



Economic Regulation Authority
WESTERN AUSTRALIA

ANNUAL REPORT 2017/18



Economic Regulation Authority

Statement of compliance

Hon. Ben Wyatt MLA

Treasurer
11th Floor, Dumas House
Havelock Street
West Perth WA 6005

Dear Treasurer

ECONOMIC REGULATION AUTHORITY 2017/18 ANNUAL REPORT

In accordance with section 61 of the *Financial Management Act 2006*, I hereby submit for your information and presentation to Parliament, the annual report of the Economic Regulation Authority for the financial year ended 30 June 2018.

The annual report has been prepared in accordance with the provisions of the *Financial Management Act 2006*, the *Public Sector Management Act 1994* and the Treasurer's Instructions.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Nicola Cusworth'.

Nicola Cusworth
Chair

Contact details

Office address

Level 4, Albert Facey House
469 Wellington Street
Perth WA 6000

Office hours 9:00am to 5:00pm
Monday to Friday (except public holidays)

Postal address

PO Box 8469
Perth WA 6849

Telephone 08 6557 7900

Fax 08 6557 7999

Email records@erawa.com.au

Website www.erawa.com.au

More information about the ERA is available on our website, or search for “Economic Regulation Authority” on **LinkedIn**.

Accessing the annual report

The 2017/18 annual report and previous reports are available on the ERA’s website: **www.erawa.com.au**.

To make the annual report as accessible as possible, we have provided it in the following formats:

- An interactive PDF version, which has links to other sections of the annual report.
- A version with separate chapters to reduce file size and download times.
- A text version, which is suitable for use with screen reader software applications.

This report can also be made available in alternative formats upon request.

National Relay Service
TTY: 13 36 77

Contents

Statement of compliance	2	Agency performance	15	Significant issues affecting the agency	33
Contact details	3	Energy Markets	16	Economic, policy and social trends	34
Accessing the annual report	3	Annual report to the Minister	16	Changes in law	34
Contents	4	Monitoring and investigations	16	Likely developments	35
Overview	5	Compliance with the Market Rules	17	Disclosures and legal compliance	36
Executive summary	6	Annual Electricity Generation and Retail Corporation review	18	Independent Auditor's Report	37
2017/18 highlights	8	Rule Change Panel support	19	Financial statements	39
About the ERA	9	Regulation and Inquiries	20	Notes to the financial statements	44
Our governance framework	9	Licensing	20	Certification of key performance indicators	67
Our values	9	Water report	22	Key performance indicators	68
Legislation	10	Energy retailers report	23	Key effectiveness indicators	68
Responsible Minister	10	Energy distributors report	24	Key efficiency indicators	70
Our funding	10	Consumer protection	25	Ministerial directives	71
Organisational structure	10	Electricity access	26	Other financial disclosures	71
Organisational chart	11	Rail access	26	Capital works	74
Governing Body	12	Gas access	27	Employment and industrial relations	74
Executive team	13	Inquiries	29	Governance disclosures	76
Performance management framework	14	Corporate Services	30	Other legal requirements	77
Relationship to government goals	14	Key performance indicators	31	Government policy requirements	78
Shared responsibilities with other agencies	14	Performance against key performance indicators	31	Appendices	80
		Financial performance	32	Appendix 1 Other legislation	80
				Appendix 2 Senior staff	81

Overview

Our mission:

To ensure that the State of Western Australia has an efficient and customer-focused economy.



Executive summary

This year saw significant changes in leadership at the ERA. Greg Watkinson and Ray Challen joined me as members of the Governing Body, which is the ERA's decision-making authority. Greg has extensive knowledge of the ERA's work and processes as its former chief executive officer, while Ray brings a deep understanding of the State's electricity sector following many years leading the Public Utilities Office.

This is the first time since August 2014 that the Governing Body has operated at its full complement of a chair and two part-time members, and I have greatly appreciated these new members' contribution to our decision making.

In November, we also welcomed Jenness Gardner as chief executive officer. Jenness has considerable experience in economic policy development, commercial negotiations and large-scale project development.

With this new leadership team, the Governing Body is looking at ways to improve our engagement with stakeholders and the general public, and communicate more effectively the work the ERA does on behalf of the Western Australian community.

In late 2017, a new framework for information disclosure and arbitration for non-scheme gas pipelines came into effect in Western Australia, with the ERA taking on responsibility for enforcing and monitoring compliance.

The ERA is affected by the abolition in October 2017 of Limited Merits Reviews, which had allowed stakeholders to challenge the prices and revenues set by the regulator for access to monopoly gas pipelines. This reform is intended to lower barriers to consumer participation, and create more certainty for both regulators and consumers.

We are also awaiting the outcomes of the review of Western Australia's rail access regime, conducted by the Department of Treasury, which will address recommendations

made by the ERA in its previous reviews of the *Railways (Access) Code 2000*.

We spent much of 2017/18 working on Western Power's proposed access arrangement for the next five years. The ERA must decide whether the proposal promotes economically efficient investment in and operation of the network, and competition in the market. We released a draft decision for comment in May 2018, with the final decision due in the first half of 2018/19.

In 2017/18, we completed two major inquiries – one into the Emergency Services Levy, and the other into the efficiency of water costs and tariffs in Western Australia.

The ERA released the final report for the Emergency Services Levy inquiry in October 2017. Its recommendations included using the levy to fund a rural fire service if one was introduced, and improved governance and transparency in the way levy funding is allocated. Six months later, the State Government announced it would create a Rural Fire Division in the Department of Fire and Emergency Services, and improve oversight of levy expenditure.

In the water inquiry, the ERA found that the State's three major water corporations were recovering significantly more revenue than needed to cover the efficient cost of supplying services.

Following the conclusion of these inquiries, the Treasurer, the Hon Ben Wyatt MLA, directed the ERA to start a new inquiry into operational and business licensing in Western Australia and identify opportunities for reform. This inquiry is due to be completed in February 2019.

In January 2018, our Utilities Services Regulation team finalised a review of the *Water Services Code of Conduct (Customer Service Standards) 2013*. This was the first review of the Code since its inception, and changes introduced new protections for consumers in areas such as payment plans, life support, and reminder notices, and removed some regulatory burdens for licensees. The updated code came into effect on 1 July 2018.

This is an example of the ERA's role of setting and monitoring the conditions under which suppliers of water, gas and electricity must deal with their customers.

Our Energy Markets division promotes competition between generators and retailers by monitoring rules requiring that the most efficient and lowest cost generators are used to supply electricity, keeping prices as low as practicable.

In 2017/18, the ERA was given a new legislative obligation to review some of the ways the Wholesale Electricity Market operates. The first of these reviews will look at the method used to certify capacity for intermittent generators, also called the "relevant level methodology". If the ERA finds areas for improvement it may propose changes to the Market Rules.

The ERA monitors compliance with the Wholesale Electricity Market and Gas Services Information Rules. In 2017/18 we completed 108 investigations into alleged non-compliant behaviour. We also provided our first report to the Minister for Energy on our own compliance with the rules, which included the findings of an independent audit that the ERA had met its obligations.

The ERA provides administrative support to the independent Rule Change Panel overseeing the Wholesale Electricity Market and Gas Services Information Rules.

Our Corporate Services division has been focussed on bedding down structural changes made in 2016/17, as well as working with the new chief executive officer to improve and streamline business processes.

I conclude by thanking the staff of the ERA for their professionalism and their dedication to ensuring that Western Australia has an efficient and customer-focused economy.



Nicky Cusworth
Chair

2017/18 highlights

13 July	Switched On energy consumer guide updated
31 July	Investigation into Synergy pricing behaviour announced
28 September	Energy price limits approved for 2017
2 October	Report to the Minister for Energy on ERA's compliance
12 October	New chief executive officer appointed
19 October	Emergency services levy inquiry released
30 November	Inquiry into water costs and tariffs released
	New inquiry into business and occupational licensing announced
11 December	Audit of Western Power's distribution and transmission licenses released
23 December	Non-scheme gas pipeline regulatory framework begins operation
4 January	Reports on energy retailer and distributor performance released
15 January	Annual Wholesale Electricity Market report released
31 January	<i>Water Services Code of Conduct</i> review finalised
6 March	National performance report into urban water utilities published
28 March	2018/19 determination of Margin Peak and Margin Off-Peak parameters
2 May	Draft decision on Western Power's fourth access arrangement released
21 May	Review of all electricity licences completed
	New <i>Code of Conduct for the Supply of Electricity to Small Use Customers</i>
22 June	Energy price limits approved for 2018



About the ERA

The ERA is Western Australia's independent economic regulator, established under the *Economic Regulation Authority Act 2003*.

We aim to ensure the delivery of water, electricity, gas and rail services in Western Australia is in the long-term interests of consumers.

We make our decisions independently from industry, government and other interests, and are not subject to government or ministerial direction in carrying out our regulatory functions.

We regulate the gas, electricity and rail industries, and license providers of gas, electricity and water services. We also conduct inquiries into economic matters referred to us by the State Government, and have a range of responsibilities in the retail gas market and Wholesale Electricity Market in Western Australia.

Our functions are designed to maintain a competitive, efficient and fair commercial environment, particularly where businesses operate as natural monopolies.

Our governance framework

The ERA comprises a three-member Governing Body and a Secretariat. The Governing Body is the decision-making group which performs the functions of the ERA.

Our values

EXCELLENCE

We strive to achieve excellence in everything we do.

RESPECT

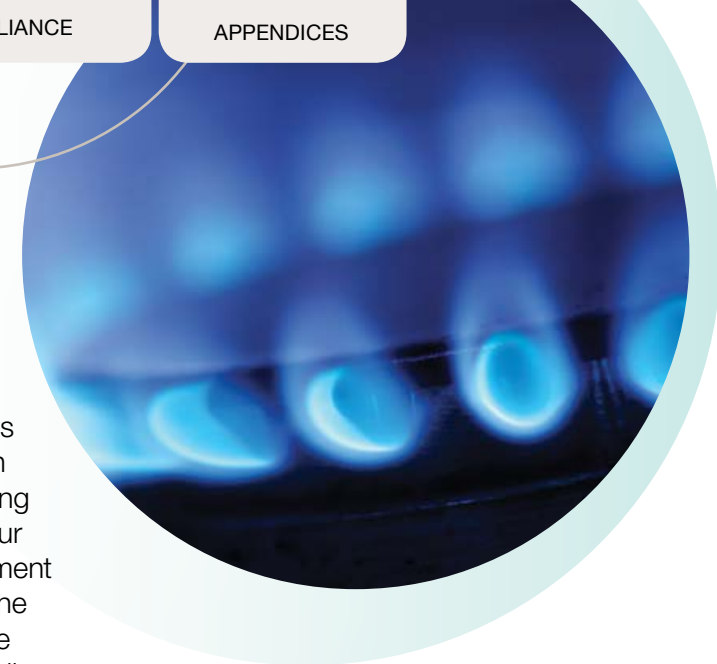
We treat everyone fairly and show consideration and regard for others and their views.

IMPARTIALITY

We make independent decisions that are free from bias.

INTEGRITY

We are honest, trustworthy and not unduly influenced.



Legislation

The ERA was established by the *Economic Regulation Authority Act 2003*.

This Act gives us functions under the following Acts of Parliament:

- *Energy Coordination Act 1994*
- *National Gas Access (WA) Act 2009*
- *Railways (Access) Act 1998*
- *Water Services Act 2012*.

The Act also allows for us to be given functions under other Acts of Parliament. The enactments that have effect at 30 June 2018 are:

- *Electricity Industry Act 2004*
- *Electricity Corporations (Electricity Generation and Retail Corporation) Regulations 2013*
- *Gas Service Information Act 2012*
- *Energy Industry (Rule Change Panel) Regulations 2016*.

Other legislation affecting the ERA's operations is listed in Appendix 1.

Responsible Minister

Although the ERA functions independently of government, it can receive written directions on financial and administration matters from the Treasurer, the Hon Ben Wyatt MLA.

The ERA provides reports and analysis to the following ministers:

- The Minister for Energy, the Hon Ben Wyatt MLA, on the Wholesale Electricity Market, and electricity and gas licensing
- The Treasurer, on economic inquiries
- The Minister for Water, the Hon Dave Kelly MLA, on water licensing.

Our funding

The ERA's primary functions are funded by industry, with industry contributions making up around 80 per cent of our funding. The State Government provides the remainder of the funding, which supports the inquiries, gas market and rail functions, as well as our annual review of Synergy's regulatory scheme.

Organisational structure

The ERA's Secretariat has three divisions.

Corporate Services provides strategic business planning and executive support to the Governing Body and Secretariat.

The **Regulation and Inquiries** division administers and monitors electricity, gas and water licences, and has a consumer protection function that monitors market conduct, contracts, billing, financial hardship and complaints.

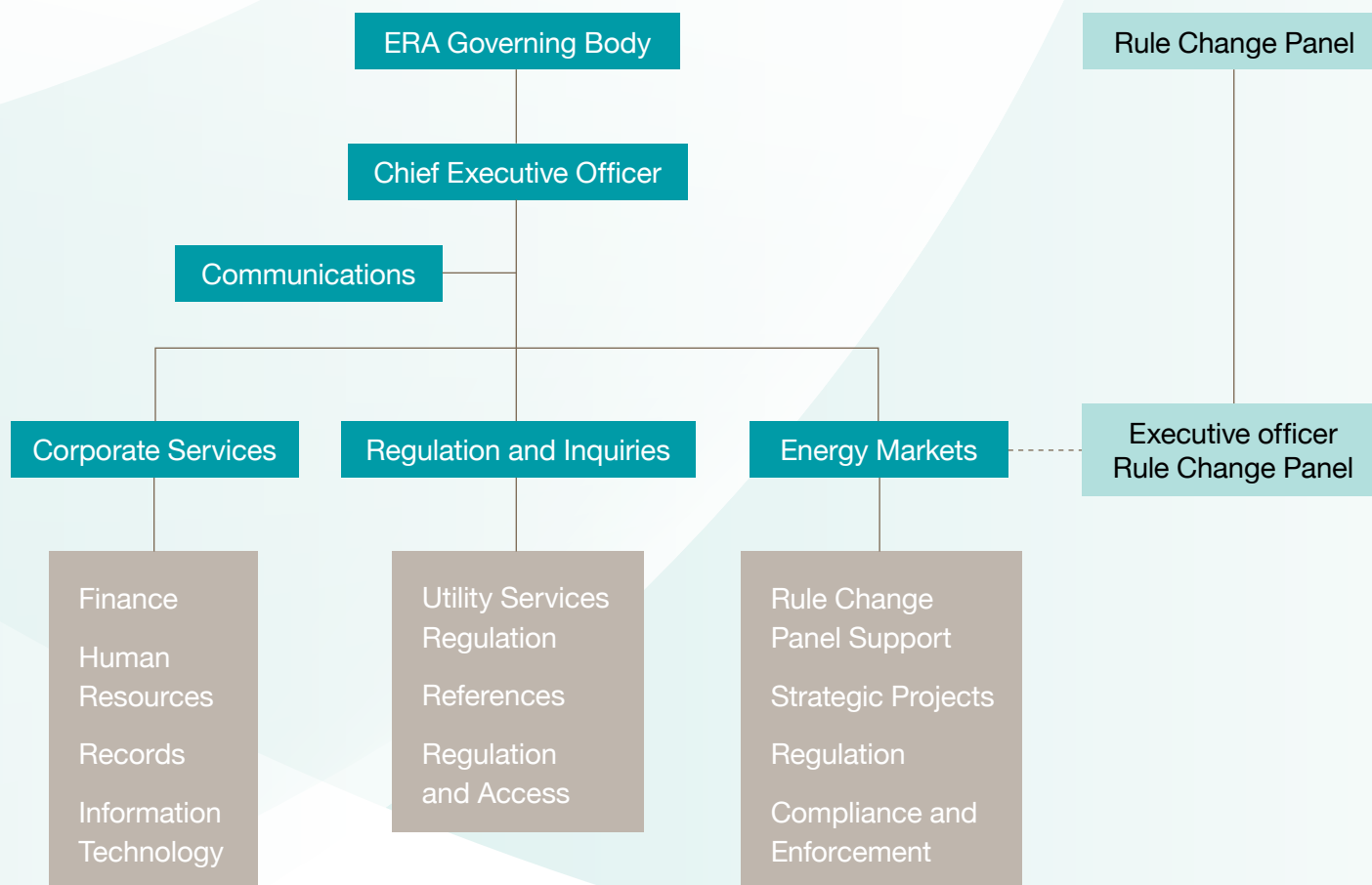
This division also regulates third party access to electricity, gas and rail infrastructure, and conducts inquiries into important economic matters, as requested by the Treasurer.

The **Energy Markets** division monitors the Wholesale Electricity Market to ensure participants are operating within the market rules.

This division ensures that market participants comply with the obligations of the market and the Gas Services Information Rules. It investigates alleged breaches and takes compliance action.

The division is also responsible for amendments to the Gas Retail Market Scheme.

Organisational chart



Governing Body

The ERA is overseen by a Governing Body that consists of a full-time Chair, and two part-time Members who were appointed during 2017/18.



Nicola Cusworth
Chair

Nicky took up her position as Chair of the ERA in July 2016.

Before joining the ERA, Nicky was Deputy Director General at the former Department of State Development, and also previously worked for the Department of Treasury and Finance, and the Chamber of Commerce and Industry of Western Australia.

Nicky has extensive experience in economic policy and analysis, and has participated in projects including the electricity market review and the Mineral Royalty Rate Analysis.

Nicky has a degree in philosophy, politics and economics from Oxford University.



Greg Watkinson
Member

Greg was appointed as a member of the ERA's Governing Body in July 2017. Prior to this he was the ERA's chief executive officer since February 2010.

Greg has worked as an economist in the public sector, including at the Department of Treasury and Finance, and in the areas of macroeconomics, education and social policy.

He has a master's degree in economics.



Ray Challen
Member

Ray joined the Governing Body in August 2017. Prior to that, he was the Coordinator of Energy in Western Australia and the head of the Public Utilities Office for five years, during which time he led the electricity market reform program of the state government.

Ray has worked for 20 years in the downstream energy and public policy sectors, advising both businesses and governments in regulatory policy and market arrangements.

He has a PhD in economics from the University of Western Australia.

Executive team

The Secretariat provides support to the Governing Body and is led by the chief executive officer.



Jenness Gardner
Chief Executive Officer

Jenness joined the ERA as chief executive officer in November 2017. She has worked extensively in state and commonwealth government, most recently as executive director at the Department of Jobs, Tourism, Science and Innovation.

Prior to that she was with the Department of Commerce.

Jenness has significant experience working in the resources sector leading economic policy development, commercial negotiations and large scale project development for the State.

She has an honours degree in economics.



Paul Kelly
*Executive Director
Regulation and Inquiries*

Paul has been with the ERA since it began in 2004.

Prior to his current role, Paul was director of the ERA's water division, and he previously worked at the Office of Water Regulation, Western Australia.

Paul has almost 30 years' experience at senior levels in the public sector. In addition to his role as executive director, he also holds the statutory positions of chairman of the consultative committees for reviews of the water, electricity and gas marketing codes of conduct.

Paul has a master's degree in social science.



Rajat Sarawat
*Executive Director
Energy Markets*

Rajat joined the ERA in January 2012.

Prior to joining the ERA, Rajat held various senior positions with the Essential Services Commission of South Australia and the Australian Energy Market Commission, where he led price reviews, access arrangements and inquiries.

He has more than 20 years of experience working in economic regulation.

Rajat has a Bachelor of Science and a Master of Business Administration.



Pam Herbener
*Director
Corporate Services*

Pam has been with the ERA since it began in 2004, and has worked in Western Australian access regulation since 1998.

Pam has more than 30 years' management experience across the not-for-profit, local, state and commonwealth government sectors.

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



Performance management framework

Relationship to government goals

The ERA's activities support the government goal of "Better places: a quality environment with liveable and affordable communities and vibrant regions".

Government goal	Better places: a quality environment with liveable and affordable communities and vibrant regions.
Desired outcome	The efficient, safe and equitable provision of utility services in Western Australia
Service	Submissions to the ERA Governing Body

Shared responsibilities with other agencies

The ERA did not share any responsibilities with other agencies during 2017/18.

Agency performance



Energy Markets

The ERA monitors and regulates the Wholesale Electricity Market (WEM) in Western Australia. The market consists of private and government-owned companies including generators, retailers and the network operator.

The Australian Energy Market Operator (AEMO) manages the market operations and power system operations functions for the WEM.

The Energy Markets division carries out the regulatory functions for the market, which include monitoring the effectiveness of the market, monitoring and enforcing compliance with the Market Rules and a range of review and approval functions for market parameters.

Annual report to the Minister

Each year, the ERA provides a report to the Minister for Energy on the effectiveness of the WEM in meeting the market objectives.

These objectives are:

- Promoting the economically efficient, safe and reliable production and supply of electricity and electricity related services.
- Encouraging competition among generators and retailers, including facilitating the entry of new competitors.
- Avoiding discrimination against particular energy options and technologies.
- Minimising the long-term cost of electricity supplied to customers.
- Encouraging measures to manage the amount of electricity used and when it is used.

In its report released in January 2018, the ERA found that the WEM met some of these objectives in 2016/17. The WEM delivered secure and reliable electricity supplies, and excess generation capacity has been removed from the market.

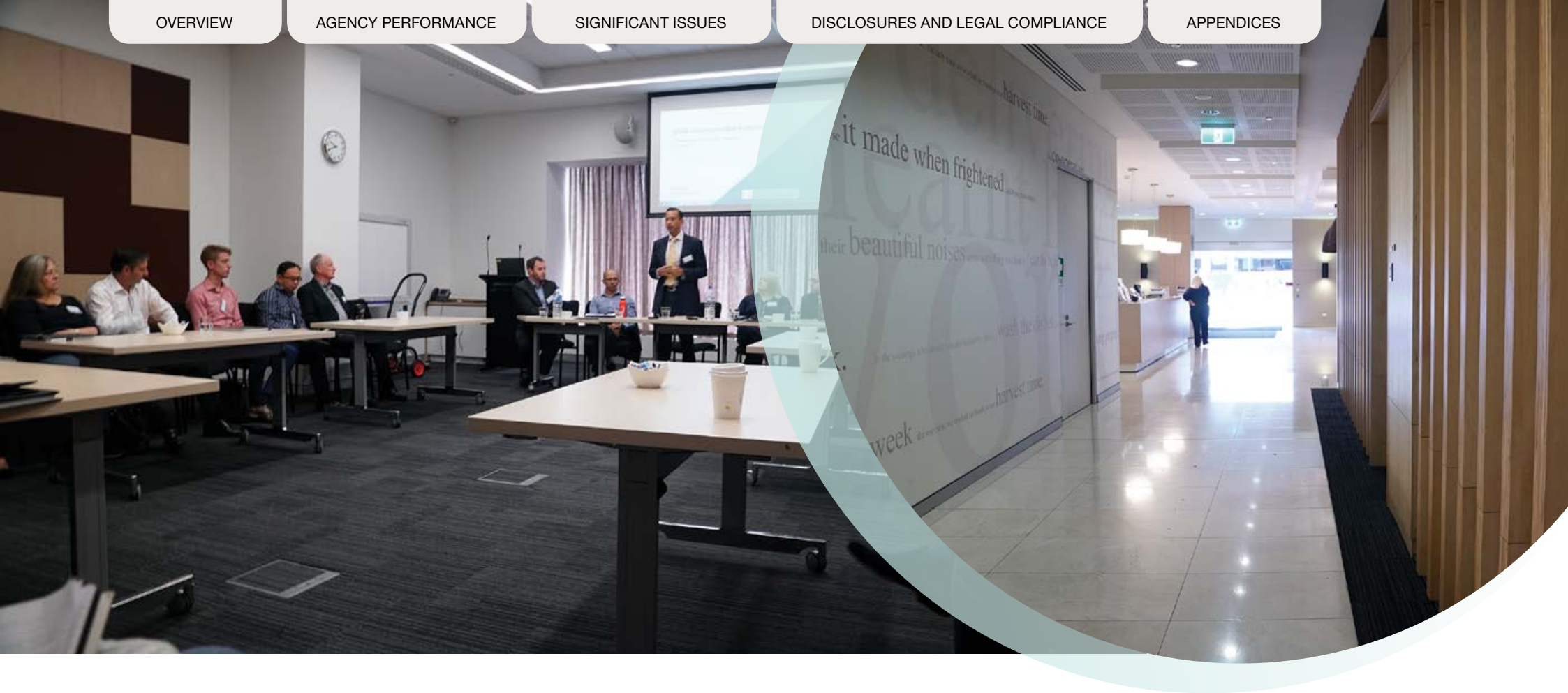
However, there is still limited competition in the WEM, and wholesale energy prices both increased over the review period and were more volatile. This is despite low spot market prices for gas, an important input to electricity generation. A lack of price competition in the wholesale market may be driving up wholesale electricity prices. The ERA recommended tightening market power mitigation measures to further encourage competition.

As the amount of renewable energy connecting to the grid increases, the market must adapt to keep pace. The ERA recommended a change to the Market Rules to allow intermittent generators to connect without compromising reliability.

Monitoring and investigations

The ERA monitors price offers from operators of power stations when offering energy in to the WEM. The purpose of monitoring is to detect any exploitation of market power to wholesale electricity prices to the detriment of customers. Following an investigation by the ERA into prices offered by Vinalco Pty Ltd, on 5 May 2016 the Independent Market Operator commenced proceedings before the Electricity Review Board. The matter was heard by the Board in May 2017. The Board released its findings on 1 September 2017, determining that Vinalco contravened the Market Rules during two periods in 2014.

In July 2017 the ERA began an investigation into prices offered by Synergy in the WEM. This investigation was still under way on 30 June 2018.



The ERA also investigates other non-compliance with the Market Rules and Gas Services Information Rules. This can include non-compliance with data provision requirements, generator dispatch non-compliance, generator outage and availability requirements, and bidding obligations.

During 2017/18, the ERA completed 108 investigations of suspected breaches. The ERA issued three

warnings to participants and instructed AEMO to recover \$1.267 million of incorrect out-of-merit payments.

Compliance with the Market Rules

The ERA reports annually to the Minister for Energy on AEMO's compliance with the Market Rules. This year's report found that AEMO was largely compliant

with its obligations. All the matters investigated were of technical compliance, with no material consequences or risks.

The matters of most concern were information technology failures and the adequacy of AEMO's control room staffing during summer. The ERA was satisfied that AEMO had processes in place to manage these risks.

In October 2017, the ERA also provided its first report to the Minister for Energy on our own compliance with the Market Rules. An independent auditor confirmed the ERA's compliance and made recommendations for improvements to internal procedures and documentation.

Annual Electricity Generation and Retail Corporation review

Each year, the ERA reviews the effectiveness of the regulatory scheme put in place to limit Synergy's market power following the merger of Verve Energy (generation) and Synergy (retail) on 1 January 2014.

The Electricity Generation and Retail Corporation regulations protect third party retailers and consumers in the energy market. The scheme requires Synergy to ring-fence its generation and retail businesses and not discriminate between its retail business and competitors when offering wholesale electricity supplies. As part of the scheme, Synergy must offer standard wholesale contracts (standard products) to buy and to sell electricity, so other market participants can lock in future wholesale electricity prices.

In the 2016 scheme report, released in November 2017, the ERA recommended changes to encourage more competition in the WEM through price discounting, product innovation and more opportunities for contracting.

One recommendation was to reduce the spread between the sell and buy prices of standard contracts from 20 per cent to 10 per cent. As Synergy applies the same method for calculating standard product prices to other contracts, this is likely to flow through to all wholesale electricity contracts, ultimately benefitting consumers.

Case study: Involvement in the rule change process

In 2015/16, the Government made changes to the energy sector, including new functions for the ERA, and the creation of the independent Rule Change Panel. The rule change process was previously managed by the Independent Market Operator.

The rules for the WEM and gas services provide a process whereby anyone can propose a rule change. The rule change process is then administered by the Rule Change Panel. The types of rule changes that may be proposed range from minor administrative and process changes to complex operational and policy changes.

In May 2018, the ERA released a statement outlining its position on the scope of rule changes that we may propose to provide clarity to stakeholders on our role.

As a statutory authority, the ERA's functions and powers are limited by legislation. These functions include monitoring the effectiveness of the market, undertaking compliance and enforcement activities, completing market approval processes and conducting periodic reviews. The ERA will only initiate rule change proposals that are conducive or incidental to the performance of these functions, and not to develop the market or set policy.

During the year, the ERA started its first rule change proposal under the new arrangements, which will seek to address process issues for the ERA's market compliance function.

Rule Change Panel support

The Rule Change Panel is an independent body established on 24 November 2016 under the *Energy Industry (Rule Change Panel) Regulations 2016*. The panel administers the rule change process and makes decisions on Rule Change Proposals for the Wholesale Electricity Market Rules and Gas Services Information Rules.

The ERA provides secretariat support to the Rule Change Panel, including an executive officer and supporting staff who are the first point of contact for stakeholders. The Rule Change Panel and the ERA are separate entities, and the Rule Change Panel and the Governing Body of the ERA have no involvement in each other's decisions.

This was Rule Change Panel's first full year of operation. In 2017/18, panel support staff and the broader ERA Secretariat have invested considerable time and effort to ensure that adequate ring-fencing arrangements are in place and functioning correctly.

The Rule Change Panel publishes its own annual activities report, which is available on its website (www.erawa.com.au/rule-change-panel).

Case study: Margin values

Spinning reserve is a market service that ensures electricity supply remains stable when a large generator or piece of transmission equipment fails. In these events, it means that online capacity, like generation, can be activated very quickly to avoid blackouts and disconnections.

The ERA plays a role to determine how much Synergy, the default provider of spinning reserve, is paid for that service. Each year, the ERA determines the margin values used in the payment calculations based on a proposal submitted by AEMO.

For 2018/19, the ERA considered AEMO's proposal but chose to recalculate margin values using an approach that minimises errors in the calculation process. The ERA's determination for 2018/19 set margin values much lower than those proposed by AEMO at 25 per cent (peak) and 50 per cent (off-peak). We also identified conceptual and mathematical improvements that AEMO can make to improve next year's calculations.

Regulation and Inquiries

The Regulation and Inquiries division administers and monitors electricity, gas and water licences, and has a consumer protection function that monitors market conduct, contracts, billing, financial hardship and complaints.

This division also regulates third party access to electricity, gas and rail infrastructure, and conducts inquiries into important economic matters, as requested by the Treasurer.

Licensing

The ERA administers Western Australia's electricity gas and water licensing schemes. This includes assessing applications for new licences, as well as licence amendments, transfers and renewals.

The two electricity generation licences approved this year were for solar projects, highlighting the changing nature of the Western Australian electricity industry.

In July 2017, the ERA granted a licence to Greenough River Solar Farm Pty Ltd, located 50 kilometres south east of Geraldton. This is the second stage of the solar farm, expanding its capacity from 10 megawatts to 40 megawatts (only electricity generators larger than 30 megawatts require a licence).

In December 2017, the ERA granted a licence to Merredin Solar Farm Nominee Pty Ltd to construct and operate a 100 megawatt solar farm 260 kilometres east of Perth.

During 2017/18, the ERA reviewed all electricity licence templates, in consultation with the public, licensees and other interested parties. We approved a number of amendments, including a restructure to make licences more accessible and easier to navigate, and changes to clarify the interpretation of some licence conditions. The ERA reviews its electricity licences at least every three years to ensure they are effective.

Audits and reviews

	Audits	Asset management reviews
Electricity licences	19	14
Gas licences	1	1
Water licences	7	7
Total	27	22

Licences are an important tool to protect the rights of consumers and ensure utility service providers deliver safe and reliable services to customers. This year, the ERA found that most licensees were meeting their obligations and improving asset management. This resulted in 15 licensees being granted an increased period until the next audit or review. A deterioration in performance resulted in the ERA reducing the audit period for one licensee.

Licensing highlights 2017/18

	New licences	Licence amendments
Electricity	<ul style="list-style-type: none"> Greenough River Solar Farm (generation) Merredin Solar Farm Nominee (generation) Southern Energy WA (retail) 	<ul style="list-style-type: none"> CleanTech Energy (retail)
Gas	<ul style="list-style-type: none"> Amanda Energy (trading) Simply Energy (trading) Synergy (licence renewal) (trading) 	Nil
Water	Nil	<ul style="list-style-type: none"> Aquasol (x2) Harvey Water

Case study: Increased competition in the south west gas market

The level of competition increased in the natural gas market in 2017/18.

In February 2018, the ERA granted Simply Energy a gas trading licence to supply gas to small use customers in the south west of the State, including Perth.

Simply Energy was the third gas retailer to be granted a trading licence since May 2017 to sell gas to small use residential and business customers, along with AGL Sales and Origin Energy.

Customers now have a choice of five gas retailers: Alinta Energy, Kleenheat, Origin Energy, AGL Sales and Simply Energy.

These retailers will compete for more than 700,000 residential gas customers and 10,000 small business customers.



Image credit: ATCO Gas Australia

Water report

The ERA published its 2016/17 annual performance data report on water, sewerage and irrigation service providers on 12 March 2018.

The ERA found that 51.5 per cent of water sourced for Perth came from desalination in 2016/17 – the first time that desalination accounted for more than half of all water sources. Perth's two desalination plants operated at close to maximum capacity throughout 2016/17, producing a combined total of 149,823 megalitres (ML). The increased use of desalination is the result of the Water Corporation's strategy to source more of Perth's water from sources independent of climate.

The record wet summer of 2016/17 also meant that unused desalinated water could be stored in dams for future use.

The water network



As at 30 June 2017:

1,078,400 connections
20,891km of mains

In 2016/17

20,400 more connections
273km of additional mains

Water supplied (ML) in 2016/17

Perth

253,687 ↓ **3.1%**

Regional towns

97,993 ↓ **4.7%**

Average residential consumption (kL/property) in 2016/17

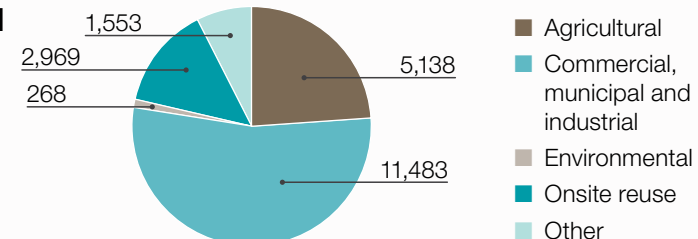
Perth

223 ↓ **7.1%**

Regional towns (average)

265 ↓ **6.7%**

Uses of recycled water (ML) in 2016/17




Energy retailers report

The ERA's 2016/17 performance report on energy retailers, published on 4 January 2018, showed a spike in the number of people having difficulty paying their energy bills.

The number of residential and business customers disconnected in the year was also at a six-year high, with Synergy reporting its highest number of residential disconnections (14,109) since the ERA began reporting.

For the first time, our report included data on energy bill debt and hardship programs. There were 22,852 residential electricity and 18,643 residential gas customers repaying a bill debt in 2016/17, excluding hardship program customers. The average debt for these customers was \$384 (electricity) and \$65 (gas). Customers on a hardship program had a larger outstanding debt: 10,179 electricity customers owed an average of \$596; and 5,669 gas customers owed an average debt of \$245.

Electricity customers


 **1,112,026**

 **Total**  **1.8%**

 **Residential**  **2.7%**

 **Business**  **6.8%**

Gas customers

 **718,483**

 **Total**  **1.3%**

 **Residential**  **1.4%**

 **Business**  **2.9%**



Residential disconnections in 2016/17

Customers disconnected this year – a six year high

Electricity 15,935

Gas 17,097



Complaints in 2016/17

Electricity

Residential  2082

Business  291

Gas

Residential  2325

Business  26

Competitiveness in 2016/17

Electricity

Synergy supplied **100% of residential** and **97% of business** customers in the south west of the state.

Gas

Alinta Energy has **78.3% of residential** and **78% of business** customers.

Kleenheat has **21.7% of residential** and **19.7% of business** customers.

Agency performance

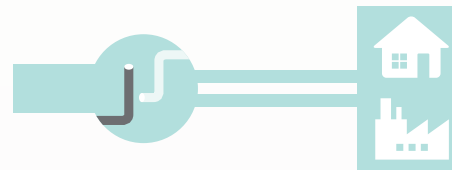
Energy distributors report

The ERA's annual performance report on energy distributors was published on 4 January 2018. The ERA's analysis found that growth in new connections to Western Australia's gas and electricity networks had slowed down, matching a general slowdown in property development activity.

There was an increase in reconnections on the Horizon Power network due to the installation of new smart meters, which allow Horizon Power to disconnect and reconnect properties remotely.

There was a noticeable increase in reconnections on Western Power's network due to an increase in requests from retailers. Some of these increases are customer reconnections following disconnection for failure to pay a bill.

The gas network



As at 30 June 2017:

751,728 connections
14,200km of mains

In 2016/17 around:

16,800 new connections
99.9% on time

In 2016/17 around:

11,200 re-connections
100% on time

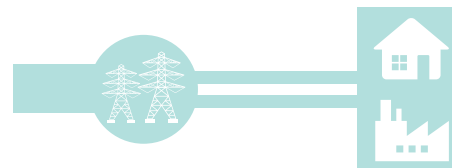
Gas consumption
(gigajoules)
in 2016/17



11.05 million ↑ **9.8%**

1.4 million ↑ **3.9%**

The electricity network



As at 30 June 2017:

1.178 million connections
101,857km of lines

In 2016/17 around:

25,600 new connections
99.9% on time

In 2016/17 around:

32,471 re-connections
99.1% on time

Consumer protection

Electricity retailers who supply electricity to small use customers must develop a standard form contract which is approved by the ERA.

Standard form contracts for small use customers specify the terms and conditions on which a retailer will supply electricity.

During 2017/18, the ERA approved new standard form contracts for CleanTech Energy Pty Ltd, Simply Energy and Amanda Energy Pty Ltd. We also approved amendments to the standard form contracts for Perth Energy Pty Ltd, Alinta Sales Pty Ltd, AGL Sales Pty Ltd and Simply Energy.

Most water licensees are required to have an approved financial hardship policy. The ERA approved financial hardship policies for Lancelin South Pty Ltd and Water West North Dandalup Pty Ltd in August, along with amendments to the policies of Robe River Mining Co Pty Ltd and Hamersley Iron Pty Ltd. The ERA also published financial hardship

policies for gas retailers AGL Sales Pty Ltd and Origin Energy Retail Ltd in October

In June 2018, the ERA released amended guidelines for water financial hardship policies. Most of the amendments resulted from changes to the *Water Services Code of Conduct (Customer Service Standards)*, the new version of which came into effect on 1 July 2018.

The latest review of the *Code of Conduct for the Supply of Electricity to Small Use Customers* was completed in May 2018, with minor amendments made. The new Electricity Code came into operation on 1 July 2018.

The Electricity Code regulates the conduct of retail and distribution licensees and marketing agents who supply and market electricity to residential and non-residential small use customers, who have little or no power to negotiate with retailers. The Electricity Code covers a broad range of areas including billing, connection, disconnection, financial hardship and complaints.



Case study: Water Code review

Every five years, the ERA reviews the *Water Services Code of Conduct (Customer Service Standards)*.

The Water Code is part of the protection framework for water customers and covers areas such as billing, payment, financial hardship, restrictions and complaints.

In January 2018, the ERA completed its review of the Water Code. We included several new safeguards for customers in the updated Code. For example, licensees now have to take into account a customer's capacity to pay and consumption history when setting the conditions of a payment plan.

The ERA also removed some requirements that it considered imposed unnecessary regulatory burdens on licensees.

Agency performance

Electricity access

During 2017/18, the ERA reviewed Western Power's access arrangement for the period which covers the five years to 30 June 2022.

Under the *Electricity Networks Access Code 2004*, Western Power must have an access arrangement that is approved by the ERA. An access arrangement details the terms and conditions, including prices, that apply to third parties seeking to use regulated electricity networks.

Without regulation, Western Power, as the sole electricity distribution and transmission network owner in the south west of the State, would be able to set its own terms and conditions of access. It could restrict access or charge prices higher than efficient costs.

Western Power submitted proposed revisions to its access arrangement on 2 October 2017, and interested parties were invited to make submissions. We received submissions from 32 interested parties.

The ERA's draft decision was published on 2 May 2018, outlining 91 amendments required to be addressed by Western Power before the ERA would approve the access arrangement.

The draft decision set target revenue of \$7.38 billion that Western Power can earn over the five-year period, 5.36 per cent below the amount requested by Western Power.

The draft decision also made changes to Western Power's price control which will see Western Power take on more of the risk of fluctuations in demand.

Consultation on the draft decision closed on 14 June 2018, with the final decision due in the first half of 2018/19.

Significance of Western Power's access arrangement

The retail price of electricity that is paid by households and businesses is set by the State Government. The ERA approves network charges, which make up approximately 45 per cent of current electricity tariffs for residential customers.

The ERA approves these network prices so that Western Power can recover the costs an efficient network owner would expect to incur.

The ERA's draft decision maintains average network services at the current level in real terms, creating no further upward pressure on prices.

Rail access

The ERA regulates access provided by operators of four railway networks in Western Australia: the Arc Infrastructure freight network in the southwest, The Pilbara Infrastructure and Roy Hill Infrastructure networks in the Pilbara, and the Public Transport Authority's urban rail network in Perth.

Regulating access to railway networks ensures that parties who want to operate trains on a network can negotiate fair terms and conditions, or have recourse to independent arbitration.

This year, the ERA approved four regulatory instruments for Roy Hill Infrastructure. Roy Hill operates a 344km rail line from its mine north of Newman to export facilities at Port Hedland. These instruments govern train management, train path policy, overpayment, and costing principles.

Arc Infrastructure's Train Management Guidelines and Train Path Policy were reviewed and approved during 2017/18. These define the manner in which train paths are allocated and how day-to-day capacity issues are managed on the network.



In early 2018, the ERA reviewed and approved all regulatory instruments for the Public Transport Authority. This was the first review and update of these instruments since 2002/03, and brought them into line with changes to other railway owners' instruments since that time.

In May 2018, the ERA published a consultation paper outlining the methods currently used to determine the weighted average cost of capital for railway networks. Every five years, the ERA is required to consult stakeholders prior to making its annual determination.

Gas access

During 2017/18, the ERA approved tariff variations for the Mid-West and South-West Gas Distribution Systems, Goldfields Gas Pipeline and the Dampier to Bunbury Natural Gas Pipeline in accordance with the approved access arrangements for these pipelines.

On 23 December 2017, the ERA became responsible for enforcing and monitoring compliance with the non-scheme pipeline information

disclosure and arbitration framework in Western Australia. The framework is contained in Part 23 of the National Gas Rules.

In April 2018, the Supreme Court of Western Australia dismissed Goldfields Gas Transmission Pty Ltd's application for judicial review of the ERA's Goldfields Gas Pipeline access arrangement decision. The Supreme Court found the ERA did not make an error of law.

A merits review of the ERA's Dampier to Bunbury Natural Gas Pipeline access arrangement decision was being considered by the Australian Competition Tribunal as at 30 June 2018. This matter was dismissed in July 2018 and the ERA's decision was upheld.

On 29 June 2018, the ERA released its Draft Rate of Return Guidelines, and explanatory statement, that will apply to regulated gas networks and transmission pipelines in Western Australia. The rate of return guidelines detail the methods the ERA intends to use to estimate the allowed rate of return.

Case study: Non-scheme gas pipelines

A non-scheme gas pipeline is a transmission or distribution pipeline that was not previously regulated.

On 23 December 2017, the ERA became responsible for enforcing and monitoring compliance with the non-scheme pipeline information disclosure and arbitration framework in Western Australia. The framework is contained in Part 23 of the National Gas Rules.

The framework enables access to pipeline services on non-scheme pipelines on reasonable terms in order to reflect the outcomes of a workably competitive market. The framework provides a staged approach to assist parties wanting to transport gas on non-scheme pipelines. The stages consist of information disclosure by non-scheme pipelines, access negotiations, and the arbitration of access disputes.

Under the National Gas Rules, a non-scheme pipeline owner or operator may apply to the ERA for an exemption from aspects of the framework where the relevant exemption criteria are satisfied. The ERA is required to maintain a public register of all exemptions and exemption revocations made. At 30 June 2018, the ERA had approved 28 applications for exemptions from aspects of the framework. No exemptions were revoked.

The ERA established a pool of arbitrators to determine any access disputes. The pool was made available on our website and will be updated as required. No access disputes were referred to arbitration during 2017/18.

On 23 May 2018, the ERA published a financial reporting guideline, which sets out the financial information and weighted average price information required to be provided by non-scheme pipelines.



Inquiries

Emergency Services Levy inquiry

On 29 September 2017, the ERA completed its review of the management and distribution of the emergency services levy.

The Treasurer tabled the final report in Parliament on 19 October 2017.

The ERA conducted extensive consultation with stakeholders over the course of the review including a series of regional visits, and received 85 submissions from interested parties from all around the State.

The final report included 27 recommendations, including on options to improve the allocation of levy funds, the extent the levy should be available to fund a rural fire service, and how funding a rural fire service could affect costs for property owners.

Case study: Emergency services levy inquiry

The emergency services levy is an annual, property-based levy used to fund the cost of providing emergency management and services in Western Australia.

The Special Inquiry into the January 2016 Waroona Fire recommended an independent review into the administration of the emergency services levy. The Treasurer asked the ERA to undertake this review. The Special Inquiry also recommended the creation of a rural fire service to enhance the capability for rural fire and bushfire risk management across the State.

The ERA found that while there was strong community support for using the levy to fund emergency services, public confidence would improve if the distribution of funds was more transparent and independent. The ERA recommended an independent organisation to oversee levy spending. The ERA also recommended that the Department of Fire and Emergency Services should work with local government and volunteer brigades to develop processes to improve the effectiveness of levy spending.

The ERA was also asked to consider whether the levy should be spent on a rural fire service and the corresponding effects on rates.

The ERA estimated that a rural fire service would cost Western Australians between \$4.2 million and \$560 million extra each year, depending on the scale of the proposed service. For residential ratepayers, this would amount to the equivalent of an extra \$2.41 to \$362.74 a year on average in levy charges.

Following the inquiry, the State Government announced it would spend \$80 million on a new Rural Fire Division within the Department of Fire and Emergency Services. This will be funded by increases to the emergency services levy of \$28 a year in the metropolitan area, and between \$8 and \$17 a year in regional areas.

The Government also announced the creation of an Emergency Services Levy Referral and Grants Advisory Committee to provide independent scrutiny of levy spending.

Inquiry into water tariffs and costs

In November 2017, the ERA completed its review into the efficient costs and tariffs for the services of the Water Corporation, Aqwest and Busselton Water for the five year period commencing 1 July 2018. The report contained 32 recommendations or findings.

The ERA estimated that the State Government will receive \$338.4 million more revenue in 2018/19 from Perth customers than the efficient cost of supplying water services. It recommended that the Water Corporation reset its Perth charges to reflect the cost of providing water services, which would save the typical Perth household \$400 in 2018/19.

To achieve this, water charges in the Perth area would need to increase by 5 per cent, wastewater charges would need to decrease by 42 per cent and drainage charges would need to decrease by 6 per cent.

The ERA estimated that Aqwest will collect \$1.9 million more than the efficient cost of supply in 2018/19, and Busselton Water will collect \$1.16 million more than the efficient cost.

The ERA's other recommendations included alternative pricing structures to improve decision-making for the provision and use of water services, and an annual efficiency target of 2.5 per cent to apply to operating expenditure.

The ERA also recommended significant reductions in capital expenditure for projects that lacked adequate justification.

Business licensing inquiry

On 30 November 2017, the ERA commenced an inquiry to examine business and occupational licensing in Western Australia. The inquiry will identify priority areas for reform, and develop a framework to help assess whether licensing schemes are efficient and effective.

The ERA has identified around 700 state government business licensing schemes to date. These affect all sectors of the economy, including mining and resources, agriculture, building and construction, transport and social services.

The inquiry will finish on 22 February 2019, when the ERA will provide a final report, including recommendations, to the Treasurer.

Work to date has included extensive targeted and public consultation. More than 40 stakeholders have provided submissions, and many government agencies involved in licensing provided valuable input via a targeted questionnaire. A draft report is expected to be released in October 2018.

Corporate Services

The most significant event for the Secretariat in 2017/18 was the appointment of a new chief executive officer, with Jenness Gardner joining the ERA in November 2017.

The ERA's Governing Body also returned to full capacity of three members, providing a broader range of skills and expertise from which the Secretariat can draw.

During 2017/18, the ERA completed the organisation restructure that started in 2016/17, resolving the appointments of the two executive directors that lead our project teams after lengthy acting arrangements.

ERA staff have simplified and removed duplication in finance and governance processes, improved the flow of information between the Governing Body and Secretariat, and enhanced quality assurance processes.

The ERA is also developing the quality of our writing, modernising communication methods, and reviewing how we engage with our stakeholders and the broader community.

Key performance indicators

As the ERA is an independent authority, our key performance indicators are limited to matters of management, including financial management. The ERA has set indicators that measure the administrative performance of the Secretariat.

These key performance indicators are the quantity, quality and timeliness of submissions prepared for the Governing Body, as well as the cost of each submission. These submissions help the Governing Body carry out its functions, including deciding on regulatory matters.

The ERA's key effectiveness indicators are:

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

- **Timeliness:** percentage of submissions provided by the required deadline, as rated by the Governing Body.

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

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

The ERA is currently reviewing its key performance indicators and will explain any changes in the 2018/19 annual report.

The actual cost per submission was less than the target of \$49,210 due to actual expenditure of \$11.488 million instead of the estimate of \$13.779 million.

Further details on key performance indicators and variances are provided in the Disclosures and legal compliance section of this report.

Performance against key performance indicators

	2017/18 Target*	2017/18 Actual	Variation
<i>Desired outcome: The efficient, safe and equitable provision of utility services in Western Australia.</i>			
Key effectiveness indicators			
Number of submissions made to the ERA's Governing Body.	280	276	(4)
Rating by the ERA's Governing Body as to the content, accuracy and presentation of these submissions. ^(a)	4	3	(1)
Number (percentage) of submissions provided by the required deadline.	100	95	(5)
Rating by the ERA's Governing Body as to their perception of the timeliness of submissions. ^(a)	4	3	(1)
Key efficiency indicator			
Cost per submission made to the ERA's Governing Body.	\$49,210	\$41,621	(\$7,589)

* As specified in the Budget statements.

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

Financial performance

	2017/18 Target \$'000*	2017/18 Actual \$'000	Variation \$'000
Total cost of services (expense limit)	13,779	11,488	(2,291)
Net cost of services	2,831	2,625	(206)
Total equity	4,177	4,892	715
Net increase/(decrease) in cash held	(12)	(347)	(335)
Approved salary expense level	8,193	7,154	(1,039)

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

* As specified in the Budget statements

Regulations and Rules allow full cost recovery of expenditure for gas and electricity access, Wholesale Electricity Market, gas services information, and licensing functions. The Government provides an appropriation to fund the functions of inquiries, rail access, gas markets and the regulatory scheme which covers the merger of Verve Energy and Synergy.

The 2017/18 budget estimates allowed expenditure of \$13.779 million. Government decisions made during the year revised this budget

estimate to \$13.716 million. Actual expenditure for 2017/18 was \$11.488 million or 83 per cent of the budget estimate.

The total cost of services includes a budget for the independent Rule Change Panel, established by the *Energy Industry (Rule Change Panel) Regulations 2016*. The Rule Change Panel's costs for administering changes to the Wholesale Electricity Market Rules were \$183,616.78 against a budget of \$387,073, and for administering changes to the Gas Services Information Rules

were \$20,401.86 against a budget of \$195,256. The ERA recovers the costs from the Australian Energy Market Operator. Any shortfall/surplus is recovered in the next financial year.

There were two main reasons why the total cost of services was \$2.291 million less than the budget estimate. Employee expenses were lower than expected as the ERA had a high number of recruitment processes to fill vacant positions, and one position was made redundant under the State

Government's Voluntary Targeted Severance Scheme. In addition, the Rule Change Panel was paid by the Independent Market Operator until April 2018.

The second reason was there was lower than expected expenditure on advice from economic and technical consultants.

Further details of the ERA's financial performance are presented in the Disclosures and legal compliance section of this report.





Significant issues affecting the agency

Economic, policy and social trends

Energy market

Constant change in the Western Australian electricity market is a challenge for policy-makers, regulators and consumers.

For example, customers are rapidly adopting emergent technologies to better manage their energy costs, including renewable energy. Cheap, renewable energy available during the day – generated by rooftop residential solar systems – continues to reduce daytime peak demand.

The uptake of battery storage systems by consumers could add further variability to demand. The high rate at which these new technologies are emerging and entering the market means that change will continue for many years. The challenge for policy and market reforms is to keep pace with these changes.

Hardship Utilities Grants Scheme changes

In December 2017, the Western Australian Government announced changes to the Hardship Utilities Grants Scheme, which assists customers who are at imminent risk of disconnection because of unpaid bills.

Under the changes, customers can no longer access the scheme when starting a payment arrangement with their retailer. They must comply with that arrangement for at least 180 days before they can be eligible for a grant to assist them with payment. Customers who have already received a disconnection warning can still access the scheme straight away, providing they enter into a payment arrangement.

Customers with a debt of below \$300 are also no longer eligible for the scheme.

The ERA publishes guidelines on best practice financial hardship policies and can instruct retailers to review their hardship policies.

Changes in law

Rail

In response to the ERA's 2015 review of the *Railways (Access) Code 2000*, the Western Australian Government is reviewing the operation of the rail regime as a whole (that is, the Code and the *Railways (Access) Act 1998*). This may result in some changes to the operation or application of the regime.

Energy markets

The Government's energy sector reforms in 2016/17 gave the ERA new functions under the Wholesale Electricity Market Rules. These included responsibility to conduct periodic reviews of the market.

During 2017/18 the ERA started the first of these reviews, which is considering how capacity credits should be assigned to intermittent generators like wind and solar farms which, by their nature, have less control over when they generate. Over the next few years, we will also

review capacity pricing, ancillary service standards, outage planning and peak demand forecasting.

Gas access

The decisions of the ERA are subject to legal challenge. As at 30 June 2018, the ERA was waiting for a decision from the Australian Competition Tribunal on an application from DBNGP WA Transmission Pty Ltd for a merit review of the ERA's approved access arrangement for the Dampier to Bunbury Natural Gas Pipeline. This application was dismissed in July 2018 and the ERA's decision was upheld.

Limited merits review

In October 2017, the Commonwealth Government abolished the Limited Merits Review process applying to decisions made under the National Gas Law, which applies in Western Australia. This process had allowed stakeholders to challenge the prices and revenues set by the regulator for access to monopoly gas and electricity networks.



This reform was intended to create more certainty for both regulators and consumers.

This means that the ERA's access decisions on regulated gas pipelines and gas distribution networks can no longer be referred to the Australian Competition Tribunal for review, but can still be challenged through the courts.

Likely developments

Energy markets

During 2017/18, the Minister for Energy announced electricity sector reform initiatives, including improving access to Western Power's network through the implementation of constrained access, and reviewing alternative pricing models for the Reserve Capacity Mechanism.

The reforms are being led by the Public Utilities Office, working with the Australian Energy Market Operator (AEMO). The ERA will need to approve AEMO's recovery of costs for the reforms, under the Market Rules. The reforms may also change or increase the functions of the ERA.



Disclosures and legal compliance



Auditor General

INDEPENDENT AUDITOR'S REPORT

To the Parliament of Western Australia

ECONOMIC REGULATION AUTHORITY

Report on the Financial Statements

Opinion

I have audited the financial statements of the Economic Regulation Authority which comprise the Statement of Financial Position as at 30 June 2018, the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows for the year then ended, and Notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements are based on proper accounts and present fairly, in all material respects, the operating results and cash flows of the Economic Regulation Authority for the year ended 30 June 2018 and the financial position at the end of that period. They are in accordance with Australian Accounting Standards, the *Financial Management Act 2006* and the Treasurer's Instructions.

Basis for Opinion

I conducted my audit in accordance with the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Authority in accordance with the *Auditor General Act 2006* and the relevant ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial statements. I have also fulfilled my other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibility of the Authority for the Financial Statements

The Authority is responsible for keeping proper accounts, and the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards, the *Financial Management Act 2006* and the Treasurer's Instructions, and for such internal control as the Authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Authority is responsible for assessing the agency's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Western Australian Government has made policy or funding decisions affecting the continued existence of the Authority.

Auditor's Responsibility for the Audit of the Financial Statements

As required by the *Auditor General Act 2006*, my responsibility is to express an opinion on the financial statements. The objectives of my audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Authority.
- Conclude on the appropriateness of the Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the agency's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report on Controls

Opinion

I have undertaken a reasonable assurance engagement on the design and implementation of controls exercised by the Economic Regulation Authority. The controls exercised by the Authority are those policies and procedures established by the Authority to ensure that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions (the overall control objectives).

My opinion has been formed on the basis of the matters outlined in this report.

In my opinion, in all material respects, the controls exercised by the Economic Regulation Authority are sufficiently adequate to provide reasonable assurance that the receipt, expenditure and investment of money, the acquisition and disposal of property and the incurring of liabilities have been in accordance with legislative provisions during the year ended 30 June 2018.

The Authority's Responsibilities

The Authority is responsible for designing, implementing and maintaining controls to ensure that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities are in accordance with the *Financial Management Act 2006*, the Treasurer's Instructions and other relevant written law.

Disclosures and legal compliance

Auditor General's Responsibilities

As required by the *Auditor General Act 2006*, my responsibility as an assurance practitioner is to express an opinion on the suitability of the design of the controls to achieve the overall control objectives and the implementation of the controls as designed. I conducted my engagement in accordance with Standard on Assurance Engagements ASAE 3150 *Assurance Engagements on Controls* issued by the Australian Auditing and Assurance Standards Board. That standard requires that I comply with relevant ethical requirements and plan and perform my procedures to obtain reasonable assurance about whether, in all material respects, the controls are suitably designed to achieve the overall control objectives and the controls, necessary to achieve the overall control objectives, were implemented as designed.

An assurance engagement to report on the design and implementation of controls involves performing procedures to obtain evidence about the suitability of the design of controls to achieve the overall control objectives and the implementation of those controls. The procedures selected depend on my judgement, including the assessment of the risks that controls are not suitably designed or implemented as designed. My procedures included testing the implementation of those controls that I consider necessary to achieve the overall control objectives.

I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Limitations of Controls

Because of the inherent limitations of any internal control structure it is possible that, even if the controls are suitably designed and implemented as designed, once the controls are in operation, the overall control objectives may not be achieved so that fraud, error, or noncompliance with laws and regulations may occur and not be detected. Any projection of the outcome of the evaluation of the suitability of the design of controls to future periods is subject to the risk that the controls may become unsuitable because of changes in conditions.

Report on the Key Performance Indicators**Opinion**

I have undertaken a reasonable assurance engagement on the key performance indicators of the Economic Regulation Authority for the year ended 30 June 2018. The key performance indicators are the key effectiveness indicators and the key efficiency indicators that provide performance information about achieving outcomes and delivering services.

In my opinion, in all material respects, the key performance indicators of the Economic Regulation Authority are relevant and appropriate to assist users to assess the Authority's performance and fairly represent indicated performance for the year ended 30 June 2018.

The Authority's Responsibility for the Key Performance Indicators

The Authority is responsible for the preparation and fair presentation of the key performance indicators in accordance with the *Financial Management Act 2006* and the Treasurer's Instructions and for such internal control as the Authority determines necessary to enable the preparation of key performance indicators that are free from material misstatement, whether due to fraud or error.

In preparing the key performance indicators, the Authority is responsible for identifying key performance indicators that are relevant and appropriate having regard to their purpose in accordance with Treasurer's Instruction 904 *Key Performance Indicators*.

Auditor General's Responsibility

As required by the *Auditor General Act 2006*, my responsibility as an assurance practitioner is to express an opinion on the key performance indicators. The objectives of my engagement are to obtain reasonable assurance about whether the key performance indicators are relevant and appropriate to assist users to assess the agency's performance and whether the key performance indicators are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion.

I conducted my engagement in accordance with Standard on Assurance Engagements ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* issued by the Australian Auditing and Assurance Standards Board. That standard requires that I comply with relevant ethical requirements relating to assurance engagements.

An assurance engagement involves performing procedures to obtain evidence about the amounts and disclosures in the key performance indicators. It also involves evaluating the relevance and appropriateness of the key performance indicators against the criteria and guidance in Treasurer's Instruction 904 for measuring the extent of outcome achievement and the efficiency of service delivery. The procedures selected depend on my judgement, including the assessment of the risks of material misstatement of the key performance indicators. In making these risk assessments I obtain an understanding of internal control relevant to the engagement in order to design procedures that are appropriate in the circumstances.

I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

My Independence and Quality Control Relating to the Reports on Controls and Key Performance Indicators

I have complied with the independence requirements of the *Auditor General Act 2006* and the relevant ethical requirements relating to assurance engagements. In accordance with ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*, the Office of the Auditor General maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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

This auditor's report relates to the financial statements and key performance indicators of the Economic Regulation Authority for the year ended 30 June 2018 included on the Authority's website. The Authority's management is responsible for the integrity of the Authority's website. This audit does not provide assurance on the integrity of the Authority's website. The auditor's report refers only to the financial statements and key performance indicators described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements or key performance indicators. If users of the financial statements and key performance indicators are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial statements and key performance indicators to confirm the information contained in this website version of the financial statements and key performance indicators.


SANDRA LABUSCHAGNE
ACTING DEPUTY AUDITOR GENERAL
Delegate of the Auditor General for Western Australia
Perth, Western Australia
02 August 2018

Financial statements

Certification of financial statements

For the reporting period ended 30 June 2018

The accompanying financial statements of the Economic Regulation Authority have been prepared in compliance with the provisions of the *Financial Management Act 2006* from proper accounts and records to present fairly the financial transactions for the reporting period ended 30 June 2018 and the financial position as at 30 June 2018.

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



Ms Pam Herbener
Chief Finance Officer

2 August 2018



Ms Nicola Cusworth
Chair of Accountable Authority

2 August 2018

Disclosures and legal compliance

Statement of Comprehensive Income

For the year ended 30 June 2018

	Note	2018	2017
		\$'000	\$'000
COST OF SERVICES			
Expenses			
Employee benefits expense	3.1	8,119	7,735
Supplies and services	3.2	2,196	2,134
Depreciation and amortisation expense	5.1, 5.2	57	57
Accommodation expenses	3.2	1,081	1,149
Other expenses	3.2	35	33
Total cost of services		11,488	11,108
Income			
<i>Revenue</i>			
Regulatory fees	4.1	8,786	7,825
Interest revenue	4.3	41	43
Other revenue	4.3	36	36
Total revenue		8,863	7,904
Total income other than income from State Government		8,863	7,904
NET COST OF SERVICES		(2,625)	(3,204)
Income from State Government			
Service appropriation	4.2	2,763	2,704
Services received free of charge	4.2	252	281
Total income from State Government		3,015	2,985
SURPLUS/(DEFICIT) FOR THE PERIOD		390	(219)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		390	(219)

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

Statement of Financial Position

As at 30 June 2018

	Note	2018 \$'000	2017 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	7.1	2,859	3,270
Restricted cash and cash equivalents	7.1	58	24
Receivables	6.1	3,485	2,763
Amounts receivable for services	6.2	-	-
Other current assets	6.3	138	146
Total current assets		6,540	6,203
Non-current assets			
Restricted cash and cash equivalents	7.1	58	28
Amounts receivable for services	6.2	607	552
Plant and equipment	5.1	105	157
Intangible assets	5.2	9	14
Other non-current assets	6.3	3	25
Total non-current assets		782	776
TOTAL ASSETS		7,322	6,979
LIABILITIES			
Current liabilities			
Payables	6.4	391	550
Provisions	3.1	1,754	1,588
Total current liabilities		2,145	2,138
Non-current liabilities			
Provisions	3.1	285	339
Total non-current liabilities		285	339
TOTAL LIABILITIES		2,430	2,477
NET ASSETS		4,892	4,502
EQUITY			
Contributed equity	9.7	725	725
Accumulated surplus/(deficit)		4,167	3,777
TOTAL EQUITY		4,892	4,502

The Statement of Financial Position should be read in conjunction with the accompanying notes.

Disclosures and legal compliance

Statement of Changes in Equity

For the year ended 30 June 2018

	Note	Contributed equity \$'000	Reserves \$'000	Accumulated surplus/(deficit) \$'000	Total equity \$'000
Balance at 1 July 2016	9.7	725	-	3,996	4,721
Total comprehensive income for the period		-	-	(219)	(219)
Distribution to Owner - Return of unspent capital funds		-	-	-	-
Balance at 30 June 2017		725	-	3,777	4,502
Balance at 1 July 2017	9.7	725	-	3,777	4,502
Total comprehensive income for the period		-	-	390	390
Distribution to Owner - Return of unspent capital funds		-	-	-	-
Balance at 30 June 2018		725	-	4,167	4,892

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

For the year ended 30 June 2018

	Note	2018 \$'000	2017 \$'000
CASH FLOWS FROM STATE GOVERNMENT			
Service appropriation		2,708	2,599
Holding account drawdowns		-	9
Net cash provided by State Government		2,708	2,608
Utilised as follows:			
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments			
Employee benefits		(7,988)	(7,794)
Supplies and services		(2,287)	(2,192)
Depreciation and amortisation		-	-
Accommodation		(885)	(929)
GST payments on purchases		(297)	(304)
Other payments		(35)	(33)
Receipts			
Regulatory fees		8,044	8,201
Interest received		41	43
GST receipts on sales		50	18
GST receipts from taxation authority		266	312
Other receipts		36	36
Net cash provided by/(used in) operating activities	7.1	(3,055)	(2,642)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments			
Purchase of non-current physical assets		-	(9)
Net cash provided by/(used in) investing activities		-	(9)
Net increase/(decrease) in cash and cash equivalents		(347)	(43)
Cash and cash equivalents at the beginning of period		3,322	3,365
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	7.1	2,975	3,322

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

Notes to the financial statements

1. Basis of preparation

The Economic Regulation Authority is a WA government entity, but is independent of direction or control by the State or any Minister or officer of the State in the performance of its functions. However, pursuant to section 28(2) and 28(3) of the *Economic Regulation Authority Act 2003*, the Minister may give directions in writing to the ERA on administration and financial administration matters. It is a not-for-profit entity (as profit is not its principal objective).

A description of the nature of its operations and its principal activities have been included in the 'Overview' which does not form part of these financial statements.

These financial statements were authorised for issue by the Accountable Authority of the ERA on 1 August 2018.

Statement of compliance

These general purpose financial statements have been prepared in accordance with:

- 1) The *Financial Management Act 2006* (FMA);
- 2) The Treasurer's Instructions (TI);
- 3) Australian Accounting Standards (AAS) including applicable interpretations; and
- 4) Where appropriate, those AAS paragraphs applicable for not-for-profit entities have been applied.

The *Financial Management Act 2006* and the Treasurer's Instructions take precedence over the AAS. Several AAS are modified by the instructions to vary application, disclosure format and wording. Where modification is required and has had a material or significant financial effect upon the reported results, details of that modification and the resulting financial effect are disclosed in the notes to the financial statements.

Basis of preparation

These financial statements are presented in Australian dollars applying the accrual basis of accounting and using the historical cost convention. Certain balances will apply a different measurement basis (such as the fair value basis). Where this is the case, the different measurement basis is disclosed in the associated note. All values are rounded to the nearest thousand dollars (\$'000).

Judgements and estimates

Judgements, estimates and assumptions are required to be made about financial information being presented. The significant judgements and estimates made in the preparation of these financial statements are disclosed in the notes where amounts affected by those judgements and/or estimates are disclosed. Estimates and associated assumptions are based on professional judgements derived from historical experience and various other factors that are believed to be reasonable under the circumstances.

Contributed equity

AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* requires transfers in the nature of equity contributions, other than as a result of a restructure of administrative arrangements, to be designated by the Government (the owner) as contributions by owners (at the time of, or prior, to transfer) before such transfers can be recognised as equity contributions. Capital appropriations have been designated as contributions by owners by TI955 *Contributions by Owners made to Wholly Owned Public Sector Entities* and have been credited directly to Contributed Equity.

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

2. Agency outputs

How the Economic Authority operates

Mission

The ERA's mission is to ensure that the State of Western Australia has an efficient and customer focused economy.

The ERA is predominately funded by the industry that it regulates on a cost recovery basis. A parliamentary appropriation is received to fund the cost of Inquiries from Government, Rail Access, the Electricity Generation and Retail Corporation Scheme and Gas Markets.

Service

The ERA is only responsible for delivering one service, which is:

Submissions to the Economic Regulation Authority Governing Body

All income, expenditure, assets and liabilities are in relation to the delivery of this service.

3. Use of our funding

Expenses incurred in the delivery of services

This section provides additional information about how the ERA's funding is applied and the accounting policies that are relevant for an understanding of the items recognised in the financial statements. The primary expenses incurred by the ERA in achieving its objectives and the relevant notes are:

	Notes	2018 \$'000	2017 \$'000
Employee benefits expenses	3.1(a)	8,119	7,735
Employee related provisions	3.1(b)	2,039	1,927
Other expenditure	3.2	3,312	3,316

3.1(a) Employee benefits expenses

	2018 \$'000	2017 \$'000
Wages and salaries	7,215	6,551
Termination benefits	77	407
Superannuation – defined contribution plans ^(a)	704	650
Other related expenses	123	127
Total employee benefit expenses	8,119	7,735

(a) Defined contribution plans include West State Superannuation Scheme (WSS), Gold State Superannuation Scheme (GSS), Government Employees Superannuation Board Schemes (GESBS) and other eligible funds.

Wages and salaries: Employee expenses include all costs related to employment including wages and salaries, fringe benefits tax, leave entitlements, and WorkCover premiums.

Termination benefits: Payable when employment is terminated before normal retirement date, or when an employee accepts an offer of benefits in exchange for the termination of employment. Termination benefits are recognised when the ERA is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

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

GSS (concurrent contributions) is a defined benefit scheme for the purposes of employees and whole of government reporting. It is however, a defined contribution plan for agency purposes because the concurrent contributions (defined contributions) made by the agency to GESB extinguishes the agency's obligations to the related superannuation liability.

The ERA does not recognise any defined benefit liabilities because it has no legal or constructive obligation to pay future benefits relating to its employees. The liabilities for the unfunded Pension Scheme and the unfunded GSS transfer benefits attributable to members who transferred from the Pension Scheme, are assumed by the Treasurer. All other GSS obligations are funded by concurrent contributions made by the ERA to the GESB.

The GESB and other fund providers administer public sector superannuation arrangements in Western Australia in accordance with legislative requirements. Eligibility criteria for membership in particular schemes for public sector employees vary according to commencement and implementation dates.

Other related expenses: These expenses include advertising for staff vacancies, staff training and staff amenities.

Disclosures and legal compliance

3.1(b) Employee related provisions

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave for services rendered up to the reporting date and recorded as an expense during the period the services are delivered.

	2018 \$'000	2017 \$'000
Current		
<i>Employee benefits provisions</i>		
Annual leave ^(a)	582	520
Long service leave ^(b)	1,167	1,064
	1,749	1,584
<i>Other provisions</i>		
Employment on-costs ^(c)	5	4
Total current employee related provisions	1,754	1,588
Non-current		
<i>Employee benefits provisions</i>		
Long service leave ^(b)	284	338
<i>Other provisions</i>		
Employment on-costs ^(c)	1	1
Total non-current employee related provisions	285	339
Total employee related provisions	2,039	1,927

(a) **Annual leave liabilities:** Classified as current as there is no unconditional right to defer settlement for at least 12 months after the end of the reporting period. Assessments indicate that actual settlement of the liabilities is expected to occur as follows:

	2018 \$'000	2017 \$'000
Within 12 months of the end of the reporting period	496	423
More than 12 months after the end of the reporting period	87	98
	583	521

The provision for annual leave is calculated at the present value of expected payments to be made in relation to services provided by employees up to the reporting date.

(b) **Long service leave liabilities:** Unconditional long service leave provisions are classified as current liabilities as the ERA does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Pre-conditional and conditional long service leave provisions are classified as non-current liabilities because the ERA has an unconditional right to defer the settlement of the liability until the employee has completed the requisite years of service.

Assessments indicate that actual settlement of the liabilities is expected to occur as follows:

	2018 \$'000	2017 \$'000
Within 12 months of the end of the reporting period	463	477
More than 12 months after the end of the reporting period	993	929
	1,456	1,406

The provision for long service leave is calculated at present value as the ERA does not expect to wholly settle the amounts within 12 months. The present value is measured taking into account the present value of expected future payments to be made in relation to services provided by employees up to the reporting date. These payments are estimated using the remuneration rate expected to apply at the time of settlement, and discounted using market yields at the end of the reporting period on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Key sources of estimation uncertainty – long service leave

Key estimates and assumptions concerning the future are based on historical experience and various other factors that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

Several estimates and assumptions are used in calculating the ERA's long service leave provision. These include:

- Expected future salary rates;
- Discount rates;
- Employee retention rates; and
- Expected future payments.

Changes in these estimations and assumptions may impact on the carrying amount of the long service leave provision. Any gain or loss following revaluation of the present value of long service leave liabilities is recognised as employee benefits expense.

(c) **Employment on-costs:** The settlement of annual and long service leave liabilities gives rise to the payment of employment on-costs including workers' compensation insurance. The provision is the present value of expected future payments.

Employment on-costs, including workers' compensation insurance, are not employee benefits and are recognised separately as liabilities and expenses when the employment to which they relate has occurred. Employment on-costs are included as part of 'Other expenditure, Note 3.2 (apart from the unwinding of the discount (finance cost))' and are not included as part of the ERA's 'employee benefits expense'. The related liability is included in 'Employment on-costs provision'.

Employment on-costs provision

Carrying amount at start of period	6	6
Additional/(reversals of) provisions recognised	-	-
Carrying amount at end of period	6	6

3.2 Other expenditure**Supplies and services**

	2018 \$'000	2017 \$'000
Communications	159	165
Consultants and contractors	150	74
Professional services	962	694
Consumables	66	113
Legal costs	448	699
Motor vehicle	79	99
Travel	47	29
Other	285	261
Total supplies and services expenses	2,196	2,134

Accommodation expenses

Lease rentals	1,048	1,133
Repairs and maintenance	33	16
Total accommodation expenses	1,081	1,149

Other

Audit fee	34	33
Write-offs	1	-
Employment on-costs	-	-

Total other expenses**Total other expenditure**

35	33
3,312	3,316

Supplies and services:

Supplies and services are recognised as an expense in the reporting period in which they are incurred.

Accommodation expenses:

Operating lease payments are recognised on a straight line basis over the lease term. Repairs, maintenance and cleaning costs are recognised as expenses as incurred.

Other:

Other operating expenses generally represents the day-to-day running costs incurred in normal operations.

Employee on-cost includes workers' compensation insurance and other employment on-costs. The on-cost liability associated with the recognition of annual and long service leave liabilities is included at note 3.1(b) Employee related provision. Superannuation contributions accrued as part of the provision for leave are employee benefits and are not included in employment on-costs.

4. Our funding sources**How we obtain our funding**

This section provides additional information about how the ERA obtains its funding and the relevant accounting policy notes that govern the recognition and measurement of this funding. The primary income received by the ERA and the relevant notes are:

	Notes	2018 \$'000	2017 \$'000
Regulatory fees	4.1	8,786	7,825
Income from State Government	4.2	3,015	2,985
Other revenue	4.3	77	79

4.1 Regulatory fees

	2018 \$'000	2017 \$'000
Standing charges	3,864	4,448
Specific charges	464	31
Licence fees and charges	304	351
Regulatory market fees	4,069	2,882
Water audit cost recovery	85	113
	8,786	7,825

Revenue is recognised and measured at the fair value of consideration received or receivable. Revenue is recognised for the major business activities as follows:

- (a) Standing charges and Specific charges are recognised at the time the charge is raised on a client. Revenue is raised in accordance with the:

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

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

Disclosures and legal compliance

- (c) The ERA also recovers the costs of audits performed under the *Water Services Act 2012*. The revenue is recognised at the time the costs are raised on a licensee.
- (d) Revenue for the recovery of the costs of the ERA in undertaking its Wholesale Electricity Market functions, in accordance with the Wholesale Electricity Market Rules, is recognised on an accrual basis in the accounting period in which the services are rendered.

4.2 Income from State Government

	2018 \$'000	2017 \$'000
Appropriation received during the period:		
Service appropriation ^(a)	2,763	2,704
	2,763	2,704

Services received free of charge from other State government agencies during the period:

Department of Finance	196	220
State Solicitor's Office	56	61
Total services received	252	281
Total income from State Government	3,015	2,985

- (a) Service appropriations are recognised as revenues at fair value in the period in which the ERA gains control of the appropriated funds. The ERA gains control of appropriated funds at the time those funds are deposited in the bank account or credited to the 'Amounts receivable for services' (holding account) held at Treasury.

Service appropriations fund the net cost of services delivered. Appropriation revenue comprises the cash component and a receivable (asset). The receivable (holding account note 6.2) comprises of the budgeted depreciation expense for the year.

4.3 Other revenue

	2018 \$'000	2017 \$'000
Interest – bank	41	43
Government vehicle scheme contributions from staff	23	30
Miscellaneous revenue	13	2
Accommodation variable outgoings refund – past year	-	4
	77	79

The ERA's bank account does not form part of the consolidated fund. Revenue is recognised as the interest accrues.

5. Key assets

Assets the ERA utilises for economic benefit or service potential

This section includes information regarding the key assets the ERA utilises to gain economic benefits or provide service potential. The section sets out both the key accounting policies and financial information about the performance of these assets:

	Notes	2018 \$'000	2017 \$'000
Plant and equipment	5.1	105	157
Intangibles	5.2	9	14
		114	171

5.1 Plant and equipment

Year ended 30 June 2017

1 July 2016

Gross carrying amount	366	33	399
Accumulated depreciation	(191)	(8)	(199)
Carrying amount at start of period	175	25	200
Additions	9	-	9
Disposal	-	-	-
Depreciation	(45)	(7)	(52)
Carrying amount at 30 June 2017	139	18	157

Year ended 30 June 2018

1 July 2017

Gross carrying amount	375	33	408
Accumulated depreciation	(236)	(15)	(251)
Carrying amount at start of period	139	18	157
Additions	-	-	-
Disposal	-	-	-
Depreciation	(45)	(7)	(52)
Carrying amount at 30 June 2018	94	11	105

Initial recognition

Items of plant and equipment costing \$5,000 or more are measured initially at cost. Where an asset is acquired for no or nominal cost, the cost is valued at its fair value at the date of acquisition. Items of plant and equipment costing less than \$5,000 are immediately expensed direct to the Statement of Comprehensive Income (other than where they form part of a group of similar items which are significant in total).

Subsequent measurement

All plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

5.1.1 Depreciation and impairment

Charge for the period

	2018 \$'000	2017 \$'000
<i>Depreciation</i>		
Computer equipment	45	45
Office equipment	7	7
Total depreciation for the period	52	52

As at 30 June 2018, there were no indications of impairment to plant and equipment.

Please refer to note 5.2 for guidance in relation to the impairment assessment that has been performed for intangible assets.

Finite useful lives

All plant and equipment having a limited useful life is systematically depreciated over their estimated useful lives in a manner that reflects the consumption of their future economic benefits.

Depreciation is generally calculated on a straight line basis at rates that allocate the asset's value, less any estimated residual value, over its estimated useful life. Typical estimated useful lives for the different asset classes for current and prior years are included in the table below:

Asset	Useful life: years
Computer equipment	3 to 5 years
Office equipment	5 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period and adjustments are made if appropriate.

Impairment

Non-financial assets, including items of plant and equipment, are tested for impairment whenever there is an indication that the asset may be impaired. Where there is an indication of impairment, the recoverable amount is estimated. Where the recoverable amount is less than the carrying amount, the asset is considered impaired and is written down to the recoverable amount and an impairment loss is recognised.

Where an asset measured at cost is written down to its recoverable amount, an impairment loss is recognised through profit or loss.

Where a previously revalued asset is written down to its recoverable amount, the loss is recognised as a revaluation decrement through other comprehensive income.

If there is an indication that there has been a reversal in impairment, the carrying amount shall be increased to its recoverable amount. However, this reversal should not increase the asset's carrying amount above what would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in prior years.

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

5.2 Intangible assets

	Computer software (\$'000)
Year ended 30 June 2017	
1 July 2016	
Gross carrying amount	46
Accumulated amortisation	(27)
Carrying amount at start of period	19
Additions	-
Amortisation expense	(5)
Carrying amount at 30 June 2017	14
Year ended 30 June 2018	(\$'000)
1 July 2017	
Gross carrying amount	46
Accumulated amortisation	(32)
Carrying amount at start of period	14
Additions	-
Amortisation expense	(5)
Carrying amount at 30 June 2018	9

Initial recognition

Acquisitions of intangible assets costing \$5,000 or more are capitalised. Costs incurred below \$5,000 are immediately expensed directly to the Statement of Comprehensive Income.

Intangible assets are initially recognised at cost. For assets acquired at no cost or for nominal cost, the cost is their fair value at the date of acquisition.

Disclosures and legal compliance

Subsequent measurement

The cost model is applied for subsequent measurement of intangible assets, requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

5.2.1 Amortisation and impairment**Charge for the period**

	2018 \$'000	2017 \$'000
Computer software	5	5
Total amortisation for the period	5	5

As at 30 June 2018, there were no indications of impairment to intangible assets. The ERA held no goodwill or intangible assets with an indefinite useful life during the reporting period. At the end of the reporting period there were no intangible assets not yet available for use.

Amortisation of finite life intangible assets is calculated on a straight line basis at rates that allocate the asset's value over its estimated useful life. All intangible assets controlled by the ERA have a finite useful life and zero residual value. Estimated useful lives are reviewed annually.

The estimated useful life for the ERA's computer software is 3 to 5 years. This software is not integral to the operation of any related hardware.

Impairment of intangible assets

Intangible assets with finite useful lives are tested for impairment annually or when an indication of impairment is identified.

The policy in connection with testing for impairment is outlined in Note 5.1.1.

6. Other assets and liabilities

This section sets out those assets and liabilities that arose from the ERA's controlled operations and includes other assets utilised for economic benefits and liabilities incurred during normal operations.

	Notes	2018 \$'000	2017 \$'000
Receivables	6.1	3,485	2,763
Amounts receivable for services	6.2	607	552
Other assets	6.3	141	171
Payables	6.4	391	550

6.1 Receivables

	2018 \$'000	2017 \$'000
<i>Current</i>		
Receivables	2,093	1,445
Accrued revenue	1,323	1,229
GST receivable	69	89
Total current	3,485	2,763
Total receivables	3,485	2,763

The ERA does not hold any collateral or other credit enhancements as security for receivables.

Receivables are recognised at original invoice amount less any allowances for uncollectible amounts (i.e. impairment). The carrying amount of net trade receivables is equivalent to fair value as it is due for settlement within 30 days.

6.1.1 Movement of the allowance for impairment of receivables

The collectability of receivables is reviewed on an ongoing basis and any receivables identified as uncollectible are written off. The ERA does not have an allowance for impairment of receivables as historically it is not required.

6.2 Amounts receivable for services (Holding account)

	2018 \$'000	2017 \$'000
Current	-	-
Non-current	607	552
Balance at end of period	607	552

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

The ERA receives funding on an accrual basis. The appropriations are paid partly in cash and partly as an asset (holding account receivable). The accrued amount receivable is accessible on the emergence of the cash funding requirement to cover asset replacement.

6.3 Other assets

	2018 \$'000	2017 \$'000
<i>Current</i>		
Prepayments	138	146
Total current	138	146
<i>Non-current</i>		
Prepayments	3	25
Total non-current	3	25
Balance at end of period	141	171

Other non-financial assets include prepayments which represent payments in advance of receipt of goods or services or that part of expenditure made in one accounting period covering a term extending beyond that period.

6.4 Payables

	2018 \$'000	2017 \$'000
<i>Current</i>		
Trade payables	66	258
Other payables	58	24
Accrued expenses	197	217
Accrued salaries	70	51
Total current	391	550
Balance at end of period	391	550

Payables are recognised at the amounts payable when the ERA becomes obliged to make future payments as a result of a purchase assets or services. The carrying amount is equivalent to fair value, as settlement is generally within 30 days.

Accrued salaries represent the amount due to staff but unpaid at the end of the reporting period. Accrued salaries are settled within a fortnight of the reporting period end. The ERA considers the carrying amount of accrued salaries to be equivalent to its fair value

The accrued salaries suspense account (see note 7.1.1 'Restricted cash and cash equivalents') consists of amounts paid annually, from agency appropriations for salaries expense, into a Treasury suspense account to meet the additional cash outflow for employee salary payments in reporting periods with 27 pay days instead of the normal 26. No interest is received on this account.

7. Financing

This section sets out the material balances and disclosures associated with the financing and cashflows of the ERA.

	Notes	2018 \$'000	2017 \$'000
Cash and cash equivalents	7.1	2,975	3,322
Commitments	7.2	4,137	1,505

7.1 Cash and cash equivalents

7.1.1 Reconciliation of cash

	Notes	2018 \$'000	2017 \$'000
Cash and cash equivalents	8.1	2,859	3,270
Restricted cash and cash equivalents			
• accrued salaries suspense account ^(a)		58	28
• Indian Ocean Territories ^(b)		58	24
Balance at end of period		2,975	3,322

(a) Funds held in the suspense account for the purpose of meeting the 27th pay in a reporting period that occurs every 11th year. This account is classified as non-current for 10 out of 11 years.

(b) Funds provided by the Commonwealth for services undertaken by the ERA in regards to the Indian Ocean Territories.

For the purpose of the Statement of Cash Flows, cash and cash equivalent (and restricted cash and cash equivalent) assets comprise cash on hand and short-term deposits with original maturities of three months or less that are readily convertible to a known amount of cash and which are subject to insignificant risk of changes in value.

Disclosures and legal compliance

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

	Notes	2018 \$'000	2017 \$'000
Net cost of services		(2,625)	(3,204)
Non-cash items			
Depreciation and amortisation expense	5.1, 5.2	57	57
Services received free of charge	4.2	252	281
(Increase)/decrease in assets			
Current receivables ^(a)		(742)	376
Other current assets		30	16
Non-current receivables		-	-
(Increase)/decrease in liabilities			
Current payables ^(a)		(159)	(105)
Current provisions		166	(84)
Other current liabilities			
Non-current provisions		(54)	(5)
Other non-current liabilities			
Net GST receipts/(payments) ^(b)		20	26
Change in GST in receivables/payables ^(c)		-	-
Net cash provided by/(used in) operating activities		(3,055)	(2,642)

(a) Note that the Australian Taxation Office (ATO) receivable/payable in respect of GST and the receivable/payable in respect of the sale/purchase of non-current assets are not included in these items as they do not form part of the reconciling items.

(b) This is the net GST paid/received, i.e. cash transactions.

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

7.2 Commitments**7.2.1 Non-cancellable operating lease commitments**

	2018 \$'000	2017 \$'000
Commitments for minimum lease payments are payable as follows:		
Within 1 year	722	721
Later than 1 year and not later than 5 years	2,739	38
	3,461	759

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

The ERA has entered into a non-cancellable property lease with a five year term, with rent payable monthly in advance. Contingent rent provisions within the lease agreement require that the rent is to be reviewed on 1 July 2019 and every two years thereafter, with any new rental to be at the current market annual rental value, but not lower than that payable immediately prior to the rent review date.

7.2.2 Other expenditure commitments

Other expenditure commitments for operational expenditure contracted for at the end of the reporting period but not recognised as liabilities, are payable as follows:

	2018 \$'000	2017 \$'000
Within 1 year	656	664
Later than 1 year and not later than 5 years	20	82
	676	746

The amounts are GST inclusive.

Judgements made by management in applying accounting policies – operating lease commitments

The ERA has entered into a lease for office accommodation. It has been determined that the lessor retains substantially all the risks and rewards incidental to ownership. Accordingly, the lease has been classified as an operating lease.

8. Risks and contingencies

This note sets out the key risk management policies and measurement techniques of the ERA.

	Note
Financial risk management	8.1
Contingent assets and liabilities	8.2

8.1 Financial risk management

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

(a) Summary of risks and risk management

Credit risk

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

The maximum exposure to credit risk at the end of the reporting period in relation to each class of recognised financial asset is the gross carrying amount of those assets inclusive of any allowance for impairment as shown in the table at Note 8.1 (c) 'Financial instrument disclosures' and Note 6.1 'Receivables'.

Credit risk associated with the ERA's financial assets is minimal because the main receivable is the amounts receivable for services (holding account). For receivables other than Government, the ERA trades only with recognised, creditworthy third parties. The ERA has policies in place to ensure that services are only provided to customers with an appropriate credit history. In addition, receivable balances are monitored on an ongoing basis with the result that the ERA's exposure to bad debts is minimal. At the end of the reporting period there were no significant concentrations of credit risk.

Liquidity risk

Liquidity risk arises when the ERA is unable to meet its financial obligations as they fall due. The ERA is exposed to liquidity risk through its trading in the normal course of business.

The ERA has appropriate procedures to manage cash flows including drawdown of appropriations by monitoring forecast cash flows to ensure that sufficient funds are available to meet its commitments.

Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates and interest rates will affect the ERA's income or the value of its holdings of financial instruments. The ERA does not trade in foreign currency and is not materially exposed to other price risks. The ERA's exposure to market risk for changes in interest rates is minimal and is limited to the holdings in cash and cash equivalents.

(b) Categories of financial instruments

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

	2018 \$'000	2017 \$'000
<i>Financial assets</i>		
Cash and cash equivalents	2,859	3,270
Restricted cash and cash equivalents	116	52
Receivables ^(a)	3,416	2,674
Amounts receivable for services	607	552
Total financial assets	6,998	6,548
<i>Financial liabilities</i>		
Financial liabilities measured at amortised cost	391	550
Total financial liability	391	550

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

Disclosures and legal compliance

(c) Financial instrument disclosures*Credit risk*

The following table discloses the ERA's maximum exposure to credit risk and the ageing analysis of financial assets. The ERA's maximum exposure to credit risk at the end of the reporting period is the carrying amount of financial assets as shown below. The table discloses the ageing of financial assets that are past due but not impaired and impaired financial assets.

The ERA does not hold any collateral as security or other credit enhancements relating to the financial assets it holds.

Ageing analysis of financial assets

	Carrying Amount \$'000	Not past due and not impaired \$'000	Past due but not impaired					Impaired financial assets \$'000
			Up to 1 month \$'000	1 - 3 months \$'000	3 months to 1 year \$'000	1-5 years \$'000	More than 5 years \$'000	
2018								
Cash and cash equivalents	2,859	2,859	-	-	-	-	-	-
Restricted cash and cash equivalents	116	116	-	-	-	-	-	-
Receivables ^(a)	3,416	3,413	3	-	-	-	-	-
Amount receivable for services	607	607	-	-	-	-	-	-
	6,998	6,995	3	-	-	-	-	-
2017								
Cash and cash equivalents	3,270	3,270	-	-	-	-	-	-
Restricted cash and cash equivalents	52	52	-	-	-	-	-	-
Receivables ^(a)	2,674	2,661	13	-	-	-	-	-
Amount receivable for services	552	552	-	-	-	-	-	-
	6,548	6,535	13	-	-	-	-	-

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

(d) Liquidity risk and interest rate exposure

The following table details the ERA's interest rate exposure and the contractual maturity analysis of financial assets and financial liabilities. The maturity analysis section includes interest and principal cash flows. The interest rate exposure section analyses only the carrying amounts of each item.

Interest rate exposure and maturity analysis of financial assets and financial liabilities

	Weighted Average Effective Interest Rate %	Carrying Amount \$000	Interest rate exposure			Nominal Amount \$000	Maturity dates				
			Fixed interest rate \$000	Variable interest rate \$000	Non-interest bearing \$000		Up to 1 month \$000	1 - 3 months \$000	3 months to 1 year \$000	1-5 years \$000	More than 5 years \$000
2018											
<u>Financial Assets</u>											
Cash and cash equivalents	2.08%	2,859	-	2,859	-	2,859	2,859	-	-	-	-
Restricted cash and cash equivalents ^(b)	2.08%	116	-	58	58	116	58	-	-	-	58
Receivables ^(a)		3,416	-	-	3,416	3,416	3,416	-	-	-	-
Amount receivable for services		607	-	-	607	607	-	-	-	607	-
		6,998	-	2,917	4,081	6,998	6,333	-	-	607	58
<u>Financial Liabilities</u>											
Financial liabilities measured at amortised cost		391	-	-	391	391	391	-	-	-	-
		391	-	-	391	391	391	-	-	-	-
2017											
<u>Financial Assets</u>											
Cash and cash equivalents	1.98%	3,270	-	3,270	-	3,270	3,270	-	-	-	-
Restricted cash and cash equivalents ^(b)	1.98%	52	-	24	28	52	24	-	-	-	28
Receivables ^(a)		2,674	-	-	2,674	2,674	2,674	-	-	-	-
Amount receivable for services		552	-	-	552	552	-	-	-	552	-
		6,548	-	3,294	3,254	6,548	5,968	-	-	552	28
<u>Financial Liabilities</u>											
Financial liabilities measured at amortised cost		550	-	-	550	550	550	-	-	-	-
		550	-	-	550	550	550	-	-	-	-

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

(b) Only the Indian Ocean Territories funding closing balance attracts interest

Disclosures and legal compliance

(e) Interest rate sensitivity analysis

The following table represents a summary of the interest rate sensitivity of the ERA's financial assets and liabilities at the end of the reporting period on the surplus for the period and equity for a 1% change in interest rates. It is assumed that the change in interest rates is held constant throughout the reporting period.

		-100 basis points		+100 basis points	
	Carrying Amount	Surplus	Equity	Surplus	Equity
	\$000	\$000	\$000	\$000	\$000
2018					
<u>Financial Assets</u>					
Cash and cash equivalents	2,859	(29)	(29)	29	29
Restricted cash and cash equivalents	58	-	-	-	-
Total Increase/(Decrease)		(29)	(29)	29	29
2017					
<u>Financial Assets</u>					
Cash and cash equivalents	3,270	(33)	(33)	33	33
Restricted cash and cash equivalents	24	-	-	-	-
Total Increase/(Decrease)		(33)	(33)	33	33

8.2 Contingent assets and liabilities

Contingent assets and contingent liabilities are not recognised in the statement of financial position but are disclosed and, if quantifiable, are measured at nominal value. The ERA has no contingent assets or contingent liabilities.

9. Other disclosures

This section includes additional material disclosures required by accounting standards or other pronouncements for the understanding of this financial report.

	Note
Events occurring after the end of the reporting period	9.1
Correction of prior period errors/changes in accounting policy	9.2
Future impact of Australian standards issued not yet operative	9.3
Key management personnel	9.4
Related party transactions	9.5
Remuneration of auditors	9.6
Equity	9.7
Supplementary financial information	9.8
Explanatory statement	9.9

9.1 Events occurring after the end of the reporting period

There were no events occurring after the end of the reporting period.

9.2 Correction of prior period errors/changes in accounting period

There were no events occurring after the end of the reporting period.

9.3 Future impact of Australian Accounting Standards issued not yet operative

The ERA cannot early adopt an Australian Accounting Standard unless specifically permitted by TI1101 'Application of Australian Accounting Standards and Other Pronouncements' or by an exemption from TI1101. Where applicable, the ERA plans to apply the following Australian Accounting Standards from their application date.

		Operative for reporting periods beginning on/after
AASB 9	<p><i>Financial Instruments</i></p> <p>This standard supercedes AASB 139 Financial Instruments: Recognition and Measurement, introducing a number of changes to accounting treatments.</p> <p>The ERA has assessed that recognition of expected credit losses will increase the amount of impairment losses recognised as other expenses in the Statement of Comprehensive Income by \$0 and thus have an adverse impact on the ERA's Surplus/(Deficit) for the period.</p>	1 Jan 2018
AASB 15	<p><i>Revenue from Contracts with Customers</i></p> <p>This standard establishes the principles that the ERA shall apply to report useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The mandatory application date of this Standard is currently 1 January 2019 after being amended by AASB 2016-7.</p> <p>The ERA's income is partly derived from appropriations which will be measured under AASB 1058 and will be unaffected by this change. However, the ERA has not yet determined the potential impact of the Standard on 'Regulatory fees' revenue. In broad terms, it is anticipated that the terms and conditions attached to this revenue will defer revenue recognition until the ERA has discharged its performance obligations.</p>	1 Jan 2019
AASB 16	<p><i>Leases</i></p> <p>This standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.</p> <p>Whilst the impact of AASB 16 has not yet been quantified, the ERA currently has commitments for \$3,461,438 worth of non-cancellable operating leases which will mostly be brought onto the Statement of Financial Position. Interest and amortisation expense will increase and rental expense will decrease.</p>	1 Jan 2019
AASB 1058	<p><i>Income of Not for Profit Entities</i></p> <p>This standard clarifies and simplifies the income recognition requirements that apply to not for profit (NFP) entities, more closely reflecting the economic reality of NFP entity transactions that are not contracts with customers. Timing of income recognition is dependent on whether such a transaction gives rise to a liability or other performance obligation (a promise to transfer a service), or a contribution by owners, related to an asset (such as cash or another asset) received by the ERA. The ERA anticipates that the application will not materially impact appropriation.</p>	1 Jan 2019
AASB 2010-7	<p><i>Amendments to Australian accounting Standards arising from AASB 9 (December 2010) {AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Int 2, 5, 10, 12, 19 & 127}</i></p> <p>This standard makes consequential amendments to other Australian Accounting Standards and Interpretations as a result of issuing AASB 9 in December 2010.</p> <p>The mandatory application date of this Standard has been amended by AASB 2012-6 and AASB 2014-1 to 1 January 2018. Other than the exposures to AASB 9 noted above, the ERA is only insignificantly impacted by the application of the Standard.</p>	1 Jan 2018

Disclosures and legal compliance

		Operative for reporting periods beginning on/after
AASB 2014-1	<p><i>Amendments to Australian Accounting Standards</i></p> <p>Part E of this Standard makes amendments to AASB 9 and consequential amendments to other Standards. These changes have no impact as Appendix E has been superceded and the ERA was not permitted to early adopt AASB 9.</p>	1 Jan 2018
AASB 2014-5	<p><i>Amendments to Australian Accounting Standards arising from AASB 15</i></p> <p>This Standard gives effect to the consequential amendments to Australian Accounting Standards (including interpretations) arising from the issuance of AASB 15. The mandatory application date of this Standard has been amended by AASB 2015-8 to 1 January 2018. The ERA has not yet determined the application or the potential impact of the Standard.</p>	1 Jan 2018
AASB 2014-7	<p><i>Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)</i></p> <p>This Standard gives effect to the consequential amendments to Australian Accounting Standards (including interpretations) arising from the issuance of AASB 9 (December 2014). The ERA has not yet determined the application or the potential impact of the Standard.</p>	1 Jan 2018
AASB 2015-8	<p><i>Amendments to Australian Accounting Standards - Effective Date of AASB 15</i></p> <p>This Standard amends the mandatory application date of AASB 15 to 1 January 2018 (instead of 1 January 2017). It also defers the consequential amendments that were originally set out in AASB 2014-5. There is no financial impact arising from this Standard.</p>	1 Jan 2018
AASB 2016-3	<p><i>Amendments to Australian Accounting Standards - Clarifications to AASB 15</i></p> <p>This Standard clarifies identifying performance obligations, principal versus agent considerations, timing of recognising revenue from granting a licence, and provides further transitional provisions to AASB 15. The ERA has not yet determined the application or the potential impact when the deferred AASB 15 becomes effective from 1 January 2019.</p>	1 Jan 2018
AASB 2016-7	<p><i>Amendments to Australian Accounting Standards - Deferral of AASB 15 for Not for Profit Entities</i></p> <p>This Standard defers, for not for profit entities, the mandatory application date of AASB 15 to 1 January 2019, and the consequential amendments that were originally set out in AASB 2014-5. There is no financial impact arising from this Standard.</p>	1 Jan 2018
AASB 2016-8	<p><i>Amendments to Australian Accounting Standards - Australian Implementation Guidance for Not for Profit Entities</i></p> <p>This Standard inserts Australian requirements and authoritative implementation guidance for not for profit entities into AASB 9 and AASB 15. This guidance assists not for profit entities in applying those Standards to particular transactions and other events. There is no financial impact.</p>	1 Jan 2019

9.4 Key management personnel

The ERA has determined key management personnel to include cabinet ministers, Governing Body members and senior officers of the Authority. The ERA does not incur expenditure to compensate Ministers and those disclosures may be found in the Annual Report on State Finances.

The total fees, salaries, superannuation, non-monetary benefits and other benefits for members of the Governing Body (accountable authority) of the ERA for the reporting period are presented within the following bands:

Compensation band (\$)	2018	2017
130,001 - 140,000	1	-
140,001 - 150,000	-	1
190,001 - 200,000 ^(a)	1	-
470,001 - 480,000	-	1
480,001 - 490,000	1	-

(a) Part of the remuneration for this Governing Body member is for a payout of leave that relates to when he was the CEO.

No members of the Governing Body are members of the Pension Scheme.

The total fees, salaries, superannuation, non-monetary benefits and other benefits for senior officers of the ERA for the reporting period are presented within the following bands:

Compensation band (\$)	2018	2017
150,001 - 160,000	-	1
180,001 - 190,000	1	-
220,001 - 230,000	-	1
260,001 - 270,000 ^(b)	1	-
270,001 - 280,000	-	1
280,001 - 290,000	1	-
290,001 - 300,000	1	1
360,001 - 370,000	-	1

(b) The employee against this band commenced at the ERA in November 2017.

No senior officers are members of the Pension Scheme.

The total employment benefits for the members of the accountable authority and senior officers are:

	2018 \$'000	2017 \$'000
Short-term employee benefits	1,664	1,735
Post-employment benefits	140	153
Other long-term benefits	40	46
Termination benefits	-	-
Total compensation of key management personnel	1,844	1,934

Total compensation includes the superannuation expense incurred by the ERA in respect of the Governing Body and senior officers.

9.5 Related party transactions

The ERA is independent of direction or control by the State, or any Minister or officers of the State in performing its functions. However, under section 28(2) and 28(3) of the *Economic Regulation Authority Act 2003*, the relevant Minister may give direction to the ERA on administration and financial administration matters.

Related parties of the ERA include:

- all cabinet ministers and their close family members, and their controlled or jointly controlled entities;
- members of the Governing Body and their close family members, and their controlled or jointly controlled entities;
- all senior officers and their close family members, and their controlled or jointly controlled entities;
- other departments and statutory authorities, including related bodies, that are included in the whole of government consolidated financial statements (i.e. wholly owned public sector entities); and
- the Government Employees Superannuation Board (GESB).

Significant transactions with Government related entities

In conducting its activities, the ERA is required to transact with the State and entities related to the State. These transactions are generally based on the standard terms and conditions that apply to all agencies. Such transactions include:

- income from State Government (Note 4.2);
- services received free of charge (Note 4.2);
- services provided free of charge (Note 9.8);
- superannuation payments to GESB (Note 3.1(a));

Disclosures and legal compliance

- insurance payments to the Insurance Commission and Riskcover fund (included in Note 3.2);
- communication payments to the Department of Finance (included in Note 3.2);
- lease rental payments to the Department of Finance (State Fleet) (Note 3.2) and related outstanding balances (Note 7.2.1);
- income from Standing charges, Specific charges, Licence fees and Water audits (included in Note 4.1);
- remuneration for services provided by the Auditor General (Note 9.6).

Significant balances with Government-related entities at year end include:

- accrued revenue receivable (Note 6.1);
- amounts receivable for services (holding account) (Note 6.2).

Material transactions with other related parties

Outside of normal citizen type transactions with the ERA, there were no other related party transactions that involved key management personnel and/or their close family members and/or their controlled or jointly controlled entities.

9.6 Remuneration of auditors

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

	2018 \$'000	2017 \$'000
Auditing the accounts, financial statements, controls and key performance indicators	34	34

9.7 Equity

	2018 \$'000	2017 \$'000
Contributed equity		
Balance at start of period	725	725
<i>Contributions by owners</i>		
Capital appropriation	-	-
Total contributions by owners	725	725
<i>Distributions to owners</i>		
Total contributions to owners		
Balance at end of period	725	725

9.8 Supplementary financial information**(a) Indian Ocean Territories**

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

	2018 \$'000	2017 \$'000
Balance at start of period	24	4
Receipts	40	75
Payments	(6)	(55)
Balance at end of period	58	24

(b) Write-offs

During the financial year, \$ was written off under the authority of the accountable authority.

	2018 \$'000	2017 \$'000
Standing charge	1	-
	1	-

(c) Invoices not raised for minor accounts

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

Invoices not raised for Standing charges in 2016-17	\$38.02
Invoices not raised for Standing charges in 2017-18	\$56.92
Invoices not raised for overdue invoices in 2016-17	\$19.03
Invoices not raised for overdue invoices in 2017-18	\$26.05

(d) Services provided free of charge

During the year, the following services were provided to other agencies free of charge for functions outside the normal operations of the ERA:

	2018 \$'000	2017 \$'000
W.A. Energy Disputes Arbitrator – administrative support	12	12
	12	12

9.9 Explanatory Statement

All variances between estimates (original budget) and actual results for 2018, and between the actual results for 2018 and 2017 are shown below. Narratives are provided for key major variances, which are generally greater than 5% and \$222,000:

9.9.1 Statement of Comprehensive Income variances

Statement of Comprehensive Income	Variance notes	Estimate 2018 \$000	Actual 2018 \$000	Actual 2017 \$000	Variance between estimate and 2018 actual \$000	Variance between actual results for 2018 and 2017 \$000
Expenses						
Employee benefits expense	1	9,303	8,119	7,735	(1,184)	384
Supplies and services	2	3,205	2,196	2,134	(1,009)	62
Depreciation and amortisation expense		55	57	57	2	-
Accommodation expenses		1,154	1,081	1,149	(73)	(68)
Other expenses		62	35	33	(27)	2
Total Cost of services		<u>13,779</u>	<u>11,488</u>	<u>11,108</u>		
Income						
<i>Revenue</i>						
Regulatory fees	3, A	10,866	8,786	7,825	(2,080)	961
Interest revenue		50	41	43	(9)	(2)
Other revenue		32	36	36	4	-
Total revenue		<u>10,948</u>	<u>8,863</u>	<u>7,904</u>		
Total income other than income from State Government		<u>10,948</u>	<u>8,863</u>	<u>7,904</u>		
NET COST OF SERVICES		<u>(2,831)</u>	<u>(2,625)</u>	<u>(3,204)</u>		
Income from State Government						
Service appropriation		2,640	2,763	2,704	123	59
Services received free of charge		266	252	281	(14)	(29)
Total income from State Government		<u>2,906</u>	<u>3,015</u>	<u>2,985</u>		
SURPLUS/(DEFICIT) FOR THE PERIOD		<u>75</u>	<u>390</u>	<u>(219)</u>		
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>75</u>	<u>390</u>	<u>(219)</u>		

Disclosures and legal compliance

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

Major estimate and actual (2018) variance narratives

1. The ERA had a high number of recruitment processes in 2018 due in part to high staff turnover. In addition, the members of the Rule Change Panel continued to be paid by the Independent Market Operator until April 2018. Positions in Corporate Services were not filled, including one position that was made redundant under the Government's Voluntary Targeted Severance Scheme.
2. There was an underspend in the project budgets of the regulatory areas of the ERA due to lower than expected expenditure on advice from economic and technical consultants. Also, the budget allocated for the redevelopment of the ERA website did not occur.

3. The majority of revenue is raised through the recoup of ERA's operating costs which are called Standing charges. These charges vary from year to year as they are based on the total expenditure for the year. As expenditure was under budget in 2018, this resulted in revenue also being under budget.

Major actual (2018) and comparative (2017) variance narratives

- A. In 2018, the ERA undertook the Western Power access arrangement for which it could recoup its costs. This resulted in higher revenue than in 2017.

9.9.2 Statement of Financial Position variances

All variances between estimates (original budget) and actual results for 2018, and between the actual results for 2018 and 2017 are shown below. Narratives are provided for key major variances, which are generally greater than 5% and \$140,000.

Statement of Financial Position	Variance notes	Estimate 2018 \$000	Actual 2018 \$000	Actual 2017 \$000	Variance between estimate and 2018 actual \$000	Variance between actual results for 2018 and 2017 \$000
ASSETS						
Current assets						
Cash and cash equivalents	1, A	2,545	2,859	3,270	314	(411)
Restricted cash and cash equivalents		-	58	24	58	34
Receivables	2, B	3,273	3,485	2,763	212	722
Amounts receivable for services		-	-	-	-	-
Other current assets		187	138	146	(49)	(8)
Total current assets		6,005	6,540	6,203		
Non-current assets						
Restricted cash and cash equivalents		60	58	28	(2)	30
Amounts receivable for services		607	607	552	-	55
Plant and equipment		136	105	157	(31)	(52)
Intangible assets		10	9	14	(1)	(5)
Other non-current assets		-	3	25	3	(22)
Total non-current assets		813	782	776		
TOTAL ASSETS		6,818	7,322	6,979		
LIABILITIES						
Current liabilities						
Payables	3, C	632	391	550	(241)	(159)
Provisions	4, D	1,610	1,754	1,588	144	166
Total current liabilities		2,242	2,145	2,138		
Non-current liabilities						
Provisions		399	285	339	(114)	(54)
Total non-current liabilities		399	285	339	(114)	(54)
TOTAL LIABILITIES		2,641	2,430	2,477	(211)	(47)
NET ASSETS		4,177	4,892	4,502		
EQUITY						
Contributed equity		725	725	725	-	-
Accumulated surplus/(deficit)	5, E	3,452	4,167	3,777	715	390
TOTAL EQUITY		4,177	4,892	4,502		

Disclosures and legal compliance

Major estimate and actual (2018) variance narratives

1. Employee expenses and supplies and services expenses were lower than anticipated in 2018 resulting in a higher cash balance. This was offset by lower than expected revenue.
2. It was anticipated that receivables would be higher in 2018 due to an increased expenditure budget. This did not eventuate as expenditure was lower than estimated. However, receivables are \$212,000 more than budgeted as the December 2017 and March 2018 quarter Standing charges were not issued until June 2018.
3. The amount of payables will vary each year depending on the timing of the ERA's legislative work.
4. The 2018 actual for current provisions was greater than the budget as the actuarial calculated a change from non-current to current long service leave.
5. The accumulated surplus was \$715,000 more than the budget as expenditure was less than expected.

Major actual (2018) and comparative (2017) variance narratives

- A. Cash is \$411,000 lower in 2018 than in 2017 as the December 2017 quarter and March 2018 quarter Standing charges were not issued until June, resulting in a higher receivables amount.
- B. Receivables were \$722,000 higher in 2018 as the December 2017 quarter and the March 2018 quarter Standing charges were not issued until June 2018.
- C. The amount of payables will vary each year depending on the timing of the ERA's legislative work.
- D. The 2018 actual for current provisions was greater than the 2017 actual as the actuarial calculations resulted in a transfer from non-current to current long service leave. In addition, there was an increase in the number of employees.
- E. The ERA had a surplus of \$390,000 in 2018 as expenditure on salaries and supplies and services was less than expected. This was offset to some extent by lower than expected revenue.

9.9.3 Statement of Cash Flows variances

All variances between estimates (original budget) and actual results for 2018, and between the actual results for 2018 and 2017 are shown below. Narratives are provided for key major variances, which are generally greater than 5% and \$222,000.

Statement of Cash Flows	Variance notes	Estimate 2018 \$000	Actual 2018 \$000	Actual 2017 \$000	Variance between estimate and 2018 actual \$000	Variance between actual results for 2018 and 2017 \$000
CASH FLOWS FROM STATE GOVERNMENT						
Service appropriation		2,585	2,708	2,599	123	109
Holding account drawdowns		-	-	9	-	(9)
Net cash provided by State Government		<u>2,585</u>	<u>2,708</u>	<u>2,608</u>		
Utilised as follows:						
CASH FLOWS FROM OPERATING ACTIVITIES						
Payments						
Employee benefits	1	(9,303)	(7,988)	(7,794)	1,315	(194)
Supplies and services	2	(3,463)	(2,287)	(2,192)	1,176	(95)
Accommodation		(944)	(885)	(929)	59	44
GST payments on purchases	3	-	(297)	(304)	(297)	7
Other payments		(79)	(35)	(33)	44	(2)
Receipts						
Regulatory fees	4	10,827	8,044	8,201	(2,783)	(157)
Interest received		50	41	43	(9)	(2)
GST receipts on sales		84	50	18	(34)	32
GST receipts from taxation authority		209	266	312	57	(46)
Other receipts		22	36	36	14	-
Net cash provided by/(used in) operating activities		<u>(2,597)</u>	<u>(3,055)</u>	<u>(2,642)</u>		
CASH FLOWS FROM INVESTING ACTIVITIES						
Payments						
Purchase of non-current physical assets		-	-	(9)	-	9
Net cash provided by/(used in) investing activities		<u>-</u>	<u>-</u>	<u>(9)</u>		
Net increase/(decrease) in cash and cash equivalents		(12)	(347)	(43)	(335)	(304)
Cash and cash equivalents at the beginning of period	5	<u>2,617</u>	<u>3,322</u>	<u>3,365</u>	<u>705</u>	<u>(43)</u>
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD		<u><u>2,605</u></u>	<u><u>2,975</u></u>	<u><u>3,322</u></u>		

Disclosures and legal compliance

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

Major estimate and actual (2018) variance narratives

1. The ERA had a high number of recruitment processes in 2018 due in part to high staff turnover. In addition, the members of the Rule Change Panel continued to be paid by the Independent Market Operator until April 2018. Positions in Corporate Services were not filled, including one position that was made redundant under the Government's Voluntary Targeted Severance Scheme.
2. There was an underspend in the regulatory areas due to lower than expected expenditure on advice from economic and technical consultants. Also, the budget allocated for the redevelopment of the ERA website did not occur.
3. GST payments on purchases were not budgeted for in the Cashflow.
4. The majority of ERA's revenue is raised through Standing charges. These charges vary from year to year as they are based on the total expenditure for the year. As expenditure was under budget in 2018, this resulted in revenue also being under budget.
5. The budgeted cash amount of \$2.617 million at the beginning of period is lower than the actual of \$3.322 million as expenses were lower in 2018 than estimated.

Certification of key performance indicators

We hereby certify that the key performance indicators are based on proper records, are relevant and appropriate for assisting users to assess the Economic Regulation Authority's performance, and fairly represent the performance of the Economic Regulation Authority for the financial year ended 30 June 2018.



Ms Pam Herbener
Chief Finance Officer

2 August 2018



Ms Nicola Cusworth
Chair of Accountable Authority

2 August 2018

Key performance indicators

The Economic Regulation Authority (ERA) is the independent economic regulator for Western Australia. The ERA has three main functions. The first is to ensure utilities are operating in the best long term interests of consumers. The second is to ensure the wholesale electricity market is operating effectively. The third is to conduct independent inquiries on economic issues and make recommendations to the State Government.

The ERA contributes to the government goal of 'Better places: a quality environment with liveable and affordable communities and vibrant regions'. Our desired outcome in support of this goal is 'the efficient, safe and equitable provision of utility services in Western Australia'.

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

The requirement to prepare performance indicators is modified by legislation to be limited to the ERA's management functions. The ERA's Secretariat prepares submissions that are

considered by the Governing Body when making a decision. The measures of our performance are therefore the quality, quantity and cost of submissions considered by the Governing Body to facilitate its decision making.

Key effectiveness indicators

The ERA's key effectiveness indicators are:

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

2017/18 performance effectiveness

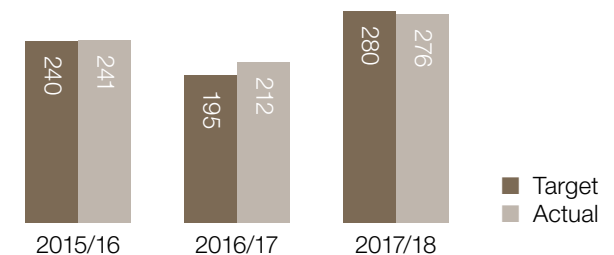
Quantity – number of submissions

A total of 276 submissions were considered by the Governing Body during 2017/18. The Governing Body met 43 times during the year to consider 183 of the submissions. 92 submissions were reviewed electronically out of session, and one submission was discussed at an informal meeting.

The total number of submissions was slightly below the 2017/18 target of 280. Compared to the previous financial year, there was a 30 per cent increase in the number of submissions provided to the Governing Body.

The target number of submissions is based on estimates provided by each division at the beginning of the year. The actual and target number of submissions vary on an annual basis in accordance with the cyclical nature of regulation.

Quantity (Submissions)



Quality of submissions

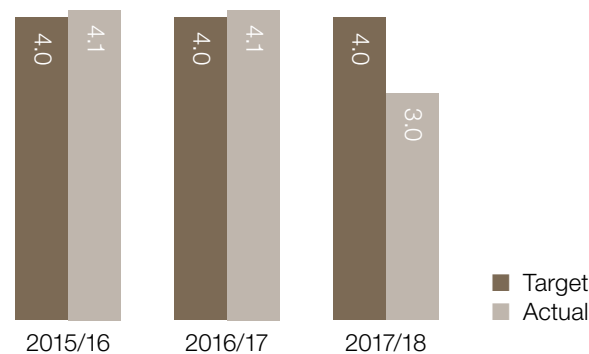
After each meeting the Governing Body considers the relevance, accuracy and readability of submissions prepared by the Secretariat, and provides an overall rating of their satisfaction, using a rating scale of one to five¹.

¹ one = well below expectations, two = below expectations, three = satisfactory, four = above expectations and five = well above expectations

During 2017/18, the Governing Body changed the way it applied the rating scale. The Governing Body now rates a submission at 3.0 (satisfactory) if it meets their expectations for quality. The target that was set at the beginning of the year was 4.0.

For 2017/18, the average rating for quality of submissions was 3.0 out of 5.0, which did not meet the targeted quality level of 4.0.

Quality (Submissions)



Timeliness (legislative deadlines achieved)

In 2017/18, 40 of the 278 submissions related to decisions that had legislative time limits, compared to 31 out of 212 submissions in the previous year. These time limits were either firm deadlines or timelines within which the ERA, taking all reasonable steps, was required to make its decision.

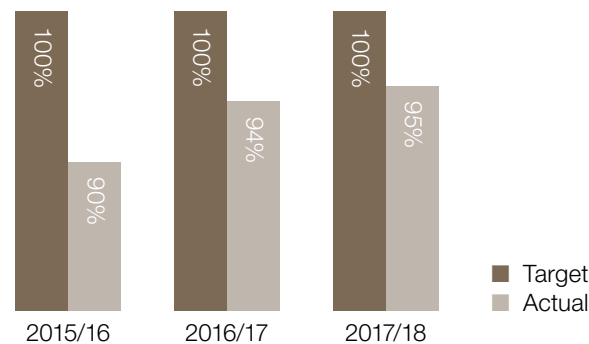
Of the 40 submissions with legislative deadlines, 38 were completed on time; this equated to 95 per cent. This is a slight increase from 94 per cent achieved in 2016/17.

The decisions that did not meet their timelines were:

Amanda Energy: gas trading licence application. The assessment of the application exceeded 90 days primarily due to the time it took to get information from the applicant about its licence application and revised Standard Form Contract.

Simply Energy: gas trading licence application. The assessment of the application exceeded 90 days due to the complexity of the review of the applicant's standard form contract. The approval of a gas trading licence is conditional on the applicant having an ERA-approved standard form contract.

Timeliness (Legislative Deadline achieved)



Timeliness – Governing Body rating

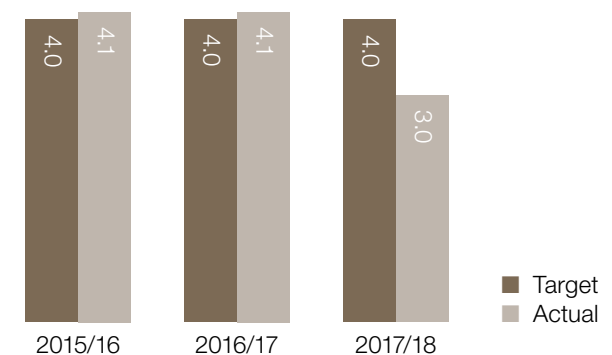
The Secretariat tracks internal deadlines for providing submissions to the Governing Body, in addition to measuring legislative timeframes.

The Governing Body rates each submission for timeliness, using the same scale of one to five used for quality, after each meeting.

During 2017/18 Governing Body members changed the way they applied the rating scale. The Governing Body now rates a submission at 3.0 (satisfactory) if it meets their expectations for timeliness. The target that was set at the beginning of the year was 4.0.

The average rating for timeliness for the year was 3.0, which did not meet the 2017/18 target of 4.0.

Timeliness (Governing Body rating)





Key efficiency indicators

The ERA's key efficiency indicator is cost per submission made to the Governing Body. The cost includes staffing costs and any other resources involved in preparing the submission.

2017/18 performance – efficiency

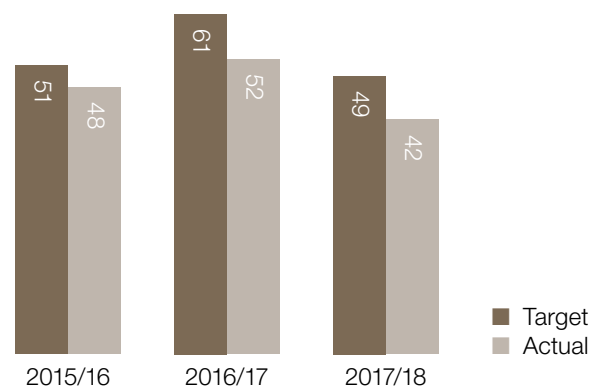
Average cost per submission

The total cost of the ERA's operations for 2017/18 was \$11.488 million compared to an expenditure limit of \$13.779 million (as per published budget estimates). There were 276 submissions compared to the target of 280. The average cost per submission was \$41,623 against the target of \$49,210. The actual average cost per submission was lower than the targeted cost per submission.

The cost per submission was 15 per cent less than the estimate. The biggest contributor to this was employee costs. We had several positions vacant during the year and underwent 20 recruitment processes to fill these vacant positions. In addition we had budgeted a full year employee costs for the Rule Change Panel but did not commence paying them until April 2018 as they were paid by the Independent Market Operator. The other variation related to a budget for expert technical and financial advice. Some activity that was anticipated in 2017/18 has been deferred to 2018/19.

	2015/16 Actual	2016/17 Actual	2017/18 Target	2017/18 Actual
Cost of services (\$ millions)	11.469	11.108	13.779	11.488
Number of submissions	241	212	280	276
Average cost of submissions (\$ thousands)	48	52	49	42

Average cost per submission (\$,000)



Ministerial directives

The ERA is independent of direction or control by the State, or any Minister or officers of the State, in performing its functions.

However, under section 28(2) and 28(3) of the *Economic Regulation Authority Act 2003*, the Treasurer may give direction in writing to the ERA on administration matters. No ministerial directives were received during 2017/18.

Other financial disclosures

Pricing policies of services provided

The ERA receives funding from regulated industries. This funding is on a full cost recovery basis.

The following table provides information about the instruments that allow this funding, the types of charges that can be made, and who is to pay. Information about the types of charge is provided below the table.

Instrument	Type of charge	Liability
Economic Regulation Authority (Electricity Networks Access Funding) Regulations 2012	Specific charge Standing charge Document fee Interest charge	Regulated electricity networks
Economic Regulation Authority (Licensing Funding) Regulations 2014	Specific charge Standing charge Document fee Interest charge	Gas licensees Water licensees Electricity licensees
Economic Regulation Authority (National Gas Access Funding) Regulations 2009	Specific charge Standing charge Document fee Meeting admission fee Interest charge	Regulated gas pipelines
Wholesale Electricity Market Rules	Regulator's fee	Market participants
Gas Services Information Rules	Regulator's fee	Market participants
Water Services Act 2012	Auditor's fee Interest charge	Water licensees

- **Specific charge** – pass through of costs associated with an activity carried out for a particular service provider.
- **Standing charge** – calculation of costs to recover salaries and overheads that are not directly attributed to a particular service provider.
- **Annual licence fee** – a fee set by the regulations which is charged to a licensee for each licence they hold on the anniversary of the licence grant date.

Disclosures and legal compliance

- **Document fee** – any cost of producing and providing documents prepared by, or on behalf of, the ERA.
- **Meeting admission fee** – any charge for admission to a meeting held by the ERA for the purposes of public consultation.
- **Regulator's fee** – calculation of costs to recover salaries and overhead costs of carrying out our Wholesale Electricity Market and Gas Services Information functions. This fee includes the costs of the independent Rule Change Panel.
- **Auditor's fee** – recovery of costs relating to engaging an independent auditor to undertake audits and reviews of asset management systems operated by water licensees.
- **Interest charge** – payable on any amount not paid within the allowed period of 30 days.

Under an agreement with the Commonwealth, the ERA is responsible for licensing water and electricity utilities on the Christmas and Cocos Islands. Applications for licences are yet to be received. Any costs incurred as a result of pre-lodgement negotiations will be recovered from the Commonwealth Government based on an agreed amount.

On 1 June 2018, the Gas Retail Market Procedures were amended to allow the ERA to recover the cost of its gas retail market functions from market participants from 2018/19.

Under the instruments allowing charges on regulated electricity and gas industries and the licensing regime, the ERA is required to disclose the total amount of standing and specific charges received from each entity in our annual report. That information is provided in the table below.

Service provider	Standing charges \$	Specific charges \$ (inc. GST)
Western Power	1,334,707.16	467,144.09
ATCO Gas Australia Pty Ltd	389,816.41	-
DBNGP (WA) Nominees Pty Ltd	721,614.97	-
Goldfields Gas Transmission Pty Ltd	292,542.71	-
Southern Cross Pipelines Pty Ltd	39,255.85	-
Alcoa of Australia Ltd	4,696.94	-
Alinta Co-generation (Pinjarra) Pty Ltd	4,991.06	-
Alinta Co-generation (Wagerup) Pty Ltd	6,256.65	-
Alinta DEWAP Pty Ltd	4,048.30	-
Alinta Energy Transmission (Roy Hill) Pty Ltd	4,967.07	-
Alinta Sales Pty Ltd	68,021.83	-
Amanda Energy Pty Ltd	12.34	5,610.25
Aquasol Pty Ltd	-	5,604.35
Aqwest-Bunbury Water Corporation	7,134.73	-
ATCO Gas Australia Pty Ltd	86,713.23	-
ATCO Power Australia (Karratha) Pty Ltd	1,711.22	-
BHP Billiton Nickel West Pty Ltd	86.98	-
Bluewaters Power 1 Pty Ltd	4,087.56	-
Bluewaters Power 2 Pty Ltd	4,087.32	-
Busselton Water Corporation	5,079.86	-
City of Kalgoorlie-Boulder	5,030.89	-
CleanTech Energy Pty Ltd	-	4,180.00
Collgar Wind Farm Pty Ltd	3,672.27	-

Service provider	Standing charges \$	Specific charges \$ (inc. GST)
Emu Downs Wind Farm Joint Venture	1,411.76	-
Energy Developments Ltd	606.06	-
Esperance Gas Distribution Company Pty Ltd	45.76	-
Esperance Power Station Pty Ltd	213.68	-
Gascoyne Water Co-operative Limited	62.47	-
Goldfields Power Pty Ltd	1,960.88	-
Greenough River Solar Farm Pty Ltd	-	102.55
Hamersley Iron Pty Ltd	744.98	-
Harvey Water (SWIMCO)	409.50	308.80
Horizon Power	21,318.92	-
IPower2 P/L & IPower P/L	-	5,635.55
Karara Power Pty Ltd	1,468.43	-
Merredin Energy Pty Ltd	1,461.66	-
Merredin Solar Farm Nominee Pty Ltd	-	4,783.95
Mumbida Wind Farm Pty Ltd	980.39	-
Newgen Neerabup Partnership Pty Ltd	5,882.32	-
Newgen Power Kwinana Pty Ltd	5,843.11	-
Newmont Power Pty Ltd	19.30	-
Ord Irrigation Cooperative Limited	18.85	-
Pacific Hydro Ltd	2,543.57	-
Perth Energy Pty Ltd	101.48	-
Perth Power Partnership	2,183.59	-
Preston Valley Irrigation Co-operative	33.55	-

Service provider	Standing charges \$	Specific charges \$ (inc. GST)
RATCH-Aust Kemerton Pty Ltd	5,525.82	-
Robe River Mining Co Pty Ltd	129.96	-
Rottneest Island Authority	125.29	-
South32 Worsley Alumina Pty Ltd	2,040.98	-
Southern Cross Energy Partnership	8,796.82	-
Southern Energy WA Pty Ltd	-	3,347.55
SRV GRSF Pty Ltd	-	4,191.00
Synergy (Electricity Generation and Retail Corp)	160,328.76	112.15
TEC Hedland Pty Ltd	2,656.19	-
Tronox Management Pty Ltd	802.15	-
Walkaway Wind Power Pty Ltd	1,588.23	-
Water Corporation	455,385.94	-
Wesfarmers Kleenheat Gas Pty Ltd	19,777.63	-
Western Energy Pty Ltd	2,139.02	-
Western Power	219,580.68	-
WR Carpenter No 1 Pty Ltd	2,062.02	-

In addition, under the Economic Regulation Authority (National Gas Access Funding) Regulations 2009 the ERA is required to include the total amount of document fees and meeting admission fees received each financial year in our annual report. No such fees were received in 2017/18.

Capital works

The ERA did not procure new or replacement assets in 2017/18.

Employment and industrial relations

Other than the chief executive officer, all ERA staff are employed under the Public Service Award 1992 and the Public Service and Government Officers CSA General Agreement 2017. No industrial disputes were recorded during 2017/18.

In addition to the 55 Secretariat staff employed at the ERA at 30 June 2018, there were three Governing Body members, three Rule Change Panel members, two staff out on secondment, and one seconded to the ERA.

Employment category	Number of staff as at 30 June 2017	Number of staff as at 30 June 2018
Permanent full-time	44	47
Permanent part-time	3	2
Part-time measured on an FTE basis	1.9	1.8
Fixed term full-time	7	5
Fixed term part-time	0	1
Total employees	54	55
Total FTE	52.9	53.8

Staff numbers by categories of employment and gender

Employment category	Female	Male	Total
Permanent full-time	23	24	47
Permanent part-time	2	0	2
Part-time measured on an FTE basis	1.8	0	1.8
Fixed term full-time	3	2	5
Fixed term part-time	1	0	1
Total employees	29	26	55
Total FTE	27.8	26	53.8

Staff development

The performance development and management program drives the learning and development of ERA staff. Under this program, staff identify training programs they would like to attend.

Some of the programs completed by staff include:

- Power system familiarisation for non-technical people
- Certificate IV in governance and risk management
- SQL Advanced querying
- Women in public sector leadership
- Stakeholder engagement
- Seamless digital government

The ERA participates in the inter-departmental mentoring program, along with other agencies including the Departments of Finance, Treasury, Training and Workforce Development, and Planning, Lands and Heritage, Lotterywest and the Mental Health Commission. This year, the mentoring program was expanded to include a specialised communications stream, in response to recommendations from the Service Priority Review. The ERA's communications advisor took part in this stream.

Workers' compensation

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

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

Compliance with public sector standards and ethical codes

The ERA is committed to ensuring the highest standards of transparency and accountability in its activities. The ERA ensures compliance with the WA Public Sector Code of Ethics and Code of Conduct, Public Sector Standards in Human Resource Management and *Equal Opportunity Act 1984*.

All new staff undergo an induction program where the Public Sector Code of Ethics and the ERA's Code of Conduct are explained. Staff are also required to regularly declare any conflicts of interest.

Mandatory staff training activities that ensure this compliance include:

- Public sector introduction (for staff new to the sector)
- Ethical and accountable decision making
- Recordkeeping
- Equal opportunity law

The ERA follows the Public Sector Commission's recruitment, selection and appointment standard during any recruitment process.

Individual performance development and management programs are completed and reviewed each year. These programs document pre-agreed annual work deliverables, as well as identifying training opportunities.

Processes to resolve or redress employee grievances are explained during the induction program, as well as the process for making a Public Interest Disclosure.

Supervisory staff also have to undergo training in injury management, recruitment and selection and grievance resolution.

Public sector standards compliance issues 2017/18

Compliance issues with public sector standards	0
Compliance issues with the Code of Ethics	0
Compliance issues with the ERA Code of Conduct	0

Governance disclosures

Board and committee remuneration

Gross remuneration does not include accruals, travel allowance and/or reimbursements, Fringe Benefits Tax or superannuation.

ERA Governing Body

Position	Name	Type of remuneration	Period of membership	Gross remuneration in 2017/18
Chair	Nicola Cusworth	Annual	1/07/17 – 30/06/18	\$370,117
Member	Greg Watkinson*	Annual	4/07/17 – 30/06/18	\$180,077
Member	Ray Challen	Annual	1/08/17 – 30/06/18	\$120,577
Total				\$670,771

* Includes leave payout from previous position as chief executive officer.

Rule Change Panel

Position	Name	Type of remuneration	Period of membership	Gross remuneration in 2017/18
Chair	Peter Kolf	Annual	1/07/17 – 30/06/18	\$12,859
Member	Shaun Dennison	Annual	1/07/17 – 30/06/18	\$7,073
Member	Roland Sleeman	Annual	1/07/17 – 30/06/18	\$7,073
Total				\$27,005

The Rule Change Panel was paid by the Independent Market Operator until April 2018.

Shares

At the date of reporting, no senior officers, firms of which senior officers are members, or entities in which senior officers have substantial interests, had any interest in existing or proposed contracts with the ERA other than normal contracts of employment of service.

Unauthorised use of credit cards

Officers hold corporate credit cards where their functions warrant usage of this facility. Staff are regularly reminded of their obligations to comply with our credit card policy.

In 2017/18, one employee inadvertently used the corporate credit card for personal shopping. The matter was not referred for disciplinary action as the chief finance officer noted the prompt advice and settlement of the personal use amount, and that the nature of the expenditure was characteristic of an honest mistake.

2017/18	Amount (\$)
Aggregate amount of personal use expenditure for the reporting period	34
Aggregate amount of personal use expenditure settled by the due date (within five working days)	34
Aggregate amount of personal use expenditure settled after the due date (within five working days)	Nil
The aggregate amount of personal use expenditure outstanding at the end of the reporting period	Nil

Other legal requirements

Expenditure on advertising, market research, polling and direct mail

Under Section 175ZE of the *Electoral Act 1907*, all public sector agencies are required to disclose any expenditure on advertising, market research, polling and direct mail.

Expenditure	Service provider	Amount
Advertising	Adcorp	\$33,698
	LinkedIn	\$440
	Seek	\$487
	State Law Publisher	\$11,271
	The Economic Society of Australia	\$110
	The Economist	\$1,194
Market research	N/A	Nil
Polling	N/A	Nil
Direct mail	N/A	Nil
Media advertising	N/A	Nil
Total*		\$47,199

*Total may not add due to rounding.

Disability access and inclusion plan

The ERA is committed to identifying and removing barriers that exclude people from accessing information, services, facilities, events and employment opportunities.

The Disability Access and Inclusion Plan 2013-18 outlines our intent to engage with, and improve the lives of, all people, including those with disabilities. It also meets legislative requirements and emphasises a proactive approach to addressing access and inclusion barriers for all members of the community.

The Disability Access and Inclusion Plan will be reviewed and updated in 2018/19.

Recordkeeping

Our Recordkeeping Plan was approved by the State Records Commission in December 2014 and remains valid until December 2019. The Retention and Disposal Schedule expires in August 2018.

Both of these documents will be revised in 2018/19 as a result of the additional functions transferred to the ERA last year in relation to compliance, enforcement, and rule change functions associated with the Wholesale Electricity Market.

The one-on-one training introduced last year has proven effective to inform new staff of their recordkeeping responsibilities.

The efficiency and effectiveness of the ERA's recordkeeping systems is continually reviewed, especially before and after system modifications.

Complaints handling

The ERA may receive complaints from three main areas: the administration of the Secretariat, employment, and regulatory functions.

Administration and employment-related complaints are dealt with under the Western Australian Public Sector Code of Ethics, and the ERA's Code of Conduct and Conflict of Interest policy.

Disclosures and legal compliance

The Code of Conduct recommends concerns be raised directly with the staff member involved, followed by the immediate supervisor and then the chief executive officer. All staff and consultants are given a copy of the Code of Conduct during induction. Staff are encouraged to discuss any employment-related matters with Human Resources. Members of the public can use the ERA website to make a complaint.

There were no administration or employment-related complaints during 2017/18.

The ERA may also receive complaints when carrying out its regulatory functions.

Our regulatory processes typically provide opportunities for interested parties to express their views. This includes comprehensive public consultation involving submissions, forums and meetings.

Most submissions are published on our website, however confidentiality is allowed in some circumstances.

The ERA's decisions are ultimately subject to appeal to the Supreme Court on legal matters, and to the Electricity Review Board on matters of merit.

Government policy requirements

Substantive equality

The ERA embraces the principles of substantive equality and is committed to its policy framework. Each year, new staff take part in a training program on Equal Opportunity Law, conducted by the Equal Opportunity Commission. The ERA has a good gender balance with roughly an equal number of men and women working in the organisation.

The ERA ensures that the principles of the policy framework are upheld and management decisions are made taking into consideration equity, parity and fairness to the community.

Occupational safety, health and injury management

The ERA is committed to providing and maintaining a safe and healthy working environment for its employees within the legislative framework of the *Occupational Safety and Health (OSH) Act 1984* and other associated legislation, including the Code of Practice for Occupational Safety and Health in the Western Australian Public Sector 2007.

All new staff are informed of health and safety expectations during the induction process. The office has an OSH representative who conducts workplace inspections to assess risks and hazards, reports issues to the Corporate Executive group, and resolves health and safety issues.

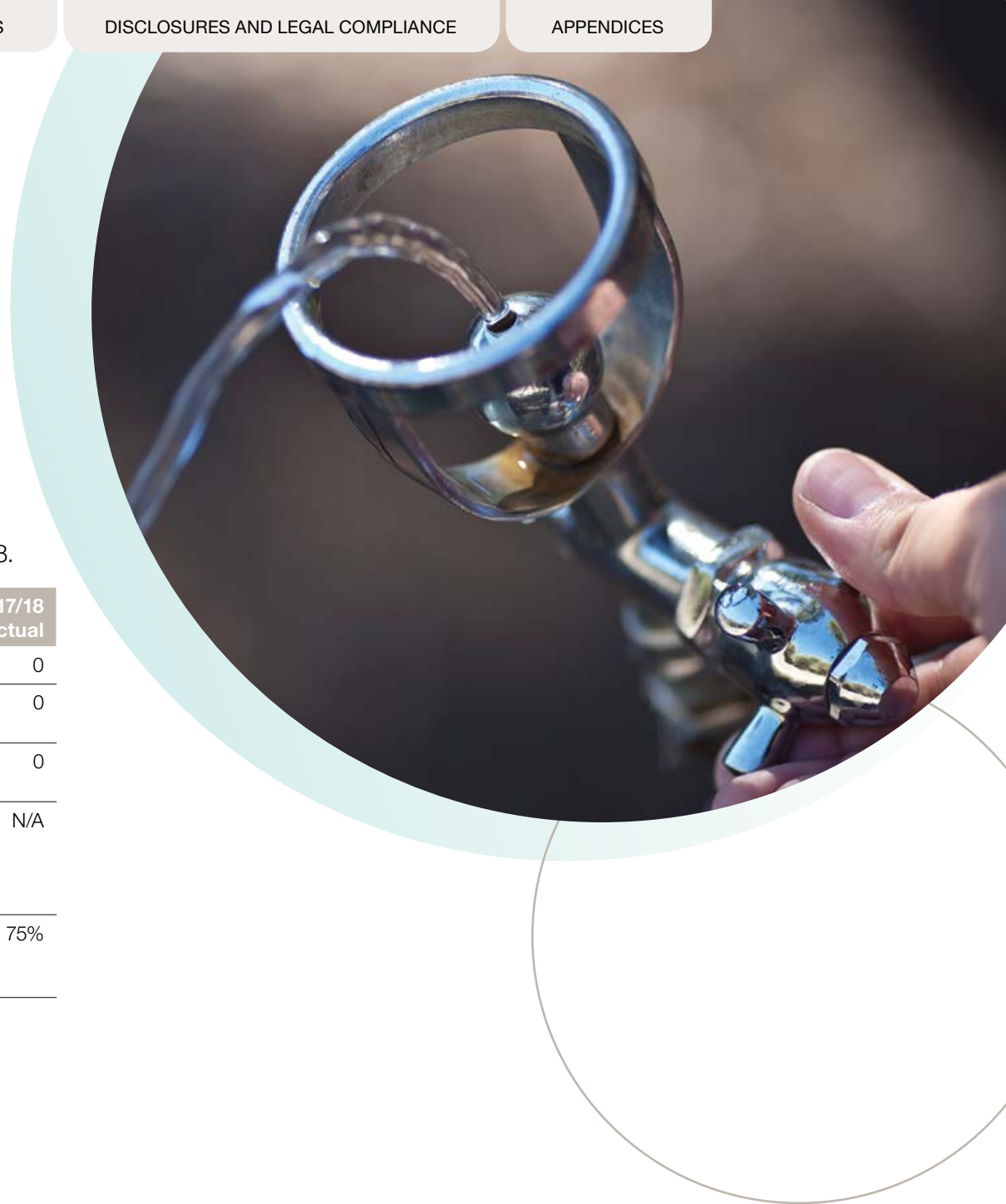
The ERA celebrated OSH Week from 9 to 13 April 2018, focussing on staff wellbeing. Activities included providing flu vaccinations, skin cancer checks, and injury management training.

Other OSH mechanisms include:

- workplace ergonomic assessments to ensure staff work stations are correctly set up and conducive to best practice
- standing office desks provided on request
- a comprehensive Employee Assistance Program for all employees and their immediate family.

The following table sets out performance against OSH targets in 2017/18.

Indicator	2017/18 Target	2017/18 Actual
Number of fatalities	0	0
Lost time injury/disease incidence rate	0, or 10% improvement on the previous three years	0
Lost time injury severity rate	0, or 10% improvement on previous three years	0
Percentage of injured workers returned to work within (i) 13 weeks and (ii) 26 weeks	Greater than or equal to 80% return to work within 26 weeks.	N/A
Percentage of managers and supervisors trained in occupational, safety, health and injury management responsibilities.	Greater than or equal to 80%	75%



Appendices

Appendix 1: Other legislation

Administered legislation

The ERA administers codes which regulate the conduct of utility service providers.

- *Gas Marketing Code of Conduct 2017*
- *Code of Conduct for the Supply of Electricity to Small Use Customers 2018*
- *Water Services Code of Conduct (Customer Services Standards) 2018*

Other legislation affecting the ERA's activities

Gas

- *Energy Coordination Regulations 2004*
- *Energy Coordination (Customer Contracts) Regulations 2004*
- *Energy Coordination (Last Resort Supply) Regulations 2005*
- *Energy Coordination (Ombudsman Scheme) Regulations 2004*
- *Energy Coordination (Retail Market Schemes) Regulations 2004*
- *National Gas Access (WA) (Local Provisions) Regulations 2009*
- *National Gas Access (WA) (Part 3) Regulations 2009*

Electricity

- *Electricity Corporations Act 2005*
- *Electricity Industry (Code of Conduct) Regulations 2005*
- *Electricity Industry (Customer Contracts) Regulations 2005*

- *Electricity Industry (Customer Transfer) Code 2016*
- *Electricity Industry (Licence Conditions) Regulations 2005*
- *Electricity Industry (Access Code Enforcement) Regulations 2005*
- *Electricity Industry (Metering) Code 2012*
- *Electricity Industry (Obligation to Connect) Regulations 2005*
- *Electricity Industry (Ombudsman Scheme) Regulations 2005*
- *Electricity Industry (Wholesale Electricity Market) Regulations 2004*
- *Electricity Industry (Network Quality and Reliability of Supply) Code 2005*

Rail

- *Railways (Access) Act 1998*
- *Railways (Access) Code 2000*

Water

- *Water Services Regulations 2013*
- *Water Services Act 2012*

Appendix 2: Senior staff

Governing Body

Nicky Cusworth	Chair
Ray Challen	Member
Greg Watkinson	Member

Secretariat

Jenness Gardner	Chief Executive Officer
Natalie Warnock	Senior Media and Communications Advisor

Regulation and Inquiries

Paul Kelly	Executive Director, Regulation and Inquiries
Analena Gilhome	Assistant Director References
Paul Reid	Assistant Director Utility Services Regulation
Tyson Self	Assistant Director Gas
Boon Tan	Assistant Director Research and Modelling
Jeremy Threlfall	Assistant Director Rail
Elizabeth Walters	Assistant Director Electricity

Energy Markets

Rajat Sarawat	Executive Director Energy Markets
Bruce Layman	Chief Economist
Manuel Arapis	Assistant Director Strategic Projects
Sara O'Connor	Assistant Director Energy Markets Regulation
Adrian Theseira	Assistant Director Energy Markets Compliance and Enforcement

Corporate Services

Pam Herbener	Director Corporate Services
Amanda Dunn	Manager Finance
Roshan Fernandes	Manager Human Resources



Economic Regulation Authority

Level 4, Albert Facey House, 469–489 Wellington St, Perth WA 6000
PO Box 8469, Perth BC WA 6849

www.erawa.com.au | records@erawa.com.au | 08 6557 7900