,813)	12.3
Bad debts	(526)	-	(526)	
Borrowing costs	(214,016)	-	(214,016)	12.2
Book value on disposal of assets	(6,402)	-	(6,402)	
Total expenses	**(881,724)**	**-**	**(881,724)**	
Earnings before taxation equivalent	**422,339**	**(14,023)**	**408,316**	
Taxation equivalent	**(125,494)**	**4,207**	**(121,287)**	12.4
Profit after taxation equivalent	**296,845**	**(9,816)**	**287,029**	

2. Profit and loss account (regulatory financial statement) for the year ended 30 June 2015

System Management*

	Description	Total System Management $'000	System Management $'000	System Management (non trading) $'000
**	Network services (revenue cap)	17,273	14,946	2,327
	Other income	1	1	-
	Total income	**17,274**	**14,947**	**2,327**
	Operating expenditure costs	(10,724)	(8,397)	(2,327)
	Other operating expenditure	(10,724)	(8,397)	(2,327)
	Depreciation and amortisation	(2,964)	(2,964)	-
	Borrowing costs	(536)	(536)	-
	Total expenses	**(14,224)**	**(11,897)**	**(2,327)**
	Earnings before taxation equivalent	**3,050**	**3,050**	**-**
	Taxation equivalent	**(906)**	**(906)**	**-**
	Profit after taxation equivalent	**2,144**	**2,144**	**-**

* System Management has the following market participant registrations under the Wholesale Electricity Market (**WEM**) rules:
1) System Management
2) System Management non trading (Simcoa)

** Network services in relation to the System Management business segment refers to provision of system operation services under Part 9 of the *Electricity Industry Act 2004 (WA)* , which established the WEM.

3. Cash flow statement (disaggregated) for the year ended 30 June 2015

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management $'000	Unregulated $'000
Operating activities					
Receipts	1,737,900	409,068	1,231,988	16,810	80,034
Payments	(789,019)	(159,052)	(563,453)	(10,938)	(55,576)
Net operating cash flow	**948,881**	**250,016**	**668,535**	**5,872**	**24,458**
Investing activities					
Receipts	15,414	8,251	4,789	-	2,374
Payments	(957,358)	(174,274)	(750,295)	(931)	(31,858)
Net investing cash flow	**(941,944)**	**(166,023)**	**(745,506)**	**(931)**	**(29,484)**
Financing activities					
Receipts	4,536,585	1,364,692	3,109,972	5,374	56,547
Payments	(4,542,053)	(1,374,878)	(3,105,651)	(5,474)	(56,050)
Net financing cash flow	**(5,468)**	**(10,186)**	**4,321**	**(100)**	**497**
Net increase/(decrease) in cash	**1,469**	**73,807**	**(72,650)**	**4,841**	**(4,529)**
Cash at beginning of reporting year	25,471				
Net increase in cash	1,469				
Cash at end of reporting year*	**26,940**	**8,381**	**18,559**		

* Cash 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 2015

Covered Transmission

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Operating activities				
Receipts	409,068	-	409,068	
Payments	(159,052)	-	(159,052)	
Net operating cash flow	**250,016**	**-**	**250,016**	
Investing activities				
Receipts	8,251	-	8,251	
Payments	(174,274)	-	(174,274)	
Net investing cash flow	**(166,023)**	**-**	**(166,023)**	
Financing activities				
Receipts	1,364,692	-	1,364,692	
Payments	(1,374,878)	-	(1,374,878)	
Net financing cash flow	**(10,186)**	**-**	**(10,186)**	
Net increase in cash	**73,807**	**-**	**73,807**	

Covered Distribution

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Operating activities				
Receipts	1,231,988	-	1,231,988	
Payments	(563,453)	-	(563,453)	
Net operating cash flow	**668,535**	**-**	**668,535**	
Investing activities				
Receipts	4,789	-	4,789	
Payments	(750,295)	-	(750,295)	
Net investing cash flow	**(745,506)**	**-**	**(745,506)**	
Financing activities				
Receipts	3,109,972	-	3,109,972	
Payments	(3,105,651)	-	(3,105,651)	
Net financing cash flow	**4,321**	**-**	**4,321**	
Net decrease in cash	**(72,650)**	**-**	**(72,650)**	

5. Balance sheet (disaggregated) as at 30 June 2015

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management $'000	Unregulated $'000
Current assets					
Cash and cash equivalents	26,940	8,381	18,559	-	-
Trade and other receivables	23,227	5,295	13,275	2,940	1,717
Prepayments	21,733	5,178	16,330	163	62
Accrued revenue	181,296	38,683	142,613	-	-
Inventories	115,040	32,816	59,070	-	23,154
Total current assets	**368,236**	**90,353**	**249,847**	**3,103**	**24,933**
Non-current assets					
Property, plant and equipment, and intangibles	9,406,369	2,890,707	6,385,131	8,731	121,800
Trade and other receivables	463	116	347	-	-
Derivative financial instruments	4,707	1,464	3,243	-	-
Total non-current assets	**9,411,539**	**2,892,287**	**6,388,721**	**8,731**	**121,800**
Total assets	**9,779,775**	**2,982,640**	**6,638,568**	**11,834**	**146,733**
Current liabilities					
Borrowings	(27,896)	(8,547)	(18,994)	-	(355)
Trade and other payables	(138,766)	(34,766)	(79,327)	(420)	(24,253)
Derivative financial instruments	(21,221)	(6,602)	(14,619)	-	-
Deferred income	(60,944)	(5,460)	(53,500)	-	(1,984)
Provisions	(89,844)	(32,760)	(55,962)	(586)	(536)
Total current liabilities	**(338,671)**	**(88,135)**	**(222,402)**	**(1,006)**	**(27,128)**
Non-current liabilities					
Borrowings	(7,192,510)	(2,201,017)	(4,891,230)	(8,731)	(91,532)
Trade and other payables	(6,657)	-	(6,657)	-	-
Derivative financial instruments	(20,411)	(6,350)	(14,061)	-	-
Deferred taxation equivalent liabilities	(481,332)	(147,920)	(326,732)	(447)	(6,233)
Deferred income	(4,101)	(4,101)	-	-	-
Provisions	(34,528)	(14,225)	(19,930)	(195)	(178)
Total non-current liabilities	**(7,739,539)**	**(2,373,613)**	**(5,258,610)**	**(9,373)**	**(97,943)**
Total liabilities	**(8,078,210)**	**(2,461,748)**	**(5,481,012)**	**(10,379)**	**(125,071)**
Net assets	**1,701,565**	**520,892**	**1,157,556**	**1,455**	**21,662**

Equity	
Share capital	989,037
*Accumulated profits/reserves**	712,528
Total equity	**1,701,565**
* Accumulated profits/reserves	
At start of reporting period	520,239
Profit after taxation equivalent	348,676
Other comprehensive income	(24,472)
Distributions provided for or paid in year	(131,915)
At end of reporting period	**712,528**

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

6. Balance sheet (regulatory financial statement) as at 30 June 2015

Covered Transmission

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Current assets				
Cash and cash equivalents	8,381	-	8,381	
Trade and other receivables	5,295	(1,037)	4,258	12.1
Prepayments	5,178	-	5,178	
Accrued revenue	38,683	-	38,683	
Inventories	32,816	-	32,816	
Total current assets	**90,353**	**(1,037)**	**89,316**	
Non-current assets				
Property, plant and equipment, and intangibles	2,890,707	(90,579)	2,800,128	12.2
Trade and other receivables	116	-	116	
Derivative financial instruments	1,464	-	1,464	
Total non-current assets	**2,892,287**	**(90,579)**	**2,801,708**	
Total assets	**2,982,640**	**(91,616)**	**2,891,024**	
Current liabilities				
Borrowings	(8,547)	-	(8,547)	
Trade and other payables	(34,766)	4,976	(29,790)	12.1, 12.4
Derivative financial instruments	(6,602)	-	(6,602)	
Deferred income	(5,460)	5,303	(157)	12.1
Provisions	(32,760)	-	(32,760)	
Total current liabilities	**(88,135)**	**10,279**	**(77,856)**	
Non-current liabilities				
Borrowings	(2,201,017)	-	(2,201,017)	
Derivative financial instruments	(6,350)	-	(6,350)	
Deferred taxation equivalent liabilities	(147,920)	-	(147,920)	
Deferred income	(4,101)	4,101	-	12.1
Provisions	(14,225)	-	(14,225)	
Total non-current liabilities	**(2,373,613)**	**4,101**	**(2,369,512)**	
Total liabilities	**(2,461,748)**	**14,380**	**(2,447,368)**	
Net assets	**520,892**	**(77,236)**	**443,656**	

6. Balance sheet (regulatory financial statement) as at 30 June 2015

Covered Distribution

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Current assets				
Cash and cash equivalents	18,559	-	18,559	
Trade and other receivables	13,275	543	13,818	12.1
Prepayments	16,330	-	16,330	
Accrued revenue	142,613	-	142,613	
Inventories	59,070	-	59,070	
Total current assets	**249,847**	**543**	**250,390**	
Non-current assets				
Property, plant and equipment, and intangibles	6,385,131	-	6,385,131	12.2
Trade and other receivables	347	-	347	
Derivative financial instruments	3,243	-	3,243	
Total non-current assets	**6,388,721**	**-**	**6,388,721**	
Total assets	**6,638,568**	**543**	**6,639,111**	
Current liabilities				
Borrowings	(18,994)	-	(18,994)	
Trade and other payables	(79,327)	4,207	(75,120)	12.1, 12.4
Derivative financial instruments	(14,619)	-	(14,619)	
Deferred income	(53,500)	53,264	(236)	12.1
Provisions	(55,962)	-	(55,962)	
Total current liabilities	**(222,402)**	**57,471**	**(164,931)**	
Non-current liabilities				
Borrowings	(4,891,230)	-	(4,891,230)	
Trade and other payables	(6,657)	-	(6,657)	
Derivative financial instruments	(14,061)	-	(14,061)	
Deferred taxation equivalent liabilities	(326,732)	-	(326,732)	
Provisions	(19,930)	-	(19,930)	
Total non-current liabilities	**(5,258,610)**	**-**	**(5,258,610)**	
Total liabilities	**(5,481,012)**	**57,471**	**(5,423,541)**	
Net assets	**1,157,556**	**58,014**	**1,215,570**	

7. Capital expenditure (disaggregated) for the year ended 30 June 2015

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management $'000	Unregulated $'000
Capital additions					
Capacity expansion	114,002	87,848	26,154	-	-
Customer driven	131,890	(17,366)	149,256	-	-
Gifted network assets	147,877	-	147,877	-	-
Asset replacement	132,254	37,761	94,493	-	-
State Underground Power Project (SUPP)	15,286	-	15,286	-	-
Metering	16,686	-	16,686	-	-
Smart grid	(1,329)	-	(1,329)	-	-
Wood pole management	234,234	-	234,234	-	-
Reliability driven	367	186	181	-	-
Supervisory Control and Data Acquisition (SCADA) & communications	15,868	12,725	3,143	-	-
Regulatory compliance	140,626	25,401	115,225	-	-
Information technology	29,775	9,263	20,512	-	-
Business support	15,549	5,134	10,415	-	-
Capitalised interest	11,895	11,895	-	-	-
Market reform	273	-	-	273	-
Mobile plant and vehicles	22,309	-	-	-	22,309
Total capital additions	**1,027,562**	**172,847**	**832,133**	**273**	**22,309**

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 2015

Covered Transmission

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Growth				
Capacity expansion	87,848	-	87,848	
Customer driven	(17,366)	-	(17,366)	
	70,482	-	70,482	
Asset replacement and renewal				
Asset replacement	37,761	-	37,761	
Improvement in service				
Reliability driven	186	-	186	
SCADA and communications	12,725	-	12,725	
	12,911	-	12,911	
Compliance				
Regulatory compliance	25,401	-	25,401	
Corporate				
Information technology	9,263	-	9,263	
Business support	5,134	-	5,134	
	14,397	-	14,397	
Other				
Capitalised interest	11,895	(11,895)	-	12.2
Total capital additions	**172,847**	**(11,895)**	**160,952**	

Covered Distribution

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Growth				
Capacity expansion	26,154	-	26,154	
Customer driven	149,256	-	149,256	
Gifted network assets	147,877	-	147,877	
	323,287	-	323,287	
Asset replacement and renewal				
Asset replacement	94,493	-	94,493	
SUPP	15,286	-	15,286	
Metering	16,686	-	16,686	
Smart grid	(1,329)	-	(1,329)	
Wood pole management	234,234	-	234,234	
	359,370	-	359,370	
Improvement in service				
Reliability driven	181	-	181	
SCADA and communications	3,143	-	3,143	
	3,324	-	3,324	
Compliance				
Regulatory compliance	115,225	-	115,225	
Corporate				
Information technology	20,512	-	20,512	
Business support	10,415	-	10,415	
	30,927	-	30,927	
Total capital additions	**832,133**	**-**	**832,133**	

System Management

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Corporate				
Market reform	273	-	273	
Total capital additions	**273**	**-**	**273**	

9. Operating expenditure (disaggregated) for the year ended 30 June 2015

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management $'000	Unregulated $'000
Directly attributed costs					
Operations	(92,047)	(15,133)	(19,950)	-	(56,964)
Maintenance	(247,118)	(42,346)	(204,772)	-	-
Customer service and billing	(31,613)	-	(30,235)	-	(1,378)
Corporate	(2,132)	-	(112)	-	(2,020)
Other operating expenditure	(51,518)	(22,093)	(12,653)	(10,724)	(6,048)
Total directly attributed costs	**(424,428)**	**(79,572)**	**(267,722)**	**(10,724)**	**(66,410)**
Causally allocated costs					
Operations	(22,103)	(5,683)	(16,420)	-	-
Maintenance	-	-	-	-	-
Customer service and billing	-	-	-	-	-
Corporate	(87,389)	(28,081)	(58,685)	-	(623)
Other operating expenditure	(136,000)	-	(136,000)	-	-
Total causally allocated costs	**(245,492)**	**(33,764)**	**(211,105)**	**-**	**(623)**
Total operating expenditure costs	**(669,920)**	**(113,336)**	**(478,827)**	**(10,724)**	**(67,033)**

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 2015

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management $'000	Unregulated $'000
Superannuation for defined benefit schemes	(247)	(48)	(199)	-	-
Non-revenue cap services	(16,143)	(3,378)	(12,765)	-	-
Energy*Safety* levy	(4,153)	(1,292)	(2,861)	-	-
ERA costs under *ERA (Electricity Network Access Funding Regulations) 2012*	(395)	(123)	(272)	-	-
Total operating expenditure costs to be excluded from gain sharing mechanism	**(20,938)**	**(4,841)**	**(16,097)**	**-**	**-**

10. Operating expenditure (regulatory financial statement) for the year ended 30 June 2015

Covered Transmission

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Operations				
SCADA and communications	(11,755)	-	(11,755)	
Non-revenue cap services	(3,378)	-	(3,378)	
Network operations	(5,683)	-	(5,683)	
	(20,816)	-	(20,816)	
Maintenance				
Preventative condition	(7,537)	-	(7,537)	
Preventative routine	(23,473)	-	(23,473)	
Corrective deferred	(8,973)	-	(8,973)	
Corrective emergency	(2,363)	-	(2,363)	
	(42,346)	-	(42,346)	
Corporate				
Business support	(28,081)	(3,676)	(31,757)	12.3
Other operating expenditure				
Non-recurring expenditure	(22,093)	-	(22,093)	
Total operating expenditure costs	**(113,336)**	**(3,676)**	**(117,012)**	

Covered Distribution

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Operations				
Reliability operations	(1,781)	-	(1,781)	
SCADA and communications	(5,399)	-	(5,399)	
Non-revenue cap services	(12,765)	-	(12,765)	
Network operations	(16,420)	-	(16,420)	
Smart grid	(5)	-	(5)	
	(36,370)	-	(36,370)	
Maintenance				
Preventative condition	(47,166)	-	(47,166)	
Preventative routine	(50,221)	-	(50,221)	
Corrective deferred	(26,331)	-	(26,331)	
Corrective emergency	(81,054)	-	(81,054)	
	(204,772)	-	(204,772)	
Customer service and billing				
Call centre	(4,274)	-	(4,274)	
Metering	(21,120)	-	(21,120)	
Guaranteed service level payments	(607)	-	(607)	
Distribution quotations	(4,234)	-	(4,234)	
	(30,235)	-	(30,235)	
Corporate				
Business support	(58,797)	(8,140)	(66,937)	12.3
Other operating expenditure				
Non-recurring expenditure	(12,653)	-	(12,653)	
Tariff equalisation contribution	(136,000)	-	(136,000)	
	(148,653)	-	(148,653)	
Total operating expenditure costs	**(478,827)**	**(8,140)**	**(486,967)**	

11. Contributions for the year ended 30 June 2015

Covered Transmission

Reason for contributions	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Capacity expansion	17	(4)	13	
Customer driven	13,187	(8,319)	4,868	
Asset replacement	(13)	-	(13)	
SCADA and communications	1	-	1	
Other	3	-	3	
Total contributions	**13,195**	**(8,323)**	**4,872**	**12.1**

Covered Distribution

Reason for contributions (including gifted network assets)	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Customer driven	78,488	(15,263)	63,225	
Gifted network assets	147,877	-	147,877	
Asset replacement	288	-	288	
SUPP	8,253	1,240	9,493	
Metering	4,135	-	4,135	
Regulatory compliance	74	-	74	
Total contributions (including gifted network assets)	**239,115**	**(14,023)**	**225,092**	**12.1**

12. Regulatory adjustments for the year ended 30 June 2015

	Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management $'000	Unregulated $'000
	Accounting policy adjustments					
12.1	Capital contributions (including gifted network assets) recognised	**252,310**	**13,195**	**239,115**	**-**	**-**
	Capital contributions cash adjustment:					
	Net balance sheet movement in reporting year					
	Opening deferred capital contributions	(83,431)	(15,601)	(67,830)	-	-
	Closing deferred capital contributions	62,668	9,404	53,264	-	-
		(20,763)	(6,197)	(14,566)	-	-
	Capital contributions invoiced but not yet received	(494)	(1,037)	543	-	-
	Capital contributions accrued but not yet refunded	(1,089)	(1,089)	-	-	-
	Total capital contributions cash adjustment	**(22,346)**	**(8,323)**	**(14,023)**	**-**	**-**
	Capital contributions (including gifted network assets) received	**229,964**	**4,872**	**225,092**	**-**	**-**

To align Western Power's statutory accounting policy with regulatory accounting policy, i.e. developer and customer 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 $'000	Unregulated $'000
12.2	**Expensed 'capitalised borrowing costs' b/fwd**	(78,684)	(78,684)	-	-	-
	Net movement in reporting year	(11,895)	(11,895)	-	-	-
	Expensed 'capitalised borrowing costs' c/fwd	**(90,579)**	**(90,579)**	**-**	**-**	**-**

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).

Accounting disclosure adjustments

12.3 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'.

12.4 The taxation equivalent is calculated on regulatory adjustments at a rate of 30% and is adjusted against current 'trade and other payables' 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*

Western Power has been classified to be a not-for-profit entity 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 in the balance sheet until the project is completed 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 and in accordance with the historical cost convention, except for the following:

- capital contributions and cash flow information are prepared on a cash accounting basis
- derivative financial instruments are measured at fair value
- certain provisions and employee benefit liabilities are 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 year in which the estimate is revised and any future 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 listed below and described in more detail in the related notes:

Critical accounting estimates and judgments	Note
Estimation of unbilled network tariff revenue	13(g)
Estimation of fair values of derivative financial instruments	13(l)
Present value of employee benefit liabilities	13(s)

(d) Rounding

All financial information presented in Australian dollars has been rounded 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

Functional and presentation currency

This financial report is presented in Australian dollars, which is the functional and presentation 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.

All foreign currency translation differences are recognised on a net basis in 'operating expenditure' in profit and 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 following 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 related services including system operations and 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 2015: $181.296 million). Unbilled network tariff revenue is an estimate of electricity transported to customers that has not been billed 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 expected 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 taxation equivalent

National taxation equivalent regime

Western Power is exempt from the Commonwealth of Australia’s Income Tax Assessment Acts but makes income taxation 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 taxation equivalent

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

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

Deferred taxation equivalent

Deferred taxation 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 taxation 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 at the reporting date.

A deferred taxation 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 taxation 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 taxation equivalent benefit will be realised.

Deferred taxation equivalent assets and liabilities are offset when there is a legally enforceable right to offset current taxation equivalent assets and liabilities, and when the deferred taxation 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 2015, 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, 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 and 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 and 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 rates, foreign exchange rates and commodity prices. 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.

<u>Fair value hedges</u>

For all derivative transactions designated as a fair value hedge, the portion of gain or loss on the hedging instrument is recognised in profit and 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.

<u>Cash flow hedges</u>

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 and loss immediately. When the cash flows occur, the amount that has been deferred to equity is transferred to either the carrying value of the asset, in the case of non-financial assets, or reclassified to profit and loss as appropriate in the same period as the hedged item affects the profit and loss.

When a hedging instrument expires or is sold or 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 and 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 and 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 and loss. During the year ended 30 June 2015, 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 2015, Western Power did not derecognise any derivative financial instruments.

(m) Property, plant and equipment

Cost

Property, plant and equipment represent 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 assets 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 when received.

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 and loss during the reporting year 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 economic lives presented below, making allowances where appropriate for residual values.

Categories of property, plant and equipment	Years
Substations, transformers, poles and cables	45 - 50
Buildings	40
Land improvements and infrastructure	25
Meters, streetlights	20 - 25
Pole reinforcements, smart meters	15
Furniture and fittings, refurbishments, other plant & 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 their residual useful economic lives. No depreciation is provided on freehold land, easements and assets in the course of construction.

The residual value, 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 2015, 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 and 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 2015, 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 and loss in the reporting periods 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) Intangibles

Cost

Intangibles represent identifiable capitalised software costs and intellectual property, and are recognised at historical cost less accumulated amortisation in accordance with AASB 138 *Intangible assets* . Intangibles are not equal to the RAB. Subsequent costs are included in intangibles 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 intangibles 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 and 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 economic lives listed below, making allowances where appropriate for residual values.

Categories of intangibles	Years
Intellectual property	3 - 25
Software (major developments/enhancements)	5 - 10
Software (minor purchases/enhancements)	2.5

The residual value, useful lives and amortisation methods of intangibles 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 2015, Western Power did not recognise any changes in amortisation estimates.

Derecognition

An intangible 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 and 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 within 30 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 a pre-determined interest rate. 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 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 and loss over the life of the loan.

(q) Borrowing costs

Borrowing costs are expensed when incurred.

(r) Provisions

Provisions are recognised when Western Power has 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 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; it is probable a rehabilitation expense will be incurred; and the 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 expected 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 and loss.

13. Summary of significant accounting policies (continued)

(s) Employee benefits

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'. 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 and 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 periods 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 the 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 period 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' in profit and loss.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions (including changes in the bond rate) are recognised in the period 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 and loss as past service costs.

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 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 end of the reporting period are discounted to present value.

(t) 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.

13. Summary of significant accounting policies (continued)

(u) Goods & services taxation (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 it 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 financial 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 (**the 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
Board Deputy Chair

24 August 2015

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Serving the Public Interest

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Our Ref: 5563-05

Chairman of Directors
Electricity Networks Corporation
363 Wellington Street
PERTH WA 6000

Dear Sir

AGREED UPON PROCEDURES ENGAGEMENT ON WESTERN POWER'S REGULATORY FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

Attached is the Report on agreed upon procedures for the regulatory financial statements for the year ending 30 June 2015, 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 my Senior Director, Patrick Arulsingham, on 6557 7644 if you would like to discuss these matters further.

Yours faithfully

COLIN MURPHY
AUDITOR GENERAL
27 August 2015

Attach

Appendix A

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

Procedure 1

Obtain the 30 June 2015 RFS and agree the base account numbers to Western Power's 30 June 2015 financial statements for:

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

Factual findings

We found the base account numbers within the RFS to be in agreement, apart from the exception noted.

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 flow	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 $15,414,000 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 2015 financial statements.

Appendix A

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

Procedure 2

Agree the allocations of revenue (e.g. network services - revenue cap; non-revenue cap; other), contributions (excluding gifted network assets), gifted assets, proceeds from disposal of assets and other income) as disclosed in the 30 June 2015 RFS profit and loss account to the CRAM (business segment).

Factual 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:

1. Section 6.3 of the CRAM, which states the following protocols with respect to revenue:
   - All revenue items are recorded in our financial system via the account code structure. Our account code structure comprises 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 our cost centre. The characters are numeric and are used to identify our business services, e.g. 1@@@ denotes external work, 2@@@ denotes operating work and 3@@@ denotes capital work.'
   - 'Asset segment: comprises the third group of four characters of our cost centre. The characters are numeric and are used to identify our business segments, i.e. 1@@@ denotes corporate-related, 2@@@ denotes transmission, 3@@@ denotes distribution and 4@@@ denotes network Planning & operations (including System Management).'
2. Appendix C of the CRAM also stipulates the methodology for revenue allocation.
3. The RFS revenue categories (e.g. Network services, contributions, proceeds from disposal of asset, other revenue) 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 on the following page.

Appendix A

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

Revenue category and $ (as disclosed in the RFS)	**Chart of accounts description and account code**	**Amount ($)**	**RFS business segment**	**Type of allocated**	**Account coding agreed to CRAM**
Network service (revenue cap) $1,410,812,000	Network Services (Revenue Cap) 118012732000	$350,264,418	Transmission	Direct	Yes
Network service (non-revenue cap) $13,650,000	Network Services (Non-Revenue Cap) 533012772000	$946,764	Transmission	Direct	Yes
Network service (other) $87,077,000	Network Services (Unregulated) 533010701000	$790,172	Unregulated	Direct	Yes
Contributions (excluding gifted network assets) $104,433,000	Customer Contributions (Excluding Gifted Assets) 602630543000	$6,554,014	Distribution	Direct	Yes
Gifted network assets $147,877,000	Gifted Assets 602530563000	$147,876,544	Distribution	Direct	Yes
Proceeds from disposal of assets $15,414,000	LOT 10 LEEMING RD, GRASS VALLEY 2000	$376,976	Transmission	Direct	Yes
Other income $3,580,000	Rental properties 173111201000	$1,545,003	Transmission	Direct	Yes

Appendix A

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 the 30 June 2015 RFS profit and loss account to the CRAM (business segment and regulatory category).

Factual 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:

1. Section 6.3 of the CRAM provides for the following allocation with respect to costs:
   - All cost items are recorded in our financial system via the account code structure. Our account code structure comprises 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 our cost centre. The characters are numeric and are used to identify our business services, e.g. 1@@@ denotes external work, 2@@@ denotes operating work and 3@@@ denotes capital work.
   - Asset segment: comprises the third group of four characters of our cost centre. The characters are numeric and are used to identify our business segments, i.e. 1@@@ denotes corporate-related, 2@@@ denotes transmission, 3@@@ denotes distribution and 4@@@ denotes network Planning & operations (including 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 on the following page.

Appendix A

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 allocated	Account coding agreed to CRAM
Operations $114,150,000	Smart Grid 602545683000	$670	Distribution	Direct	Yes
Maintenance $247,118,000	Preventive Condition 602420503000	$6,083,964	Distribution	Direct	Yes
Customer service and billing $31,613,000	Metering Reading Management 991613003000	$1,078,154	Distribution	Direct	Yes
Corporate $89,521,000	CEO 160060051000	$279,302	Transmission	Indirect (FTE)	Yes
Other operating expenditure $187,518,000	Network Planning Costs 601452222000	$5,185,177	Transmission	Direct	Yes

Appendix A

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 30 June 2015 RFS profit and loss account to the CRAM (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	n/a
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[5]	Earnings before Taxation Equivalent

We have reviewed the allocation methodology applied for each of the "Other Expenditure" categories. The allocation methodology applied is consistent with the CRAM. The procedures 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	$283,818,000	Yes
Bad debts	$742,000	Yes
Borrowing costs	$315,524,000	Yes
Book value on disposal of assets	$16,757,000	Yes
Taxation equivalent	$147,406,000	Yes

Appendix A

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 the 30 June 2015 RFS cash flow statement to the CRAM (business segment).

Factual findings

We found the allocations to be in agreement, apart from the exception noted.

Testing details

Each cash flow item above 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 hence are in accordance with the CRAM with the exception of deferred income.

Exception noted

We note in Procedure 6 there was an exception in applying the CRAM with respect to the allocation of "other operating deferred income". The financial impact on the RFS cash flow statement was immaterial.

The 2014/15 CRAM was corrected by management to bring it in line with the actual allocation applied in the RFS cash flow statement.

Improvement suggestion

We have noted an opportunity to improve the CRAM's treatment of operating cash flow - "GST received". Management have allocated the cash flow on a PPE ratio, which is consistent with the treatment of the GST balance in the RFS balance sheet. However, we are of the view that allocating the operating cash flow - "GST received" on the basis of network service revenue would better reflect the causal relationship to the underlying transactions. Management have noted that they will consider this when preparing the 2015/16 CRAM.

Appendix A

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

Procedure 6

Agree the allocation of assets and liabilities as disclosed in the 30 June 2015 RFS balance sheet to the CRAM (business segment).

Factual findings

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

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
Cash and Cash Equivalents	PPE	PPE	n/a	n/a
Trade and Other Receivables (& Current Taxation Equivalent Assets)	Direct & then Network Services Revenue, Accrued Revenue &/ or PPE for remaining	Direct & then Network Services Revenue, Accrued Revenue &/ or PPE for remaining	Direct & then PPE (reported only) for remaining	Direct & then Network Services Revenue &/or PPE (reported only) for remaining
Prepayments	Direct & then PPE, L&B &/or FTE for remaining	Direct & then PPE, L&B &/or FTE for remaining	Direct & then FTE for remaining	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

Appendix A

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

Non-Current Assets	**Transmission**	**Distribution**	**System Management**	**Unregulated**
Property, Plant and Equipment, & Intangibles	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
Derivative Financial Instruments	PPE	PPE	n/a	n/a
Retirement Benefit Obligation Surplus	Direct & then FTE for remaining	Direct & then FTE for remaining	n/a	n/a

Current Liabilities	**Transmission**	**Distribution**	**System Management**	**Unregulated**
Borrowings	Borrowings (non-current)	Borrowings (non-current)	n/a	Borrowings (non-current)
Trade and Other Payables (& Current Taxation Equivalent Liabilities)	Direct & then PPE, L&B &/or FTE for remaining	Direct & then PPE, L&B &/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	Direct	Direct	Direct
Provisions[2]	Direct & then PPE &/ or FTE for remaining	Direct & then PPE &/ or FTE for remaining	Direct & then FTE for remaining	Direct & then FTE for remaining

Appendix A

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

Non-Current Liabilities	Transmission	Distribution	System Management	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	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
Retirement Benefit Obligation Deficit[4]	Direct & then FTE for remaining	Direct & then FTE for remaining	n/a	n/a

Exception noted

The allocation methodology applied is consistent with the CRAM except with relation to deferred income. We noted that management's allocation of "other operating deferred income", which forms part of the overall deferred income balance, was made on a PPE ratio which was not in accordance with the CRAM. According to the CRAM, deferred income was to be allocated on a direct allocation basis.

As mentioned at procedure 5, the CRAM has now been updated to bring it in line with the actual allocation applied in the RFS.

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

Procedure 7

Agree the allocations of capital expenditure (i.e. as disclosed in the 30 June 2015 RFS to the 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 our business services and 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
Information Technology (strategic, business, infrastructure)	PPE	PPE	n/a	n/a

- Table B.2: Business support capital expenditure allocation

Business Support Capital Expenditure	Transmission	Distribution	System Management	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[1]	Direct & then PPE for remaining	Direct & then PPE for remaining	n/a	n/a

Appendix A

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

The RFS capital expenditure categories each comprise of a number of accounts, which are further comprised of a number of sub-accounts. We have selected our 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 allocated	Account coding agreed to CRAM
Capacity expansion $114,002,000	3000	$870,738	Distribution	Direct	Yes
Customer driver $131,890,000	2000	$424,448	Transmission	Direct	Yes
Gifted network assets $147,877,000	3000	$147,876,545	Distribution	Direct	Yes
Asset replacement $132,254,000	3000	$34,406,799	Distribution	Direct	Yes
State underground power project $15,286,000	3000	$1,744,469	Distribution	Direct	Yes
Metering $16,686,000	3000	$16,210,625	Distribution	Direct	Yes
Smart grid ($1,329,000)	3000	($13,465)	Distribution	Direct	Yes
Wood pole management $234,234,000	3000	$32,647,772	Distribution	Direct	Yes
Reliability driven $376,000	3000	$107,272	Distribution	Direct	Yes
Supervisory control and data acquisition & communications $15,868,000	2000	$880,031	Transmission	Direct	Yes
Regulatory compliance $140,626,000	3000	$15,027,322	Distribution	Direct	Yes

Appendix A

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 allocated	Account coding agreed to CRAM
Information technology $29,775,000	1000	$3,518,890	Unregulated	Direct	Yes
Business support $15,549,000	1000	$135,413	Unregulated	Direct	Yes
Capitalised interest $11,895,000	2000	$11,895,097	Transmission	Direct	Yes
Market reform $273,000	4000	$218,030	System Management	Direct	Yes
Mobile plant and vehicles $22,309,000	1000	$686,400	Unregulated	Direct	Yes

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

Procedure 8

Select two regulatory adjustments as disclosed in the 30 June 2015 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 contributions as revenue when assets are energised; however the guidelines for the access arrangement require revenue to be recognised with respect to developer 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.

Appendix A

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 30 June 2015 RFS.

Factual findings

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

Testing details

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

Appendix A

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

ACRONYMS:

Cost and Revenue Allocation Method (**CRAM**)
Property, plant and equipment, intangibles (**PPE**)
Regulatory financial statement (**RFS**)

Appendix A

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

Electricity Networks Corporation
Trading as Western Power
Regulatory Financial Statements (final)

for the year ended 30 June 2016

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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**) *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 2016 annual report (including the audited 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.

> ***Electricity Market Review***

In March 2014, the Minister launched the Electricity Market Review (**EMR**) to examine the structures of the electricity generation, wholesale and retail sectors within the South West Interconnected System in Western Australia, and the incentives for industry participants to make efficient investments and minimise costs.

The EMR is being undertaken in two phases:

- Phase 1 comprised an assessment of the strengths and weaknesses of the current industry structure, market institutions and regulatory arrangements, and an examination of options for reform to better achieve the EMR objectives. This phase is now complete.
- Phase 2 comprises two stages, firstly the detailed design of a set of selected reforms identified in Phase 1 and secondly implementation arrangements. This phase was launched in March 2015.

The State Government's decisions with respect to what reforms will progress from detailed design to eventual implementation are expected to continue in 2016/17.

The EMR reforms that would, if implemented under Phase 2, significantly impact Western Power include:

- Network regulation

  This involves transferring regulation of the Western Power network including price, connection and access, from the Western Australian regime to the National Electricity Law and relevant National Electricity Rules. It also involves applying the relevant National Electricity Rules to regulate metering services within the Western Power network area.

- Institutional arrangements

  This will transition the system management and retail market operation functions to the Australian Energy Market Operator (**AEMO**), and establish new jurisdictional dispute resolution processes and a Western Australian network reliability panel.

  Since 30 June 2016, Western Power has finalised the operating agreement with the AEMO to transfer the system management functions (stage one), with stage two, being the formal transition, expected by November 2016.

Western Power considers all EMR reforms important, but views some as more significant due to their impact on the business and its operations. The proposed transition to the National Electricity Rules administered by the Australian Energy Regulator (**AER**) is considered the most significant. This EMR reform will oblige Western Power to progress a regulatory submission applying different legislation, guidelines and administrative conditions to those administered by the ERA under the current Western Australian regime.

If the EMR reforms are successfully implemented, Western Power's first AER submission is due on 1 April 2017. If the network regulation EMR reforms are not implemented by November 2016, Western Power will be required to submit its next access arrangement (**AA4**) revision by 31 December 2016 and will seek a nine month extension to 30 September 2017.

> ***Emerging technology***

The operating model of the traditional network services business is evolving as new technologies present a range of options for consumers to generate and store electricity at their premises, and as energy storage becomes an increasingly cost-effective option for managing the growth in peak demand.

Integrating new technologies into the traditional network service represents a potential opportunity to benefit Western Power's customers as a whole with better service, reliability and affordability.

Individual projects have been designed to develop an understanding of the most immediate and significant of the changes occurring in the electricity supply market in order to define the range of potential responses at Western Power's disposal. Examples of these projects include solar photovoltaic (**PV**), large and small scale energy storage, wind, microgrids incorporating renewable energy and stand-alone power systems.

Having spent considerable organisational effort over the past three years on improving the efficiency and operational effectiveness of the business, Western Power's response to these evolutionary pressures will be a major component of the upcoming strategic planning process.

Directors' overview (continued)

Likely developments (continued)

> ***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 risks, Western Power is committed to managing the network:

- based on asset condition and risk consequence including enhanced inspection programs, targeted asset replacements and reinforcements, installing underground power and network automation
- by minimising the consequence of failing assets through bushfire, conductor and connection management, as well as sufficient insurance cover
- by incorporating new and emerging technology such as battery storage, microgrids and stand-alone power systems
- in accordance with stakeholder and community concerns.

> ***Public safety***

Western Power is required to maintain and replace network assets in a way that acceptably delivers to customers a safe, reliable and affordable 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 manages its network in a reasonable and appropriate manner considering the risk posed.

Report No. 14 of the Standing Committee on Public Administration

In January 2012, the Standing Committee on Public Administration (**Standing Committee**) published its Report No.14 (*'Unassisted Failure'*). The report commented on Western Power's performance in several respects, including wood pole management. Western Power accepted the views of the Standing Committee, and in June 2012, via the State Government's response tabled in Parliament, provided a detailed action plan.

Western Power has taken direct action to address the findings of the Standing Committee's report. In support of this, the Minister for Energy recently announced the completion and discharge of the Energy*Safety* Wood Pole Order 01-2009 (**Order**) issued to Western Power in September 2009. The Order stipulated Western Power review its inspection and assessment practices, develop plans to manage wood pole replacement and reinforcement, and implement those plans by 31 December 2015. An Energy*Safety* review has confirmed Western Power has met these requirements.

As part of complying with the Order, Western Power replaced over 90,000 poles and reinforced an additional 200,000. This is nearly half of Western Power's distribution wood pole population.

Western Power remains committed to the initiatives implemented in response to the Standing Committee's report, and continues to monitor and improve safety across the network.

> ***Future revenue***

Energy customers are continuing to:

- deploy evolving technologies such as solar PV, battery storage and stand-alone power systems
- change their consumption patterns in response to cost influences, environmental factors and product efficiencies.

These changes in customer behaviour are likely to impact the future volumes of electricity transported by Western Power, the way Western Power manages the network and revenue recovered by Western Power under the regulatory regime.

Future revenue uncertainty also exists where there is a reset in the regulatory period and transition from the ERA to the AER as proposed in the EMR Phase 2.

Directors' overview (continued)

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 2015/16 statutory financial statements.

(a) Regulatory allocations

In compliance with the ERA's Guidelines, these financial statements present Western Power's audited 2015/16 statutory financial statements (base accounts) disaggregated into the following business segments:

> Covered Transmission (regulated transmission services)
> Covered Distribution (regulated distribution services)
> System Management (regulated system operation services)
> Unregulated (contestable services)

The disaggregation is in accordance with the ERA's Guidelines and Western Power's approved 2015/16 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 2015/16 statutory financial statements (base accounts) and the 2015/16 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 <u>all</u> 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 2016

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management $'000	Unregulated $'000
Network services (revenue cap)	1,515,591	324,252	1,173,615	17,724	-
Network services (non-revenue cap)	15,198	5,723	9,475	-	-
Network services (other)	66,735	999	7,623	-	58,113
Contributions (excluding gifted network assets)	84,736	7,143	77,593	-	-
Gifted network assets	123,773	-	123,773	-	-
Proceeds from disposal of assets*	63,476	58,464	2,758	-	2,254
Other income	7,553	5,090	231	-	2,232
Total income	**1,877,062**	**401,671**	**1,395,068**	**17,724**	**62,599**
Operating expenditure costs	(697,510)	(120,651)	(510,691)	(14,472)	(51,696)
Operations	(102,189)	(23,814)	(35,585)	-	(42,790)
Maintenance	(243,990)	(47,585)	(196,405)	-	-
Customer service and billing	(28,240)	-	(26,613)	-	(1,627)
Corporate	(142,640)	(39,171)	(101,074)	-	(2,395)
Other operating expenditure	(180,451)	(10,081)	(151,014)	(14,472)	(4,884)
Depreciation and amortisation	(314,794)	(107,697)	(203,424)	(3,673)	-
Bad debts	(488)	(102)	(368)	-	(18)
Borrowing costs	(324,004)	(94,329)	(225,559)	(407)	(3,709)
Book value on disposal of assets*	(36,508)	(25,150)	(8,285)	-	(3,073)
Total expenses	**(1,373,304)**	**(347,929)**	**(948,327)**	**(18,552)**	**(58,496)**
Earnings before tax equivalent	**503,758**	**53,742**	**446,741**	**(828)**	**4,103**
Tax equivalent	**(149,886)**	**(15,964)**	**(132,701)**	**-**	**(1,221)**
Profit/(loss) after tax equivalent	**353,872**	**37,778**	**314,040**	**(828)**	**2,882**

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 $36.508 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 $26.968 million.

2. Profit and loss account (regulatory financial statement) for the year ended 30 June 2016

Covered Transmission

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Network services (revenue cap)	324,252	-	324,252	
Network services (non-revenue cap)	5,723	-	5,723	
Network services (other)	999	-	999	
Contributions (excluding gifted network assets)	7,143	(1,776)	5,367	11, 12.1
Proceeds from disposal of assets	58,464	-	58,464	
Other income	5,090	-	5,090	
Total income	**401,671**	**(1,776)**	**399,895**	
Operating expenditure costs	(120,651)	(3,474)	(124,125)	9, 10, 12.3
Operations	(23,814)	-	(23,814)	
Maintenance	(47,585)	-	(47,585)	
Corporate	(39,171)	(3,474)	(42,645)	
Other operating expenditure	(10,081)	-	(10,081)	
Depreciation and amortisation	(107,697)	3,474	(104,223)	12.3
Bad debts	(102)	-	(102)	
Borrowing costs	(94,329)	(2,209)	(96,538)	12.2
Book value on disposal of assets	(25,150)	-	(25,150)	
Total expenses	**(347,929)**	**(2,209)**	**(350,138)**	
Earnings before tax equivalent	**53,742**	**(3,985)**	**49,757**	
Tax equivalent	**(15,964)**	**1,196**	**(14,768)**	12.4
Profit after tax equivalent	**37,778**	**(2,789)**	**34,989**	

Covered Distribution

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Network services (revenue cap)	1,173,615	-	1,173,615	
Network services (non-revenue cap)	9,475	-	9,475	
Network services (other)	7,623	-	7,623	
Contributions (excluding gifted network assets)	77,593	13,211	90,804	11, 12.1
Gifted network assets	123,773	-	123,773	
Proceeds from disposal of assets	2,758	-	2,758	
Other income	231	-	231	
Total income	**1,395,068**	**13,211**	**1,408,279**	
Operating expenditure costs	(510,691)	(8,339)	(519,030)	9, 10, 12.3
Operations	(35,585)	-	(35,585)	
Maintenance	(196,405)	-	(196,405)	
Customer service and billing	(26,613)	-	(26,613)	
Corporate	(101,074)	(8,339)	(109,413)	
Other operating expenditure	(151,014)	-	(151,014)	
Depreciation and amortisation	(203,424)	8,339	(195,085)	12.3
Bad debts	(368)	-	(368)	
Borrowing costs	(225,559)	-	(225,559)	12.2
Book value on disposal of assets	(8,285)	-	(8,285)	
Total expenses	**(948,327)**	**-**	**(948,327)**	
Earnings before tax equivalent	**446,741**	**13,211**	**459,952**	
Tax equivalent	**(132,701)**	**(3,963)**	**(136,664)**	12.4
Profit after tax equivalent	**314,040**	**9,248**	**323,288**	

2. Profit and loss account (regulatory financial statement) for the year ended 30 June 2016

System Management*

	Description	Total System Management $'000	System Management $'000	System Management (non trading) $'000
**	Network services (revenue cap)	17,724	13,350	4,374
	Total income	**17,724**	**13,350**	**4,374**
	Operating expenditure costs	(14,472)	(10,100)	(4,372)
	Other operating expenditure	(14,472)	(10,100)	(4,372)
	Depreciation and amortisation	(3,673)	(3,673)	-
	Borrowing costs	(407)	(407)	-
	Total expenses	**(18,552)**	**(14,180)**	**(4,372)**
	Earnings before tax equivalent	**(828)**	**(830)**	**2**
	Tax equivalent	**-**	**-**	**-**
	Profit/(loss) after tax equivalent	**(828)**	**(830)**	**2**

* System Management has the following market participant registrations under the Wholesale Electricity Market (**WEM**) rules:
1) System Management
2) System Management non trading (Simcoa)

** Network services in relation to the System Management business segment refers to provision of system operation services under Part 9 of the *Electricity Industry Act 2004 (WA)* , which established the WEM.

3. Cash flow statement (disaggregated) for the year ended 30 June 2016

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management $'000	Unregulated $'000
Operating activities					
Receipts	1,848,999	373,896	1,390,758	17,927	66,418
Payments	(822,604)	(125,951)	(630,900)	(13,519)	(52,234)
Net operating cash flows	**1,026,395**	**247,945**	**759,858**	**4,408**	**14,184**
Investing activities					
Receipts	63,476	58,464	2,758	-	2,254
Payments	(727,326)	(120,058)	(589,720)	(346)	(17,202)
Net investing cash flows	**(663,850)**	**(61,594)**	**(586,962)**	**(346)**	**(14,948)**
Financing activities					
Receipts	3,599,975	994,261	2,567,008	2,394	36,312
Payments	(3,958,575)	(1,078,698)	(2,838,944)	(2,684)	(38,249)
Net financing cash flows	**(358,600)**	**(84,437)**	**(271,936)**	**(290)**	**(1,937)**
Net increase/(decrease) in cash and cash equivalents	**3,945**	**101,914**	**(99,040)**	**3,772**	**(2,701)**
Cash and cash equivalents at beginning of reporting year	26,940				
Net increase in cash and cash equivalents	3,945				
Cash and cash equivalents at end of reporting year*	**30,885**	**9,084**	**21,801**		

* 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 2016

Covered Transmission

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Operating activities				
Receipts	373,896	-	373,896	
Payments	(125,951)	-	(125,951)	
Net operating cash flows	**247,945**	**-**	**247,945**	
Investing activities				
Receipts	58,464	-	58,464	
Payments	(120,058)	-	(120,058)	
Net investing cash flows	**(61,594)**	**-**	**(61,594)**	
Financing activities				
Receipts	994,261	-	994,261	
Payments	(1,078,698)	-	(1,078,698)	
Net financing cash flows	**(84,437)**	**-**	**(84,437)**	
Net increase in cash and cash equivalents	**101,914**	**-**	**101,914**	

Covered Distribution

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Operating activities				
Receipts	1,390,758	-	1,390,758	
Payments	(630,900)	-	(630,900)	
Net operating cash flows	**759,858**	**-**	**759,858**	
Investing activities				
Receipts	2,758	-	2,758	
Payments	(589,720)	-	(589,720)	
Net investing cash flows	**(586,962)**	**-**	**(586,962)**	
Financing activities				
Receipts	2,567,008	-	2,567,008	
Payments	(2,838,944)	-	(2,838,944)	
Net financing cash flows	**(271,936)**	**-**	**(271,936)**	
Net decrease in cash and cash equivalents	**(99,040)**	**-**	**(99,040)**	

5. Balance sheet (disaggregated) as at 30 June 2016

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management $'000	Unregulated $'000
Current assets					
Cash and cash equivalents	30,885	9,084	21,801	-	-
Trade and other receivables	85,066	16,799	64,134	2,737	1,396
Prepayments	17,212	4,928	12,228	5	51
Accrued revenue	141,586	27,100	114,486	-	-
Inventories	94,537	25,668	52,300	-	16,569
Derivative financial instruments	4	1	3	-	-
Total current assets	**369,290**	**83,580**	**264,952**	**2,742**	**18,016**
Non-current assets					
Property, plant and equipment, and intangible assets	9,899,928	2,884,330	6,896,959	5,214	113,425
Trade and other receivables	400	87	313	-	-
Total non-current assets	**9,900,328**	**2,884,417**	**6,897,272**	**5,214**	**113,425**
Total assets	**10,269,618**	**2,967,997**	**7,162,224**	**7,956**	**131,441**
Current liabilities					
Borrowings	(25,294)	(7,354)	(17,669)	-	(271)
Trade and other payables	(126,929)	(30,621)	(72,136)	(728)	(23,444)
Derivative financial instruments	(22,511)	(6,621)	(15,890)	-	-
Deferred income	(77,453)	(2,962)	(72,891)	-	(1,600)
Provisions	(126,987)	(43,154)	(82,064)	(1,086)	(683)
Total current liabilities	**(379,174)**	**(90,712)**	**(260,650)**	**(1,814)**	**(25,998)**
Non-current liabilities					
Borrowings	(7,375,446)	(2,142,891)	(5,148,527)	(5,214)	(78,814)
Trade and other payables	(6,075)	-	(6,075)	-	-
Derivative financial instruments	(47,273)	(13,904)	(33,369)	-	-
Deferred tax equivalent liabilities	(617,014)	(179,766)	(429,854)	(325)	(7,069)
Deferred income	(2,162)	(2,162)	-	-	-
Provisions	(19,383)	(8,641)	(10,557)	(114)	(71)
Total non-current liabilities	**(8,067,353)**	**(2,347,364)**	**(5,628,382)**	**(5,653)**	**(85,954)**
Total liabilities	**(8,446,527)**	**(2,438,076)**	**(5,889,032)**	**(7,467)**	**(111,952)**
Net assets	**1,823,091**	**529,921**	**1,273,192**	**489**	**19,489**

Equity	
Share capital	1,190,738
*Accumulated profits/reserves**	632,353
Total equity	**1,823,091**

* Accumulated profits/reserves	
At start of reporting period	712,528
Profit after tax equivalent	353,872
Other comprehensive income	(33,059)
Distributions provided for or paid in reporting year	(400,988)
At end of reporting period	**632,353**

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

6. Balance sheet (regulatory financial statement) as at 30 June 2016

Covered Transmission

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Current assets				
Cash and cash equivalents	9,084	-	9,084	
Trade and other receivables	16,799	2,726	19,525	12.1
Prepayments	4,928	-	4,928	
Accrued revenue	27,100	-	27,100	
Inventories	25,668	-	25,668	
Derivative financial instruments	1	-	1	
Total current assets	**83,580**	**2,726**	**86,306**	
Non-current assets				
Property, plant and equipment, and intangible assets	2,884,330	(92,788)	2,791,542	12.2
Trade and other receivables	87	-	87	
Total non-current assets	**2,884,417**	**(92,788)**	**2,791,629**	
Total assets	**2,967,997**	**(90,062)**	**2,877,935**	
Current liabilities				
Borrowings	(7,354)	-	(7,354)	
Trade and other payables	(30,621)	1,324	(29,297)	12.1, 12.4
Derivative financial instruments	(6,621)	-	(6,621)	
Deferred income	(2,962)	2,612	(350)	12.1
Provisions	(43,154)	-	(43,154)	
Total current liabilities	**(90,712)**	**3,936**	**(86,776)**	
Non-current liabilities				
Borrowings	(2,142,891)	-	(2,142,891)	
Derivative financial instruments	(13,904)	-	(13,904)	
Deferred tax equivalent liabilities	(179,766)	-	(179,766)	
Deferred income	(2,162)	2,162	-	12.1
Provisions	(8,641)	-	(8,641)	
Total non-current liabilities	**(2,347,364)**	**2,162**	**(2,345,202)**	
Total liabilities	**(2,438,076)**	**6,098**	**(2,431,978)**	
Net assets	**529,921**	**(83,964)**	**445,957**	

6. Balance sheet (regulatory financial statement) as at 30 June 2016

Covered Distribution

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Current assets				
Cash and cash equivalents	21,801	-	21,801	
Trade and other receivables	64,134	(3,200)	60,934	12.1
Prepayments	12,228	-	12,228	
Accrued revenue	114,486	-	114,486	
Inventories	52,300	-	52,300	
Derivative financial instruments	3	-	3	
Total current assets	**264,952**	**(3,200)**	**261,752**	
Non-current assets				
Property, plant and equipment, and intangible assets	6,896,959	-	6,896,959	12.2
Trade and other receivables	313	-	313	
Total non-current assets	**6,897,272**	**-**	**6,897,272**	
Total assets	**7,162,224**	**(3,200)**	**7,159,024**	
Current liabilities				
Borrowings	(17,669)	-	(17,669)	
Trade and other payables	(72,136)	(3,963)	(76,099)	12.1, 12.4
Derivative financial instruments	(15,890)	-	(15,890)	
Deferred income	(72,891)	69,675	(3,216)	12.1
Provisions	(82,064)	-	(82,064)	
Total current liabilities	**(260,650)**	**65,712**	**(194,938)**	
Non-current liabilities				
Borrowings	(5,148,527)	-	(5,148,527)	
Trade and other payables	(6,075)	-	(6,075)	
Derivative financial instruments	(33,369)	-	(33,369)	
Deferred tax equivalent liabilities	(429,854)	-	(429,854)	
Provisions	(10,557)	-	(10,557)	
Total non-current liabilities	**(5,628,382)**	**-**	**(5,628,382)**	
Total liabilities	**(5,889,032)**	**65,712**	**(5,823,320)**	
Net assets	**1,273,192**	**62,512**	**1,335,704**	

7. Capital expenditure (disaggregated) for the year ended 30 June 2016

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management $'000	Unregulated $'000
Capital additions					
Capacity expansion	52,742	27,304	25,438	-	-
Customer driven	145,508	5,057	140,451	-	-
Gifted network assets	123,773	-	123,773	-	-
Asset replacement	177,528	40,725	136,803	-	-
*State Underground Power Project (**SUPP**)*	10,770	-	10,770	-	-
Metering	26,495	-	26,495	-	-
Wood pole management	186,445	-	186,445	-	-
Reliability driven	776	-	776	-	-
*Supervisory Control and Data Acquisition (**SCADA**) & communications*	20,164	16,462	3,702	-	-
Regulatory compliance	58,240	22,262	35,978	-	-
Information technology	17,568	5,167	12,401	-	-
Business support	22,708	7,030	15,678	-	-
Capitalised interest	2,209	2,209	-	-	-
Market reform	156	-	-	156	-
Mobile plant and vehicles	8,976	-	-	-	8,976
Stand-alone power systems	1,311	-	-	-	1,311
Total capital additions	**855,369**	**126,216**	**718,710**	**156**	**10,287**

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 2016

Covered Transmission

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Growth				
Capacity expansion	27,304	-	27,304	
Customer driven	5,057	-	5,057	
	32,361	-	32,361	
Asset replacement and renewal				
Asset replacement	40,725	-	40,725	
Improvement in service				
SCADA and communications	16,462	-	16,462	
Compliance				
Regulatory compliance	22,262	-	22,262	
Corporate				
Information technology	5,167	-	5,167	
Business support	7,030	-	7,030	
	12,197	-	12,197	
Other				
Capitalised interest	2,209	(2,209)	-	12.2
Total capital additions	**126,216**	**(2,209)**	**124,007**	

Covered Distribution

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Growth				
Capacity expansion	25,438	-	25,438	
Customer driven	140,451	-	140,451	
Gifted network assets	123,773	-	123,773	
	289,662	-	289,662	
Asset replacement and renewal				
Asset replacement	136,803	-	136,803	
SUPP	10,770	-	10,770	
Metering	26,495	-	26,495	
Wood pole management	186,445	-	186,445	
	360,513	-	360,513	
Improvement in service				
Reliability driven	776	-	776	
SCADA and communications	3,702	-	3,702	
	4,478	-	4,478	
Compliance				
Regulatory compliance	35,978	-	35,978	
Corporate				
Information technology	12,401	-	12,401	
Business support	15,678	-	15,678	
	28,079	-	28,079	
Total capital additions	**718,710**	**-**	**718,710**	

System Management

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Corporate				
Market reform	156	-	156	
Total capital additions	**156**	**-**	**156**	

9. Operating expenditure (disaggregated) for the year ended 30 June 2016

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management $'000	Unregulated $'000
Directly attributed costs					
Operations	(80,311)	(17,977)	(19,544)	-	(42,790)
Maintenance	(243,990)	(47,585)	(196,405)	-	-
Customer service and billing	(28,240)	-	(26,613)	-	(1,627)
Corporate	(1,767)	-	(170)	-	(1,597)
Other operating expenditure	(39,451)	(10,081)	(10,014)	(14,472)	(4,884)
Total directly attributed costs	**(393,759)**	**(75,643)**	**(252,746)**	**(14,472)**	**(50,898)**
Causally allocated costs					
Operations	(21,878)	(5,837)	(16,041)	-	-
Maintenance	-	-	-	-	-
Customer service and billing	-	-	-	-	-
Corporate	(140,873)	(39,171)	(100,904)	-	(798)
Other operating expenditure	(141,000)	-	(141,000)	-	-
Total causally allocated costs	**(303,751)**	**(45,008)**	**(257,945)**	**-**	**(798)**
Total operating expenditure costs	**(697,510)**	**(120,651)**	**(510,691)**	**(14,472)**	**(51,696)**

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 2016

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management $'000	Unregulated $'000
Superannuation for defined benefit schemes	(276)	(74)	(202)	-	-
Non-revenue cap services	(17,336)	(5,381)	(11,955)	-	-
Energy*Safety* levy	(4,319)	(1,270)	(3,049)	-	-
Network control services	(1,510)	(444)	(1,066)	-	-
ERA costs under *ERA (Electricity Networks Access Funding) Regulations 2012*	(779)	(229)	(550)	-	-
Total operating expenditure costs to be excluded from gain sharing mechanism	**(24,220)**	**(7,398)**	**(16,822)**	**-**	**-**

10. Operating expenditure (regulatory financial statement) for the year ended 30 June 2016

Covered Transmission

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Operations				
SCADA and communications	(12,596)	-	(12,596)	
Non-revenue cap services	(5,381)	-	(5,381)	
Network operations	(5,837)	-	(5,837)	
	(23,814)	-	(23,814)	
Maintenance				
Preventative condition	(11,311)	-	(11,311)	
Preventative routine	(22,906)	-	(22,906)	
Corrective deferred	(10,311)	-	(10,311)	
Corrective emergency	(3,057)	-	(3,057)	
	(47,585)	-	(47,585)	
Corporate				
Business support	(39,171)	(3,474)	(42,645)	12.3
Other operating expenditure				
Non-recurring expenditure	(10,081)	-	(10,081)	
Total operating expenditure costs	**(120,651)**	**(3,474)**	**(124,125)**	

Covered Distribution

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Operations				
Reliability operations	(1,957)	-	(1,957)	
SCADA and communications	(5,632)	-	(5,632)	
Non-revenue cap services	(11,955)	-	(11,955)	
Network operations	(16,041)	-	(16,041)	
	(35,585)	-	(35,585)	
Maintenance				
Preventative condition	(40,534)	-	(40,534)	
Preventative routine	(52,355)	-	(52,355)	
Corrective deferred	(24,350)	-	(24,350)	
Corrective emergency	(79,166)	-	(79,166)	
	(196,405)	-	(196,405)	
Customer service and billing				
Call centre	(3,708)	-	(3,708)	
Metering	(16,691)	-	(16,691)	
Guaranteed service level payments	(746)	-	(746)	
Distribution quotations	(5,468)	-	(5,468)	
	(26,613)	-	(26,613)	
Corporate				
Business support	(101,074)	(8,339)	(109,413)	12.3
Other operating expenditure				
Non-recurring expenditure	(10,014)	-	(10,014)	
Tariff equalisation contribution	(141,000)	-	(141,000)	
	(151,014)	-	(151,014)	
Total operating expenditure costs	**(510,691)**	**(8,339)**	**(519,030)**	

11. Contributions for the year ended 30 June 2016

Covered Transmission

Reason for contributions	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Customer driven	7,143	(1,776)	5,367	
Total contributions	**7,143**	**(1,776)**	**5,367**	**12.1**

Covered Distribution

Reason for contributions	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Customer driven	68,628	12,613	81,241	
Gifted network assets	123,773	-	123,773	
Asset replacement	(47)	-	(47)	
SUPP	5,506	598	6,104	
Metering	3,440	-	3,440	
Regulatory compliance	(12)	-	(12)	
Other	78	-	78	
Total contributions (including gifted network assets)	**201,366**	**13,211**	**214,577**	**12.1**

12. Regulatory adjustments for the year ended 30 June 2016

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 $'000	Unregulated $'000
Capital contributions recognised (statutory)	**208,509**	**7,143**	**201,366**	**-**	**-**
Regulatory cash adjustment:					
Net capital contributions deferred to balance sheet					
Opening deferred income (capital contributions)	(62,668)	(9,404)	(53,264)	-	-
Closing deferred income (capital contributions)	74,449	4,774	69,675	-	-
	11,781	(4,630)	16,411	-	-
Net capital contributions invoiced but not yet received	(474)	2,726	(3,200)	-	-
Net capital contributions accrued but not yet refunded	128	128	-	-	-
Total regulatory cash adjustment	**11,435**	**(1,776)**	**13,211**	**-**	**-**
Capital contributions received (regulatory)	**219,944**	**5,367**	**214,577**	**-**	**-**

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 $'000	Unregulated $'000
Opening capitalised borrowing costs (statutory)	(90,579)	(90,579)	-	-	-
Capitalised borrowing costs in reporting year	(2,209)	(2,209)	-	-	-
Closing capitalised borrowing costs (statutory)	**(92,788)**	**(92,788)**	**-**	**-**	**-**

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 at the reporting date (30 June 2016: 30 per cent), and is adjusted against current 'trade and other payables' 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*

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 in the balance sheet until the project is completed 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 and in accordance with the historical cost convention, except for the following:

> capital contributions and cash flow information are prepared on a cash accounting basis
> derivative financial instruments are measured at fair value
> certain employee benefit provisions are 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 listed 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.

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 following 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 system operations and 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 2016: $141.586 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 is also 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 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 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 2016, 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 2016, 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 2016, 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 assets 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 presented below, making allowances where appropriate for residual values.

Categories of property, plant and equipment	Useful life (years)
Substations, transformers, poles and cables	45 - 50
Buildings	40
Land improvements and infrastructure	25
Meters, streetlights	20 - 25
Pole reinforcements, smart meters	15
Furniture and fittings, refurbishments, other plant & 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 residual useful lives. No depreciation is provided on freehold land, easements and assets in the course of construction.

The residual value, 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 2016, 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 2016, 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 presented below, making allowances where appropriate for residual values.

Categories of intangible assets	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 residual useful lives.

The residual value, 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 2016, 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 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 following 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'. 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.

<u>Defined contribution plans</u>

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.

<u>Defined benefit plans</u>

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	**G Martin**
Board Chair	*Board Deputy Chair*

15 September 2016

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Serving the Public Interest

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Our Ref: 5563-06

Chairman of Directors
Electricity Networks Corporation
363 Wellington Street
PERTH WA 6000

Dear Sir

AGREED UPON PROCEDURES ENGAGEMENT ON WESTERN POWER'S REGULATORY FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

Attached is the report on agreed upon procedures for the regulatory financial statements for the year ending 30 June 2016, 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 Senior Director, Patrick Arulsingham, on 6557 7644 if you would like to discuss these matters further.

Yours faithfully

GLEN CLARKE
ACTING AUDITOR GENERAL
20 October 2016

Attach

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

Procedure 1

Obtain the 30 June 2016 RFS and agree the base account numbers to Western Power's 30 June 2016 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 RFS to be in agreement, except for the exception noted as 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 $36,508,000 in both of these categories.

The explanation for this variance is noted on page four 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 2016 statutory financial statements. The grossing up is a requirement of the ERA guidelines, which varies from the AASB required accounting treatment.

Procedure 2

Agree the allocations of revenue (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 the 30 June 2016 RFS profit and loss account to the CRAM (business segment).

Factual findings

We found the base account numbers within the RFS to be in agreement, except for the exception noted as documented on the following page.

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 financial system via the account code structure. 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 System Management).
2. Appendix C of the CRAM also stipulates the methodology for revenue allocation.
3. The RFS revenue categories (e.g. network services, contributions, proceeds from disposal of assets, 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 on the following page.

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

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) $1,515,591,000	Network Services (Revenue Cap) 118012733000	$104,456,910	Distribution	Direct	Yes
Network service (non-revenue cap) $15,198,000	Network Services (Non-Revenue Cap) 991313023000	$202,699	Distribution	Direct	Yes
Network service (other) $66,735,000	Network Services (Other) 601428002000	$792,785	Transmission	Direct	No
Contributions (excluding gifted network assets) $84,736,000	Customer Contributions (Excluding Gifted Network Assets) 601330522000	$423,901	Transmission	Direct	Yes
Gifted network assets $123,773,000	Gifted Assets 602530563000	$15,965,098	Distribution	Direct	Yes
Proceeds from disposal of assets $63,476,000	URD PAD 'Grand Blvd & Davidson Tce Joondalup	$26,297,000	Distribution	Direct	Yes
Other income $7,553,000	Interest /Discounts 130061551000	$23,326	Distribution	Indirect	Yes

Exception noted

We noted in Procedure 2 there was an exception in applying the CRAM with respect to the allocation of "Network Services (Other)".

A total of $1,323,496.04 was recorded under the "Corporate" business segment, which was then allocated to the Transmission and Distribution business segment based on the FTE ratio, which was not in accordance with the CRAM.

According to the CRAM, "Network Services (Other)" was to be allocated on a direct allocation basis.

The 2015/16 CRAM was corrected by management to bring it in line with the actual allocation applied in the RFS balance sheet.

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 the 30 June 2016 RFS profit and loss account to the CRAM (business segment and regulatory category).

Factual 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:

1. Section 6.3 of the CRAM provides for the following allocation with respect to costs:
   - All cost items are recorded in financial system via the account code structure. 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 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 on the following page.

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 $102,189,000	Transmission Line Relocations 533010102000	$46,450	Transmission	Direct	Yes
Maintenance $243,990,000	Preventative Routine 601320552000	$109,002	Transmission	Direct	Yes
Customer service and billing $28,240,000	Power Training Services 945010003000	$732,071	Unregulated	Direct	Yes
Corporate $142,640,000	Fringe Benefits Tax 100460051000	$118,640	Distribution	Indirect (FTE)	Yes
Other operating expenditure $180,451,000	Non Recurring Operating Expenditure 602628003000	$25,182	Distribution	Direct	Yes

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 30 June 2016 RFS profit and loss account to the CRAM (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	n/a
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. The allocation methodology applied is consistent with the CRAM. The procedures 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	$314,794,000	Yes
Bad debts	$488,000	Yes
Borrowing costs	$324,004,000	Yes
Book value on disposal of assets	$36,508,000	Yes
Taxation equivalent	$149,886,000	Yes

Procedure 5

Agree the allocations of cash flows for operating activities, investing activities and financing activities (i.e. receipts and payments) as disclosed in the 30 June 2016 RFS cash flow statement to the CRAM (business segment).

Factual findings

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

Testing details

Each cash flow item above 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 hence are in accordance with the CRAM with the exception of revenue from "Network services (other)".

Exception noted

We note in Procedure 2 there was an exception in applying the CRAM with respect to the allocation of revenue from "Network Services (Other)". The financial impact on the RFS cash flow statement was immaterial.

The 2015/16 CRAM was corrected by management to bring it in line with the actual allocation applied in the RFS cash flow statement.

Procedure 6

Agree the allocation of assets and liabilities as disclosed in the 30 June 2016 RFS balance sheet to the CRAM (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
Cash and Cash Equivalents	PPE	PPE	n/a	n/a
Trade and Other Receivables (& Current Taxation Equivalent Assets)	Direct & then Network Services Revenue, Accrued Revenue &/ or PPE for remaining	Direct & then Network Services Revenue, Accrued Revenue &/ or PPE 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 & then FTE for remaining	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
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
Derivative Financial Instruments	PPE	PPE	n/a	n/a

Current Liabilities	Transmission	Distribution	System Management	Unregulated
Borrowings	Borrowings (non-current)	Borrowings (non-current)	n/a	Borrowings (non-current)
Trade and Other Payables (& Current Taxation Equivalent Liabilities)	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 & then PPE for remaining	Direct & then 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
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	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

Procedure 7

Agree the allocations of capital expenditure (i.e. additions) as disclosed in the 30 June 2016 RFS to the 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
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
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[1]	Direct & then PPE for remaining	Direct & then PPE for remaining	n/a	n/a

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 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 $52,742,000	2000	$36,696	Transmission	Direct	Yes
Customer driven $145,508,000	3000	$448,005	Distribution	Direct	Yes
Gifted network assets $123,773,000	3000	$25,231,400	Distribution	Direct	Yes
Asset replacement $177,528,000	2000	$24,473	Transmission	Direct	Yes
State underground power project $10,770,000	3000	$289,707	Distribution	Direct	Yes
Metering $26,495,000	3000	$967,360	Distribution	Direct	Yes
Wood pole management $186,445,000	3000	$70,151	Distribution	Direct	Yes
Reliability driven $776,000	3000	$21,497	Distribution	Direct	Yes
Supervisory control and data acquisition & communications $20,164,000	3000	$116,107	Distribution	Direct	Yes

Expenditure category and $ (as disclosed in the RFS)	Asset segment code	Amount ($)	RFS business segment	Type of allocation	Account code allocation agreed to CRAM
Regulatory compliance $58,240,000	2000	$506,068	Transmission	Direct	Yes
Information technology $17,568,000	2000	$47,870	Transmission	Direct	Yes
Business support $22,708,000	3000	$62,251	Distribution	Direct	Yes
Capitalised interest $2,209,000	2000	$42,334	Transmission	Direct	Yes
Market reform $156,000	4000	$21,497	System Management	Direct	Yes
Mobile plant and vehicles $8,976,000	1000	$61,422	Unregulated	Direct	Yes
Stand-alone power systems $1,311,000	3000	$16,260	Unregulated	Direct	Yes

Procedure 8

Select at least two regulatory adjustments as disclosed in the 30 June 2016 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.

Procedure 9

Check the mathematical accuracy and perform a cross-reference of the balances disclosed within the 30 June 2016 RFS.

Factual findings

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

Testing details

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

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**)