Attachment 1.3

Regulatory Financial Statements for the year ending 30 June 2018

Access Arrangement Information

1 February 2022

EDM 51142764

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

for the year ended 30 June 2018

Contents

Directors' overview

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

Corporate information

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

Western Power is primarily involved in the building, maintenance and operation of the electricity network throughout the majority of southern Western Australia. For a more detailed description of Western Power's operations and principal activities refer to the 2018 annual report (including the audited 2017/18 statutory financial statements) available on Western Power's website www.westernpower.com.au.

Likely developments

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

Future revenue

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

> changes in consumption patterns as customers respond to cost influences, environmental factors and product efficiencies

> deployment of evolving technologies such as solar photovoltaic systems, energy storage, stand-alone power systems and electric vehicles.

This decline in revenue will present challenges to Western Power, including:

> upwards pressure on network tariffs to offset this fall - this could encourage some customers to leave the grid to generate their own power, meaning remaining customers would bear a greater share of the cost of maintaining the network under the current regulatory framework

> lower dividends to the owner (being the Western Australian State Government) due to net profits also falling - this could result in increased reliance on borrowings where current dividend returns (and asset investment) are required, meaning potentially higher State debt.

Without appropriate mitigating strategies, a decline in revenue could have a significant impact on Western Power's value and sustainability.

New technologies and customer demands

The operating model of the traditional electricity network service provider including Western Power's, continues to evolve due to:

> technological advances in energy generation

> options for customers to take more control of their energy supply and use

> transformation of energy utilities into interconnected, dynamic and responsive "digital enterprises".

This has the potential to not only fundamentally change the energy value chain, but may also drive increasingly complex consumption and production patterns that will challenge the historical approach of delivering electricity one-way across a centralised network.

Integrating these new technologies into the traditional electricity network service represents an opportunity to benefit Western Power's customers as a whole with better service, reliability and efficiency. This is a key focus of Western Power's current five year Corporate Strategy (2017/18 - 2021/22), being the interaction of new technologies and customer demands with the network while maintaining a high level of service for the community. In support of this, Western Power continues to work with customers to explore potential benefits and future deployment of innovative network technologies. This includes a battery-based energy storage system in Perenjori and stand-alone power systems at edge-of-grid locations.

Over the next five years, Western Power expects to move beyond pilots to deployment, including in partnership with other providers, maximising opportunities to fund programs in substitution of network investments. Evidencing this is the Minister for Energy's February 2018 announcement of a joint venture between Energy Made Clean and Lend Lease to construct and connect the 100 per cent renewable energy-powered microgrid Western Power has engineered and designed at Kalbarri since a feasibility study commenced in 2016. Full operation of this five megawatt microgrid is expected by mid-2019.

Ageing network assets

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

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

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

Public safety

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

Western Power's asset management system aligns to *Australian Standard (* ***AS*** *) 5577 Electricity network safety management systems* to ensure continued management of the network in a reasonable and appropriate manner considering the risk posed.

Directors' overview (continued)

Regulatory financial statements

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

The presentation of these financial statements is in accordance with the pro-forma statements prescribed in appendix A of the ERA's Guidelines. In compliance with the Guidelines, any discretionary headings agree with, or are traceable to the headings in Western Power's audited 2017/18 statutory financial statements.

(a) Regulatory allocations

In compliance with the ERA's Guidelines, these financial statements present Western Power's audited 2017/18 statutory financial statements (base accounts) disaggregated into the following business segments:

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

The disaggregation is in accordance with the ERA's Guidelines and Western Power's approved 2017/18 cost and revenue allocation method (**CRAM**), specifically:

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

(b) Regulatory adjustments

In compliance with the ERA's Guidelines, these financial statements include regulatory adjustments that primarily reflect differences in accounting policies and disclosures between the audited 2017/18 statutory financial statements (base accounts) and the 2017/18 regulatory financial statements, e.g.:

> ***Capital contributions (adjustment 12.1)***
For regulatory financial reporting, contributions are recognised in the profit and loss account on receipt. This contrasts to statutory financial reporting, where contributions are deferred to the balance sheet and subsequently recognised in the profit and loss account in compliance with *AASB Interpretation 18 Transfers of Assets from Customers* , only when developers and/or customers are connected to the network in accordance with the terms of the contributions.

> ***Borrowing costs (adjustment 12.2)***
For regulatory financial reporting, borrowing costs are not capitalised to the balance sheet. This contrasts to statutory financial reporting, where borrowing costs are capitalised to the balance sheet in compliance with *AASB 123 Borrowing Costs* , where they are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is one that takes a substantial period of time to be ready for their intended use.

> ***Accounting disclosures (fleet depreciation) (adjustment 12.3)***
For regulatory financial reporting, unregulated fleet depreciation is recognised as operating expenditure. This contrasts to statutory financial reporting, where unregulated fleet depreciation is recognised as 'depreciation and amortisation' in compliance with *AASB 116 Property, plant and equipment* .

> ***Regulated asset base (RAB) (adjustment 12.4)***
For regulatory financial reporting, capital expenditure that does not meet the New Facilities Investment Test (**NFIT**) (including *forecast* environmental and rehabilitation costs provided for) is not capitalised to the RAB. This contrasts to statutory financial reporting, where capital expenditure is capitalised to the fixed asset register (**FAR**) in compliance with *AASB 116 Property, plant and equipment* and *AASB 138 Intangible assets* (including expenditure provided for under *AASB 137 Provisions, contingent liabilities and contingent assets*).

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

(c) Audit assurance

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

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

1. Profit and loss account (disaggregated) for the year ended 30 June 2018

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (unregulated) $'000	Unregulated $'000
Network services (revenue cap)	1,496,201	286,112	1,210,089	-	-
Network services (non-revenue cap)	16,895	4,295	12,600	-	-
Network services (other)	59,838	1,858	14,858	4,512	38,610
Contributions (excluding gifted network assets)	89,846	6,926	82,920	-	-
Gifted network assets	56,483	-	56,483	-	-
Proceeds from disposal of assets*	9,975	8,059	1,443	-	473
Other income	5,193	3,803	171	-	1,219
Total income	**1,734,431**	**311,053**	**1,378,564**	**4,512**	**40,302**
Operating expenditure costs	(580,621)	(97,665)	(448,016)	(2,627)	(32,313)
Operations	(81,245)	(19,498)	(34,264)	-	(27,483)
Maintenance	(180,363)	(43,001)	(137,362)	-	-
Customer service and billing	(29,344)	-	(28,823)	-	(521)
Corporate	(98,811)	(26,463)	(71,101)	-	(1,247)
Other operating expenditure	(190,858)	(8,703)	(176,466)	(2,627)	(3,062)
Depreciation and amortisation	(345,605)	(114,281)	(229,172)	(1,889)	(263)
Bad debts	(1,141)	(213)	(900)	-	(28)
Borrowing costs	(291,219)	(80,258)	(208,950)	(57)	(1,954)
Book value on disposal of assets*	(13,035)	(3,864)	(8,564)	-	(607)
Total expenses	**(1,231,621)**	**(296,281)**	**(895,602)**	**(4,573)**	**(35,165)**
Earnings before tax equivalent	**502,810**	**14,772**	**482,962**	**(61)**	**5,137**
Tax equivalent	**(151,050)**	**(4,438)**	**(145,087)**	**18**	**(1,543)**
Profit/(loss) after tax equivalent	**351,760**	**10,334**	**337,875**	**(43)**	**3,594**

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

* Total income and total expenses reported in the regulatory financial statements each differ by $9.975 million to total income and total expenses reported in the statutory financial statements. This is due to the regulatory disclosure requirements in the ERA's Guidelines, i.e. the proceeds and written down value on the disposal of assets are disclosed separately. In contrast, the proceeds and written down value on the disposal of assets are disclosed net of one another in the statutory financial statements, i.e. a net loss of $3.060 million. The latter is in accordance with Australian accounting standards.

2. Profit and loss account (regulatory financial statement) for the year ended 30 June 2018

Covered Transmission

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Network services (revenue cap)	286,112	-	286,112	
Network services (non-revenue cap)	4,295	-	4,295	
Network services (other)	1,858	-	1,858	
Contributions (excluding gifted network assets)	6,926	49,541	56,467	11, 12.1
Proceeds from disposal of assets	8,059	-	8,059	
Other income	3,803	-	3,803	
Total income	**311,053**	**49,541**	**360,594**	
Operating expenditure costs	(97,665)	(5,410)	(103,075)	9, 10
Operations	(19,498)	(2,042)	(21,540)	12.4
Maintenance	(43,001)	-	(43,001)	12.4
Corporate	(26,463)	(3,368)	(29,831)	12.3, 12.4
Other operating expenditure	(8,703)	-	(8,703)	
Depreciation and amortisation	(114,281)	1,020	(113,261)	Note 1., 12.3
Bad debts	(213)	-	(213)	
Borrowing costs	(80,258)	(1,313)	(81,571)	12.2
Book value on disposal of assets	(3,864)	-	(3,864)	
Total expenses	**(296,281)**	**(5,703)**	**(301,984)**	
Earnings before tax equivalent	**14,772**	**43,838**	**58,610**	
Tax equivalent	**(4,438)**	**(13,151)**	**(17,589)**	12.5
Profit after tax equivalent	**10,334**	**30,687**	**41,021**	

Covered Distribution

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Network services (revenue cap)	1,210,089	-	1,210,089	
Network services (non-revenue cap)	12,600	-	12,600	
Network services (other)	14,858	-	14,858	
Contributions (excluding gifted network assets)	82,920	39,452	122,372	11, 12.1
Gifted network assets	56,483	-	56,483	11, 12.1
Proceeds from disposal of assets	1,443	-	1,443	
Other income	171	-	171	
Total income	**1,378,564**	**39,452**	**1,418,016**	
Operating expenditure costs	(448,016)	(38,488)	(486,504)	9, 10
Operations	(34,264)	(1,837)	(36,101)	12.4
Maintenance	(137,362)	(29,500)	(166,862)	12.4
Customer service and billing	(28,823)	-	(28,823)	
Corporate	(71,101)	(7,151)	(78,252)	12.3, 12.4
Other operating expenditure	(176,466)	-	(176,466)	
Depreciation and amortisation	(229,172)	2,660	(226,512)	Note 1., 12.3
Bad debts	(900)	-	(900)	
Borrowing costs	(208,950)	-	(208,950)	12.2
Book value on disposal of assets	(8,564)	-	(8,564)	
Total expenses	**(895,602)**	**(35,828)**	**(931,430)**	
Earnings before tax equivalent	**482,962**	**3,624**	**486,586**	
Tax equivalent	**(145,087)**	**(1,087)**	**(146,174)**	12.5
Profit after tax equivalent	**337,875**	**2,537**	**340,412**	

Note:

1. 'Depreciation and amortisation' reported in these statements equals 'depreciation and amortisation' reported in the statutory financial statements. This is in accordance with the ERA's Guidelines, being both are prepared from the statutory base accounts and accounting records that underlie these base accounts, i.e. the statutory fixed asset register recognised at historical cost and not the regulated asset base. Any regulatory adjustment(s) to 'depreciation and amortisation' are for year-to-date accounting disclosure purposes only, i.e. 'fleet depreciation' accounting disclosure adjustment 12.3.

   'Depreciation and amortisation' is regulated unless attributable to unregulated discrete assets only, including system management computer software and stand-alone power systems (and excluding "fleet" per regulatory adjustment 12.3).

3. Cash flow statement (disaggregated) for the year ended 30 June 2018

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (unregulated) $'000	Unregulated $'000
Operating activities					
Receipts	1,889,131	379,671	1,464,131	5,050	40,279
Payments	(740,039)	(98,233)	(601,508)	(3,562)	(36,736)
Net operating cash flows	**1,149,092**	**281,438**	**862,623**	**1,488**	**3,543**
Investing activities					
Receipts	9,975	8,059	1,443	-	473
Payments	(607,171)	(123,929)	(474,350)	-	(8,892)
Net investing cash flows	**(597,196)**	**(115,870)**	**(472,907)**	**-**	**(8,419)**
Financing activities					
Receipts	2,510,107	643,656	1,848,347	78	18,026
Payments	(3,038,930)	(726,035)	(2,292,882)	(135)	(19,878)
Net financing cash flows	**(528,823)**	**(82,379)**	**(444,535)**	**(57)**	**(1,852)**
Net increase/(decrease) in cash and cash equivalents	**23,073**	**83,189**	**(54,819)**	**1,431**	**(6,728)**
Cash and cash equivalents at beginning of reporting year	10,655				
Net increase in cash and cash equivalents	23,073				
Cash and cash equivalents at end of reporting year*	**33,728**	**5,321**	**14,924**	**-**	**13,483**

* Cash and cash equivalent transactions (after isolation of discrete security deposits and high voltage distribution pool cash at bank) are recorded collectively in one bank account and redistributed so as to equitably fund the core covered transmission and distribution businesses.

4. Cash flow statement (regulatory financial statements) for the year ended 30 June 2018

Covered Transmission

Description	Base account $'000	Regulatory adjustment* $'000	Regulatory account $'000	Support reference #
Operating activities				
Receipts	379,671	-	379,671	
Payments	(98,233)	-	(98,233)	
Net operating cash flows	**281,438**	**-**	**281,438**	
Investing activities				
Receipts	8,059	-	8,059	
Payments	(123,929)	-	(123,929)	
Net investing cash flows	**(115,870)**	**-**	**(115,870)**	
Financing activities				
Receipts	643,656	-	643,656	
Payments	(726,035)	-	(726,035)	
Net financing cash flows	**(82,379)**	**-**	**(82,379)**	
Net increase in cash and cash equivalents	**83,189**	**-**	**83,189**	

Covered Distribution

Description	Base account $'000	Regulatory adjustment* $'000	Regulatory account $'000	Support reference #
Operating activities				
Receipts	1,464,131	-	1,464,131	
Payments	(601,508)	-	(601,508)	
Net operating cash flows	**862,623**	**-**	**862,623**	
Investing activities				
Receipts	1,443	-	1,443	
Payments	(474,350)	-	(474,350)	
Net investing cash flows	**(472,907)**	**-**	**(472,907)**	
Financing activities				
Receipts	1,848,347	-	1,848,347	
Payments	(2,292,882)	-	(2,292,882)	
Net financing cash flows	**(444,535)**	**-**	**(444,535)**	
Net decrease in cash and cash equivalents	**(54,819)**	**-**	**(54,819)**	

* The cash flow statement is adjusted for regulatory adjustment(s) that cross business segments only, and not for regulatory adjustment(s) within a business segment.

5. Balance sheet (disaggregated) as at 30 June 2018

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (unregulated) $'000	Unregulated $'000
Current assets					
Cash and cash equivalents	33,728	5,321	14,924	-	13,483
Trade and other receivables	93,872	20,539	71,725	-	1,608
Prepayments	6,490	2,459	4,031	-	-
Accrued revenue	152,675	28,873	123,802	-	-
Inventories	85,375	25,519	46,027	-	13,829
Derivative financial instruments	59	16	43	-	-
Total current assets	**372,199**	**82,727**	**260,552**	**-**	**28,920**
Non-current assets					
Property, plant and equipment, and intangible assets	10,507,166	2,896,214	7,540,196	244	70,512
Trade and other receivables	370	69	292	-	9
Derivative financial instruments	2,554	708	1,846	-	-
Total non-current assets	**10,510,090**	**2,896,991**	**7,542,334**	**244**	**70,521**
Total assets	**10,882,289**	**2,979,718**	**7,802,886**	**244**	**99,441**
Current liabilities					
Borrowings	(6,838)	(1,856)	(4,929)	-	(53)
Trade and other payables	(149,272)	(35,000)	(95,890)	-	(18,382)
Tax equivalent liabilities	(64,184)	(17,692)	(46,060)	(1)	(431)
Derivative financial instruments	(472)	(131)	(341)	-	-
Deferred income	(160,688)	(54,386)	(104,964)	-	(1,338)
Provisions	(73,373)	(19,315)	(53,761)	-	(297)
Total current liabilities	**(454,827)**	**(128,380)**	**(305,945)**	**(1)**	**(20,501)**
Non-current liabilities					
Borrowings	(7,273,569)	(1,974,625)	(5,242,700)	(244)	(56,000)
Trade and other payables	(3,282)	-	(3,282)	-	-
Derivative financial instruments	(22,826)	(6,327)	(16,499)	-	-
Deferred tax equivalent liabilities	(838,540)	(231,137)	(601,757)	(19)	(5,627)
Deferred income	(25,120)	(18,227)	(6,893)	-	-
Provisions	(20,069)	(11,781)	(8,252)	-	(36)
Total non-current liabilities	**(8,183,406)**	**(2,242,097)**	**(5,879,383)**	**(263)**	**(61,663)**
Total liabilities	**(8,638,233)**	**(2,370,477)**	**(6,185,328)**	**(264)**	**(82,164)**
Net assets	**2,244,056**	**609,241**	**1,617,558**	**(20)**	**17,277**

Description	$'000
Equity	
Share capital	1,410,949
*Accumulated profits/reserves**	833,107
Total equity	**2,244,056**
* Accumulated profits/reserves	
At start of reporting period	886,123
Profit after tax equivalent	351,760
Other comprehensive income	14,123
Distributions provided for or paid in reporting year	(418,899)
At end of reporting period	**833,107**

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

6. Balance sheet (regulatory financial statement) as at 30 June 2018

Covered Transmission

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Current assets				
Cash and cash equivalents	5,321	-	5,321	
Trade and other receivables	20,539	523	21,062	12.1
Prepayments	2,459	-	2,459	
Accrued revenue	28,873	-	28,873	
Inventories	25,519	-	25,519	
Derivative financial instruments	16	-	16	
Total current assets	**82,727**	**523**	**83,250**	
Non-current assets				
Property, plant and equipment, and intangible assets	2,896,214	(109,051)	2,787,163	Note 1., 12.2, 12.4
Trade and other receivables	69	-	69	
Derivative financial instruments	708	-	708	
Total non-current assets	**2,896,991**	**(109,051)**	**2,787,940**	
Total assets	**2,979,718**	**(108,528)**	**2,871,190**	
Current liabilities				
Borrowings	(1,856)	-	(1,856)	
Trade and other payables	(35,000)	(253)	(35,253)	12.1
Tax equivalent liabilities	(17,692)	(13,151)	(30,843)	12.5
Derivative financial instruments	(131)	-	(131)	
Deferred income	(54,386)	48,307	(6,079)	12.1
Provisions	(19,315)	1,859	(17,456)	12.4
Total current liabilities	**(128,380)**	**36,762**	**(91,618)**	
Non-current liabilities				
Borrowings	(1,974,625)	-	(1,974,625)	
Derivative financial instruments	(6,327)	-	(6,327)	
Deferred tax equivalent liabilities	(231,137)	-	(231,137)	
Deferred income	(18,227)	18,227	-	12.1
Provisions	(11,781)	9,625	(2,156)	12.4
Total non-current liabilities	**(2,242,097)**	**27,852**	**(2,214,245)**	
Total liabilities	**(2,370,477)**	**64,614**	**(2,305,863)**	
Net assets	**609,241**	**(43,914)**	**565,327**	

Note:

1. 'Property, plant and equipment (**PPE**), and intangible assets' reported in these statements equals 'PPE, and intangible assets' reported in the statutory financial statements. This is consistent with the accounting policy in notes 13(m) and 13(n) of these statements, i.e. 'PPE, and intangible assets' are recognised and measured in accordance with Australian accounting standards (base accounts) and are not equal to the regulated asset base (**RAB**). Any regulatory adjustment(s) to 'PPE, and intangible assets' are explained in the ‘regulatory adjustments’ section within these statements. They do not include capital additions excluded from the RAB in previous financial years.

   Unregulated 'PPE, and intangible assets' represent discrete assets only, including mobile plant and vehicles, stand-alone power systems and system management computer software.

6. Balance sheet (regulatory financial statement) as at 30 June 2018

Covered Distribution

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Current assets				
Cash and cash equivalents	14,924	-	14,924	
Trade and other receivables	71,725	3,378	75,103	12.1
Prepayments	4,031	-	4,031	
Accrued revenue	123,802	-	123,802	
Inventories	46,027	-	46,027	
Derivative financial instruments	43	-	43	
Total current assets	**260,552**	**3,378**	**263,930**	
Non-current assets				
Property, plant and equipment, and intangible assets	7,540,196	(37,745)	7,502,451	Note 1., 12.2, 12.4
Trade and other receivables	292	-	292	
Derivative financial instruments	1,846	-	1,846	
Total non-current assets	**7,542,334**	**(37,745)**	**7,504,589**	
Total assets	**7,802,886**	**(34,367)**	**7,768,519**	
Current liabilities				
Borrowings	(4,929)	-	(4,929)	
Trade and other payables	(95,890)	(913)	(96,803)	12.1
Tax equivalent liabilities	(46,060)	(1,087)	(47,147)	12.5
Derivative financial instruments	(341)	-	(341)	
Deferred income	(104,964)	96,880	(8,084)	12.1
Provisions	(53,761)	259	(53,502)	12.4
Total current liabilities	**(305,945)**	**95,139**	**(210,806)**	
Non-current liabilities				
Borrowings	(5,242,700)	-	(5,242,700)	
Trade and other payables	(3,282)	-	(3,282)	
Derivative financial instruments	(16,499)	-	(16,499)	
Deferred tax equivalent liabilities	(601,757)	-	(601,757)	
Deferred income	(6,893)	6,893	-	12.1
Provisions	(8,252)	1,658	(6,594)	12.4
Total non-current liabilities	**(5,879,383)**	**8,551**	**(5,870,832)**	
Total liabilities	**(6,185,328)**	**103,690**	**(6,081,638)**	
Net assets	**1,617,558**	**69,323**	**1,686,881**	

Note:

1. 'Property, plant and equipment (**PPE**), and intangible assets' reported in these statements equals 'PPE, and intangible assets' reported in the statutory financial statements. This is consistent with the accounting policy in notes 13(m) and 13(n) of these statements, i.e. 'PPE, and intangible assets' are recognised and measured in accordance with Australian accounting standards (base accounts) and are not equal to the regulated asset base (**RAB**). Any regulatory adjustment(s) to 'PPE, and intangible assets' are explained in the ‘regulatory adjustments’ section within these statements. They do not include capital additions excluded from the RAB in previous financial years.

   Unregulated 'PPE, and intangible assets' represent discrete assets only, including mobile plant and vehicles, stand-alone power systems and system management computer software.

7. Capital expenditure (disaggregated) for the year ended 30 June 2018

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (unregulated) $'000	Unregulated $'000
Capital additions					
Capacity expansion	43,062	15,094	27,968	-	-
Customer driven	146,580	22,403	124,177	-	-
Gifted network assets	56,483	-	56,483	-	-
Asset replacement	111,913	31,669	80,244	-	-
*State Underground Power Project (**SUPP**)*	7,060	-	7,060	-	-
Metering	17,788	-	17,788	-	-
Wood pole management	149,913	-	149,913	-	-
Reliability driven	2,867	863	2,004	-	-
*Supervisory Control and Data Acquisition (**SCADA**) & communications*	20,942	12,792	8,150	-	-
Regulatory compliance	38,155	21,686	16,469	-	-
Information technology	51,119	14,170	36,949	-	-
Business support	28,651	10,002	18,649	-	-
Capitalised interest	1,313	1,313	-	-	-
Mobile plant and vehicles	8,641	-	-	-	8,641
Stand-alone power systems	348	-	-	-	348
Total capital additions	**684,835**	**129,992**	**545,854**	**-**	**8,989**

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

8. Capital expenditure (regulatory financial statement) for the year ended 30 June 2018

Covered Transmission

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Growth				
Capacity expansion	15,094	-	15,094	
Customer driven	22,403	-	22,403	
	37,497	-	37,497	
Asset replacement and renewal				
Asset replacement	31,669	(4,390)	27,279	12.4
Improvement in service				
Reliability driven	863	-	863	
SCADA and communications	12,792	-	12,792	
	13,655	-	13,655	
Compliance				
Regulatory compliance	21,686	-	21,686	
Corporate				
Information technology	14,170	-	14,170	
Business support	10,002	(11,484)	(1,482)	12.4
	24,172	(11,484)	12,688	
Other				
Capitalised interest	1,313	(1,313)	-	12.2
Total capital additions	**129,992**	**(17,187)**	**112,805**	

Covered Distribution

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Growth				
Capacity expansion	27,968	-	27,968	
Customer driven	124,177	-	124,177	
Gifted network assets	56,483	-	56,483	
	208,628	-	208,628	
Asset replacement and renewal				
Asset replacement	80,244	(6,328)	73,916	12.4
SUPP	7,060	-	7,060	
Metering	17,788	-	17,788	
Wood pole management	149,913	(29,500)	120,413	12.4
	255,005	(35,828)	219,177	
Improvement in service				
Reliability driven	2,004	-	2,004	
SCADA and communications	8,150	-	8,150	
	10,154	-	10,154	
Compliance				
Regulatory compliance	16,469	-	16,469	
Corporate				
Information technology	36,949	-	36,949	
Business support	18,649	(1,917)	16,732	12.4
	55,598	(1,917)	53,681	
Total capital additions	**545,854**	**(37,745)**	**508,109**	

9. Operating expenditure (disaggregated) for the year ended 30 June 2018

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (unregulated) $'000	Unregulated $'000
Directly attributed costs					
Operations	(64,828)	(15,459)	(21,886)	-	(27,483)
Maintenance	(180,363)	(43,001)	(137,362)	-	-
Customer service and billing	(29,344)	-	(28,823)	-	(521)
Corporate	(969)	-	(76)	-	(893)
Other operating expenditure	(190,858)	(8,703)	(176,466)	(2,627)	(3,062)
Total directly attributed costs	**(466,362)**	**(67,163)**	**(364,613)**	**(2,627)**	**(31,959)**
Causally allocated costs					
Operations	(16,417)	(4,039)	(12,378)	-	-
Maintenance	-	-	-	-	-
Customer service and billing	-	-	-	-	-
Corporate	(97,842)	(26,463)	(71,025)	-	(354)
Other operating expenditure	-	-	-	-	-
Total causally allocated costs	**(114,259)**	**(30,502)**	**(83,403)**	**-**	**(354)**
Total operating expenditure costs	**(580,621)**	**(97,665)**	**(448,016)**	**(2,627)**	**(32,313)**

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

Operating expenditure costs to be excluded from gain sharing mechanism for the year ended 30 June 2018

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (unregulated) $'000	Unregulated $'000
Superannuation for defined benefit schemes	(44)	(11)	(33)	-	-
Non-revenue cap services	(18,387)	(4,402)	(13,985)	-	-
Energy Safety Act 2006 levy	(4,498)	(1,247)	(3,251)	-	-
ERA costs under *ERA (Electricity Networks Access Funding) Regulations 2012*	(2,147)	(595)	(1,552)	-	-
Total operating expenditure costs to be excluded from gain sharing mechanism	**(25,076)**	**(6,255)**	**(18,821)**	**-**	**-**

10. Operating expenditure (regulatory financial statement) for the year ended 30 June 2018

Covered Transmission

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Operations				
SCADA and communications	(11,057)	-	(11,057)	
Non-revenue cap services	(4,402)	-	(4,402)	
Network operations	(4,039)	(2,042)	(6,081)	12.4
	(19,498)	(2,042)	(21,540)	
Maintenance				
Preventative condition	(11,315)	-	(11,315)	
Preventative routine	(20,367)	-	(20,367)	
Corrective deferred	(8,514)	-	(8,514)	
Corrective emergency	(2,805)	-	(2,805)	12.4
	(43,001)	-	(43,001)	
Corporate				
Business support	(26,463)	(3,368)	(29,831)	12.3, 12.4
Other operating expenditure				
Non-recurring expenditure	(8,703)	-	(8,703)	
Total operating expenditure costs	**(97,665)**	**(5,410)**	**(103,075)**	

Covered Distribution

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Operations				
Reliability operations	(1,396)	-	(1,396)	
SCADA and communications	(6,505)	-	(6,505)	
Non-revenue cap services	(13,985)	-	(13,985)	
Network operations	(12,378)	(1,837)	(14,215)	12.4
	(34,264)	(1,837)	(36,101)	
Maintenance				
Preventative condition	(30,255)	-	(30,255)	
Preventative routine	(34,609)	-	(34,609)	
Corrective deferred	(12,241)	-	(12,241)	
Corrective emergency	(60,257)	(29,500)	(89,757)	12.4
	(137,362)	(29,500)	(166,862)	
Customer service and billing				
Call centre	(4,071)	-	(4,071)	
Metering	(15,956)	-	(15,956)	
Guaranteed service level payments	(1,586)	-	(1,586)	
Distribution quotations	(7,210)	-	(7,210)	
	(28,823)	-	(28,823)	
Corporate				
Business support	(71,101)	(7,151)	(78,252)	12.3, 12.4
Other operating expenditure				
Non-recurring expenditure	(9,466)	-	(9,466)	
Tariff equalisation contribution	(167,000)	-	(167,000)	
	(176,466)	-	(176,466)	
Total operating expenditure costs	**(448,016)**	**(38,488)**	**(486,504)**	

11. Contributions for the year ended 30 June 2018

Covered Transmission

Reason for contributions	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Customer driven	6,926	49,129	56,055	
SCADA and communications	-	412	412	
Total contributions	**6,926**	**49,541**	**56,467**	**12.1**

Covered Distribution

Reason for contributions	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Capacity expansion	163	-	163	
Customer driven	77,832	28,990	106,822	
Gifted network assets	56,483	-	56,483	
SUPP	1,493	10,462	11,955	
Metering	3,402	-	3,402	
Regulatory compliance	30	-	30	
Total contributions (including gifted network assets)	**139,403**	**39,452**	**178,855**	**12.1**

12. Regulatory adjustments for the year ended 30 June 2018

Accounting policy adjustments

12.1 Capital contributions (including gifted network assets)

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

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (unregulated) $'000	Unregulated $'000
Capital contributions recognised (statutory)	**146,329**	**6,926**	**139,403**	**-**	**-**
Regulatory cash adjustments:					
Net capital contributions deferred to balance sheet					
Opening deferred income (capital contributions)	(84,049)	(17,263)	(66,786)	-	-
Closing deferred income (capital contributions)	170,307	66,534	103,773	-	-
	86,258	49,271	36,987	-	-
Net capital contributions invoiced and now received	3,901	523	3,378	-	-
Net capital contributions accrued and now refunded	(1,166)	(253)	(913)	-	-
Total regulatory cash adjustment	**88,993**	**49,541**	**39,452**	**-**	**-**
Capital contributions received (regulatory)	**235,322**	**56,467**	**178,855**	**-**	**-**

12.2 Borrowing costs

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

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (unregulated) $'000	Unregulated $'000
Opening capitalised borrowing costs (statutory)	(91,864)	(91,864)	-	-	-
Capitalised borrowing costs in reporting year	(1,313)	(1,313)	-	-	-
Closing capitalised borrowing costs (statutory)	**(93,177)**	**(93,177)**	**-**	**-**	**-**

Accounting disclosure adjustments

12.3 Fleet depreciation

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

Regulated asset base (RAB) adjustments

12.4 Capital additions and capital provisions

To align Western Power's statutory capital additions with regulatory capital additions as required per the ERA's Access Arrangement 4 (**AA4**) decision, e.g. statutory capital expenditure that does not meet the New Facilities Investment Test (**NFIT**) as described in the *Electricity Networks Access Code 2004 (WA)* (including *forecast* environmental and rehabilitation costs provided for) is not added to the RAB.

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (unregulated) $'000	Unregulated $'000
Capital additions excluded from RAB (per AA4 decision)					
Non-NFIT capital additions	3,879	2,042	1,837	-	-
Intellectual property (for work completed for proposed transition to the national regulatory regime)	6,839	2,348	4,491	-	-
Wood pole emergency replacements	29,500	-	29,500	-	-
Capital provisions excluded from RAB (until incurred)					
Provision for environmental costs	2,652	735	1,917	-	-
Provision for rehabilitation costs	10,749	10,749	-	-	-
Total capital additions and provisions excluded from RAB	**53,619**	**15,874**	**37,745**	**-**	**-**

Other

12.5 Tax equivalent

The tax equivalent is calculated on regulatory adjustments using the tax rates, that based on laws, have been enacted or substantially enacted as at the reporting date (2017/18: 30 per cent).

13. Summary of significant accounting policies

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

(a) Basis of preparation

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

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

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

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

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

New and amended accounting standards adopted

Western Power has applied the below amendment for the first time in the reporting year commencing 1 July 2017:

> *AASB 2016-4 Amendments to Australian accounting standards - recoverable amount of non-cash-generating specialised assets of not-for-profit entities*

(b) Accrual accounting and historical cost convention

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

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

(c) Critical accounting and historical cost convention

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

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

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

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

(d) Rounding

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

(e) Cost allocations

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

(f) Foreign currency translation

Presentation and functional currency

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

Transactions and balances

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

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

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

13. Summary of significant accounting policies (continued)

(g) Revenue and income recognition

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

Network services revenue

Western Power receives network services revenue from the transmission and distribution of electricity, and provision of other related services including unregulated sales of materials. Network services revenue is recognised when the service is provided. As at each reporting date, network services revenue and trade receivables include amounts attributable to ‘unbilled network tariff revenue’ (30 June 2018: $152.675 million). Unbilled network tariff revenue is an estimate of electricity transported to customers that has not been invoiced at the reporting date. It is calculated using projected historical and budget revenue assumptions for unread meters based on the billing profile of Western Power customers.

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

Contributions

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

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

Other income

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

(h) Income tax equivalent

National taxation equivalent regime

Western Power operates under the National Taxation Equivalent Regime (**NTER**). While income tax equivalent payments under the NTER are remitted to the Western Australian State Government, Western Power's tax equivalent is subject to Australian Taxation Office (**ATO**) administration. The calculation of the liability in respect of these taxes is governed by the Income Tax Administration Acts and the NTER guidelines as agreed by the State Government.

Current tax equivalent

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

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

Deferred tax equivalent

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

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

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

(i) Cash and cash equivalents

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

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and deposits as defined above, net of outstanding bank overdrafts. As at 30 June 2018, Western Power did not have a bank overdraft.

13. Summary of significant accounting policies (continued)

(j) Trade and other receivables

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

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

Impairment

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

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

(k) Inventories

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

(l) Derivative and hedging activities

Derivative financial instruments

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

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

Hedge accounting

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

> Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment

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

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

Fair value hedges:

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

Cash flow hedges:

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

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

13. Summary of significant accounting policies (continued)

(l) Derivative and hedging activities (continued)

Derivatives that do not qualify for hedge accounting

For all derivative transactions that do not qualify for hedge accounting, any changes in fair value are recognised immediately in profit or loss. During the year ended 30 June 2018, all Western Power's derivative transactions qualified for hedge accounting.

Derecognition

Derivative financial instruments are derecognised when Western Power no longer controls the contractual rights that comprise the financial instrument. During the year ended 30 June 2018, Western Power did not derecognise any derivative financial instruments.

(m) Property, plant and equipment

Cost

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

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

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

Depreciation

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

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

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

The residual values, estimated useful lives and depreciation methods of property, plant and equipment are reviewed annually, and adjusted as appropriate at the end of each reporting year, with any changes recognised as a change in accounting estimate. As at 30 June 2018, Western Power did not recognise any changes in depreciation estimates.

Rehabilitation costs

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

Derecognition

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

Leases

Leases where the lessee retains substantially all the risks and benefits of ownership of the asset are classified as finance leases. As at 30 June 2018, Western Power did not have any finance leases.

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

13. Summary of significant accounting policies (continued)

(n) Intangible assets

Cost

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

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

Amortisation

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

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

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

The residual values, estimated useful lives and amortisation methods of intangible assets are reviewed annually, and adjusted as appropriate at the end of each reporting year, with any changes recognised as a change in accounting estimate. As at 30 June 2018, Western Power did not recognise any changes in amortisation estimates.

Derecognition

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

(o) Trade and other payables

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

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

(p) Borrowings

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

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

Forward domestic borrowing commitments

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

(q) Borrowing costs

Borrowing costs are expensed when incurred.

13. Summary of significant accounting policies (continued)

(r) Provisions

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

Rehabilitation costs

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

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

Employee benefits

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

Wages and salaries:

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

Annual and long service leave:

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

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

Retirement benefit obligations:

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

<u>Defined contribution plans</u>

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

<u>Defined benefit plans</u>

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

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

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

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

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

13. Summary of significant accounting policies (continued)

(r) Provisions (continued)

Termination benefits

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

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

(s) Dividends

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

(t) Goods & services tax (GST)

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

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

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

Directors' declaration

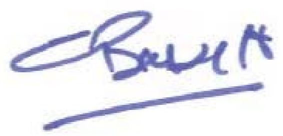
This is a special purpose financial report prepared for the sole purpose of the Economic Regulation Authority in accordance with the *Guidelines for Access Arrangement Information* (December 2010) (**Guidelines**).

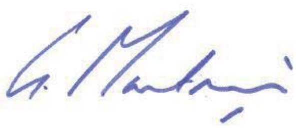
In the directors' opinion:

(a) The regulatory financial statements and summary of significant accounting policies have been prepared in accordance with the Guidelines, and comply with Australian accounting standards and other authoritative pronouncements (where applicable)

(b) The regulatory financial statements present, in all material aspects, a true and fair view of the financial position of Western Power against the audited 2017/18 statutory financial statements (base accounts) authorised for issue in accordance with a resolution of the directors on 7 August 2018

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





C Beckett

Board Chair

G Martin

Deputy Board Chair

12 December 2019

Office of the Auditor General
Serving the Public Interest

7th Floor, Albert Facey House
469 Wellington Street, Perth

Mail to: Perth BC
PO Box 8489
PERTH WA 6849

Tel: 08 6557 7500
Fax: 08 6557 7600
Email: info@audit.wa.gov.au

Our Ref: 5563-07

Board Chair
Electricity Networks Corporation
363 Wellington Street
PERTH WA 6000

Dear Sir

AGREED UPON PROCEDURES ENGAGEMENT ON WESTERN POWER'S REGULATORY FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

Attached is the report on agreed upon procedures for the regulatory financial statements for the year ending 30 June 2018, prepared for submission to the Economic Regulation Authority.

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

Feel free to contact me on 6557 7644 if you would like to discuss these matters further.

Yours faithfully

PATRICK ARULSINGHAM
ACTING ASSISTANT AUDITOR GENERAL
TECHNICAL AND AUDIT SUPPORT
Perth, Western Australia
14 October 2020

Attach

Auditor General

REPORT OF FACTUAL FINDINGS

To the Electricity Networks Corporation trading as Western Power

I have performed the procedures agreed with the Electricity Networks Corporation trading as Western Power to report factual findings on Western Power's special purpose Regulatory Financial Statements (RFS) for the financial year ended 30 June 2018. The procedures have been designed to meet the needs of Western Power and the Economic Regulation Authority (ERA) in accordance with the ERA's *Guidelines for Access Arrangement Information December 2010* (ERA Guidelines). The procedures performed are detailed in the terms of the engagement letter dated 16 March 2018 and described in Appendix A with respect to the RFS.

Western Power's responsibility for the procedures agreed

Western Power is responsible for the adequacy or otherwise of the procedures agreed to be performed by the Office of the Auditor General (OAG). Western Power and the ERA are responsible for determining whether the factual findings provided by the OAG, in combination with any other information obtained, provide a reasonable basis for any conclusions which Western Power or the ERA wish to draw on the subject matter.

Assurance practitioner's responsibility

My responsibility is to report factual findings obtained from conducting the procedures agreed. I conducted the engagement in accordance with the Standard on Related Services ASRS 4400 *Agreed-Upon Procedures Engagements to Report Factual Findings*. I have complied with the independence requirements of the *Auditor General Act 2006* and ethical requirements equivalent to those applicable to Other Assurance Engagements, including independence.

Because the agreed-upon procedures do not constitute either a reasonable or limited assurance engagement in accordance with Australian auditing standards, I do not express any conclusion and provide no assurance on the RFS. Had the OAG performed additional procedures, or had the OAG performed an audit or a review of the RFS in accordance with Australian auditing standards, other matters might have come to our attention that would have been reported to you.

Restriction on Use of Reports

This report is intended solely for the use of Western Power and ERA for the purpose set out above. As the intended user of my report, it is for Western Power and ERA to assess both the procedures and my factual findings to determine whether they provide, in combination with any other information obtained, a reasonable basis for any conclusions which Western Power and ERA wish to draw on the subject matter. As required by ASRS 4400, use of this report is restricted to those parties that have agreed the procedures to be performed with the OAG and other intended users identified in the terms of the engagement (since others, unaware of the reasons for the procedures, may misinterpret the results). Accordingly, I expressly disclaim and do not accept any responsibility for any reliance on this report to any person other than the intended users, or for any other purpose than that for which it was prepared.

PATRICK ARULSINGHAM
ACTING ASSISTANT AUDITOR GENERAL
TECHNICAL AND AUDIT SUPPORT
Delegate of the Auditor General for Western Australia
Perth, Western Australia
14 October 2020

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

ELECTRICITY NETWORKS CORPORATION TRADING AS WESTERN POWER
REGULATORY FINANCIAL STATEMENTS (RFS) – 30 JUNE 2018
REPORT OF FACTUAL FINDINGS

PROCEDURE 1
Agree the RFS base account amounts to Western Power's 30 June 2018 statutory financial statements for:

a) Total income, total expenses, profit/(loss) after taxation equivalent (except where not prescribed by the Guidelines. For example, proceeds from and book value of disposed assets).
b) Net operating cash flows, net investing cash flows, net financing cash flows, net increase/(decrease) in cash and cash equivalents.
c) Total assets, total liabilities, net assets and total equity.

Factual findings
We found the RFS base account amounts agreed with the 30 June 2018 statutory financial statements.

Testing details
We agreed the base account amounts for each of the following categories:

Category	Agreed without exception
Total income	Yes
Total expenses	Yes
Profit/(loss) after taxation equivalent	Yes
Net operating cash flows	Yes
Net investing cash flows	Yes
Net financing cash flows	Yes
Net increase/(decrease) in cash and cash equivalents	Yes
Total assets	Yes
Total liabilities	Yes
Net assets	Yes
Total equity	Yes

ELECTRICITY NETWORKS CORPORATION TRADING AS WESTERN POWER
REGULATORY FINANCIAL STATEMENTS (RFS) – 30 JUNE 2018
REPORT OF FACTUAL FINDINGS

PROCEDURE 2
Agree the allocations of income in the RFS profit and loss account to Western Power's 30 June 2018 Cost and Revenue Allocation Method (CRAM) by business segment. The income categories are comprised of network services (revenue cap; non-revenue cap; other), contributions (excluding gifted network assets), gifted network assets, proceeds from disposal of assets and other income.

Factual findings
We found the allocations agreed with the CRAM, apart from the exception noted below.

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

1. Section 6.3 of the CRAM, which stipulates Western Power's account code structure.
2. Appendix C of the CRAM, which stipulates the revenue allocation method.
3. The RFS revenue categories are comprised of a number of general ledger accounts, which are further segregated into sub-ledgers.

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

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

Revenue category and amount as disclosed in the RFS	Chart of accounts description and account code	Amount	RFS business segment	Type of allocation	Agreed allocation to CRAM
Network service (revenue cap) $1,496,201,000	Network service (revenue cap) 118012733000	$104,087,865	Distribution	Direct	Yes
Network service (non-revenue cap) $16,895,000	Open Access Application Fees 533012772000	$381,896	Transmission	Direct	Yes
Network service (other) $59,838,000	Support Costs 117061601000	$1,251,769	Distribution & Transmission	Indirect (PPE)	Yes
Contributions (excluding gifted network assets) $89,846,000	Dvlpr & Capt Contributions Rev – Clients 602530543000	$6,973,378	Distribution	Direct	Yes
Gifted network assets $56,483,000	Dvlpr & Capt Contributions Rev – Clients 602530563000	$7,675,918	Distribution	Direct	Yes
Proceeds from disposal of assets $9,975,000	Proceeds from disposal of assets FORD RANGER DUAL CAB WPC487	$14,349	Unregulated	Direct	Yes
Other income $5,193,000	Other Unregulated Services 969160052000	$36,364	Transmission	Direct	No

Explanation of exceptions identified
According to the CRAM, other unregulated revenue is to be allocated directly to the “Unregulated” business segment. We found our sample for “Other Unregulated Services” totalling $36,364 had been incorrectly allocated directly to the “Transmission” business segment. Further investigation of all similar accounts identified a total of $144,091 had been incorrectly allocated directly to the “Transmission” business segment.

The RFS have not been corrected by Western power management as the re-allocation between the business segments is considered by Western Power to be immaterial as it represents 2.8% of total other income and 0.01% of total income reported in the RFS.

PROCEDURE 3
Agree the allocations of operating expenditure in the RFS profit and loss account to the CRAM by business segment and regulatory category. The operating expenditure categories are comprised of operations, maintenance, customer service and billing, corporate and other operating expenditure.

Factual findings
We found the RFS allocations agreed with the CRAM.

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

1. Section 6.3 of the CRAM, which stipulates Western Power's account code structure.
2. Appendix A of the CRAM, which stipulates the cost allocation method.
3. The RFS cost categories are comprised of a number of general ledger accounts, which are further segregated into sub-ledgers.

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

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

Expenditure category and amount as disclosed in the RFS	Chart of accounts description and account code	Amount	RFS business segment	Type of allocation	Agreed allocation to CRAM
Operations $81,245,000	SCADA & Communications 601145303000	$518,905	Distribution	Direct	Yes
Maintenance $180,363,000	Preventive Routine 601320552000	$511,137	Transmission	Direct	Yes
Customer service and billing $29,344,000	Metering 991313003000	$460,078	Distribution	Direct	Yes
Corporate $98,811,000	Finance, Regulation & ICT 145065481000	$1,010,505	Transmission & Distribution	Indirect (PPE)	Yes
Other operating expenditure $190,858,000	Design costs not proceeding 601452002000	$1,204,306	Transmission	Direct	Yes

ELECTRICITY NETWORKS CORPORATION TRADING AS WESTERN POWER
REGULATORY FINANCIAL STATEMENTS (RFS) – 30 JUNE 2018
REPORT OF FACTUAL FINDINGS

PROCEDURE 4
Agree the allocations of "Other Expenditure" in the RFS profit and loss account to the CRAM by business segment. The "Other Expenditure" categories are comprised of depreciation and amortisation, bad debts, borrowing costs, book value on disposal of assets and taxation equivalent.

Factual findings
We found the RFS allocations agreed with the CRAM.

Testing details
We selected a sample and agreed the allocations were in accordance with the CRAM. In particular, we considered the following allocations stipulated in Table A.6 of Appendix A of the CRAM.

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

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

Expenditure category disclosed in the RFS	Amount ($)	Agreed allocation to CRAM
Depreciation and amortisation	345,605,000	Yes
Bad debts	1,141,000	Yes
Borrowing costs	291,219,000	Yes
Book value on disposal of assets	13,035,000	Yes
Taxation equivalent	151,050,000	Yes

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

Factual findings
We found the RFS allocations agreed with the CRAM, apart from the exception noted below.

Testing details
We reviewed the allocation methodology applied to each account. The RFS allocation methodologies applied reflect the causal correlation with the nature of the balance and are in accordance with the CRAM.

Explanation of exceptions identified
Due to the exception noted in Procedure 2, there is an incorrect allocation of other income totalling $144,091 between the “Transmission” and “Unregulated” business segments.

The RFS have not been corrected by Western Power management as the re-allocation between the business segments is considered by Western power to be immaterial as it represents 0.007% of total receipts from operating activities and 0.013% of net operating cash flows reported in the RFS.

PROCEDURE 6
Agree the allocation of assets and liabilities as disclosed in the RFS balance sheet to the CRAM by business segment.

Factual findings
We found the RFS allocations agreed with the CRAM.

Testing details
Appendix D of the CRAM stipulates the balance sheet allocation method for both current and non-current assets and current and non-current liabilities.

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

ELECTRICITY NETWORKS CORPORATION TRADING AS WESTERN POWER
REGULATORY FINANCIAL STATEMENTS (RFS) – 30 JUNE 2018
REPORT OF FACTUAL FINDINGS

PROCEDURE 7
Agree the allocations of capital expenditure (i.e. additions) as disclosed in the RFS to the CRAM for both business segment and regulatory category.

Factual findings
We found the RFS allocations agreed with the CRAM.

Testing details
Appendix B of the CRAM stipulates the methodology for the allocation of capital expenditure. The methods applied include allocation based on direct allocation (i.e. account code) or indirect allocation using the method that most appropriately reflects the causal correlation of the underlying transaction. Property, plant and equipment, and intangible assets (PPE) is the causal allocation method applied for this purpose.

The RFS capital expenditure categories are comprised of a number of accounts, which are further segregated into sub-accounts. We have selected our test sample of capital expenditure

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

Expenditure category and amount as disclosed in the RFS	Asset segment code	Amount	RFS business segment	Type of allocation	Agreed allocation to CRAM
Capacity expansion $43,062,000	2000	$989,882	Transmission	Direct	Yes
Customer driven $146,580,000	2000	$1,020,798	Transmission	Direct	Yes
Gifted network assets $56,483,000	3000	$7,675,918	Distribution	Direct	Yes
Asset replacement $111,913,000	3000	$2,249,953	Distribution	Direct	Yes
State underground power project $7,060,000	3000	$570,722	Distribution	Direct	Yes
Metering $17,788,000	3000	$2,160,982	Distribution	Direct	Yes
Wood pole management $149,913,000	3000	$12,631,592	Distribution	Direct	Yes
Reliability driven $2,867,000	3000	$91,280	Distribution	Direct	Yes
Supervisory control and data acquisition & communications $20,942,000	3000	$276,399	Distribution	Direct	Yes

ELECTRICITY NETWORKS CORPORATION TRADING AS WESTERN POWER
REGULATORY FINANCIAL STATEMENTS (RFS) – 30 JUNE 2018
REPORT OF FACTUAL FINDINGS

Expenditure category and amount as disclosed in the RFS	Asset segment code	Amount	RFS business segment	Type of allocation	Agreed allocation to CRAM
Regulatory compliance $38,155,000	2000	$1,191,981	Transmission	Direct	Yes
Information technology $51,119,000	2000 & 3000	$1,099,889	Transmission & Distribution	Indirect (PPE)	Yes
Business support $28,651,000	2000 & 3000	$3,120,204	Transmission & Distribution	Indirect (PPE)	Yes
Capitalised interest $1,313,000	2000	$145,158	Transmission	Direct	Yes
Mobile plant and vehicles $8,641,000	1000	$713,787	Unregulated	Direct	Yes
Stand-alone power systems $348,000	3000	$166,949	Unregulated	Direct	Yes

ELECTRICITY NETWORKS CORPORATION TRADING AS WESTERN POWER
REGULATORY FINANCIAL STATEMENTS (RFS) – 30 JUNE 2018
REPORT OF FACTUAL FINDINGS

PROCEDURE 8
Select at least two regulatory adjustments as disclosed in the RFS and agree to the supporting documentation and / or underlying methodology and calculations.

Factual findings
We found the adjustments agree with the supporting documentation and / or underlying methodology and calculations.

Testing details
We randomly selected two adjustments in respect to capital contributions and unregulated fleet depreciation.

We agreed the adjustments to management supporting documentation and noted:

- The adjustment in respect to capital contributions is required in accordance with the ERA Guidelines.
- The adjustment in respect to unregulated fleet depreciation is required to align the RFS with the forecast assumptions and expenditure disclosures in Western Power's current access arrangement.

The basis for these adjustments are outlined below:

(i) Capital contributions: The base accounts include developer and customer contributions as revenue when assets are energised. However, the ERA Guidelines require revenue to be recognised with respect to developer and customer contributions when received.

(ii) Unregulated fleet depreciation: The base accounts disclose unregulated fleet depreciation as depreciation and amortisation expenditure. However unregulated fleet depreciation is recognised as operating expenditure adjustment to align the RFS with the forecast assumptions and expenditure disclosures in Western Power's current access arrangement.

ELECTRICITY NETWORKS CORPORATION TRADING AS WESTERN POWER
REGULATORY FINANCIAL STATEMENTS (RFS) – 30 JUNE 2018
REPORT OF FACTUAL FINDINGS

PROCEDURE 9
Check the mathematical accuracy and perform a cross-reference of the balances disclosed within the RFS.

Factual findings
We found the RFS to be mathematically accurate and all balances were able to be cross-referenced.

Testing details
We have checked the mathematical accuracy by recalculation. We also reviewed the internal consistency of the RFS.

ACRONYMS
CRAM: Cost and Revenue Allocation Method
PPE: Property, plant and equipment, and intangibles assets
RFS: Regulatory financial statements
ERA: Economic Regulation Authority
ERA Guidelines: ERA's Guidelines for Access Arrangement Information December 2010