Attachment 1.4

Regulatory Financial Statements for the year ending 30 June 2019

Access Arrangement Information

1 February 2022

westernpower

EDM 51142103

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

for the year ended 30 June 2019

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 2019 annual report (including the audited 2018/19 statutory financial statements) available on Western Power's website www.westernpower.com.au.

Current and likely developments

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

Future revenue

The natural monopoly of a centralised network including Western Power's, is eroding due to continued:

> changes in consumption patterns as customers respond to cost influences, environmental factors and product efficiencies
> deployment of competing technologies such as solar photovoltaic (**PV**) systems, energy storage, stand-alone power systems and electric vehicles
> emergence of new business models such as virtual power plants (**VPP**) and microgrids.

These market changes are expected to impact the future volumes of electricity transported by Western Power and hence revenue recovered under the regulatory regime. Furthermore, under the new access arrangement (**AA4**) approved by the Economic Regulation Authority (**ERA**) in February 2019, Western Power is required to move from the existing revenue cap form of price control to a modified price cap. This will expose Western Power to downside (and upside) demand and forecasting risk.

The expected decline in future 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. In support of this, Western Power is committed to:

> refining existing, and developing new pricing processes and strategies within regulatory constraints
> investigating new revenue streams in response to dynamic changes and opportunities within the industry. This includes exploring and encouraging new network usage possibilities (e.g. electric vehicles and powerbanks), and leveraging existing Western Power equipment, infrastructure, systems and capabilities.

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 linear energy utilities into highly digitalised and dynamic multidirectional energy systems.

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, 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, a community network battery powerbank at Meadow Springs and stand-alone power systems at edge-of-grid locations.

In future 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 100 per cent renewable energy-powered microgrid at Kalbarri currently being constructed by a third party with final hand over to Western Power expected in the second half of 2019.

In delivering the best results for the customer, Western Power continues to work with the State Government and ERA to achieve a regulatory framework that reflects modern expectations of consumers, supports greater customer choice and enables energy providers to fully participate in the market. This is particularly in relation to constrained network access and the deployment of non-traditional grid solutions (such as stand-alone power systems and microgrids) as alternatives to the renewal of traditional overhead networks.

Directors' overview (continued)

Current and likely developments (continued)

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 continues to mature with the development of the Network Risk Management Tool (**NRMT**) seen as best practice within the industry. This risk-based tool not only provides analysis of the consequences of risk at the asset level, but also can be used to support long-term asset investment decisions in the light of potential future cost reductions of new network technologies. 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 electrical networks in Australia including the SWIN, have an inherent level of risk in operation. This risk arises from environmental and weather related factors, which are outside of the operator's control, as well as from risks that are identified as part of the operation's strategies.

Western Power manages safety risks associated with the network in accordance with its asset management system. This system has been assessed by an independent auditor as being compliant with the requirements of *Australian Standard (* ***AS*** *) 5577 Electricity network safety management systems* . Additionally, final independent certification against the *International Organisation for Standardisation (* ***ISO*** *) 55001: 2014 Asset management - management systems - requirements* was received in September 2019.

Western Power's asset management system ensures continued management of the network in an effective and sustainable manner considering the risk posed.

Advanced Metering Infrastructure (AMI)

In April 2019, the Minister for Energy granted Western Power approval to commence deployment of advanced metering infrastructure (**AMI**) as its business-as-usual metering activity. This establishes the installation of new and replacement advanced meters, as well as the associated information technology and communications infrastructure.

Western Power considers the deployment of AMI essential network and industry best practice.

Under Western Power's AMI program, advanced meters:

- will replace mechanical meters currently read (mainly manually) every two months and which retrieve only basic consumption and net generation data
- are electronic, providing a multitude of interval datasets and real-time alarms. These datasets and alarms can be used to deliver a range of benefits to Western Power, consumers and the State, including:
  - enhanced asset management, network planning and power reliability as AMI data improves outage management, restoration response times and customer behaviour analytics
  - improved network safety by monitoring AMI data for early identification of faults, faulty equipment and other electrical hazards
  - greater adoption of renewable energies as AMI data improves network visibility allowing better overall power system and voltage level management
  - lower operational costs and risks associated with reduced field inspections and manual meter reading.

The on-going deployment of AMI is expected to ensure Western Power and its stakeholders remain best positioned to take advantage of these and other emerging business opportunities.

Cyber security

Like all businesses, Western Power must ensure it invests in appropriate levels of cyber security infrastructure to protect its business operations from the ongoing and increasing levels of cyber security threats. However, as a critical infrastructure provider to Western Australia and key part of Australia's overall electricity supply, Western Power must also ensure that the operations of its core services of delivering safe and reliable electricity to consumers, are protected from interference from individuals and organised attackers who may have a varied range of motivations.

Western Power is responding to this requirement by making targeted investments to protect itself from immediate threats as they arise whilst executing a long-term program to continuously lift the maturity of its cyber security defence capabilities. The scope of this uplift is a prioritised, risk driven program providing a broad and thorough treatment of all cyber security domains based on the Australian Energy Sector Cyber Security Framework. While these efforts are managed from within Western Power, there is a high level of coordination with other industry participants and both state and federal government bodies.

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 2018/19 statutory financial statements.

(a) Regulatory allocations

In compliance with the ERA's Guidelines, these financial statements present Western Power's audited 2018/19 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 2018/19 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 2018/19 statutory financial statements (base accounts) and the 2018/19 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) (adjustments 12.4 and 12.5)***

  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 2019

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (unregulated) $'000	Unregulated $'000
Network services (revenue cap)	1,477,272	282,479	1,194,793	-	-
Network services (non-revenue cap)	21,763	5,502	16,261	-	-
Network services (other)	50,583	3,742	10,490	3,052	33,299
Contributions (excluding gifted network assets)	151,536	50,054	101,482	-	-
Gifted network assets	62,657	-	62,657	-	-
Proceeds from disposal of assets*	4,533	3,640	587	-	306
Other income	3,356	1,893	393	-	1,070
Total income	**1,771,700**	**347,310**	**1,386,663**	**3,052**	**34,675**
Operating expenditure costs	(602,059)	(96,094)	(471,147)	(2,866)	(31,952)
Operations	(90,525)	(21,719)	(41,281)	-	(27,525)
Maintenance	(188,654)	(46,611)	(142,043)	-	-
Customer service and billing	(26,580)	-	(26,053)	-	(527)
Corporate	(79,037)	(21,050)	(57,177)	-	(810)
Other operating expenditure	(217,263)	(6,714)	(204,593)	(2,866)	(3,090)
Depreciation and amortisation	(348,572)	(108,647)	(239,102)	(244)	(579)
Bad debts	(553)	(104)	(437)	-	(12)
Borrowing costs	(284,585)	(77,532)	(205,128)	4	(1,929)
Book value on disposal of assets*	(16,572)	(3,021)	(13,410)	-	(141)
Total expenses	**(1,252,341)**	**(285,398)**	**(929,224)**	**(3,106)**	**(34,613)**
Earnings before tax equivalent	**519,359**	**61,912**	**457,439**	**(54)**	**62**
Tax equivalent	**(153,424)**	**(18,289)**	**(135,133)**	**16**	**(18)**
Profit/(loss) after tax equivalent	**365,935**	**43,623**	**322,306**	**(38)**	**44**

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 $4.533 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 $12.039 million. The latter is in accordance with Australian accounting standards.

2. Profit and loss account (regulatory financial statement) for the year ended 30 June 2019

Covered Transmission

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Network services (revenue cap)	282,479	-	282,479	
Network services (non-revenue cap)	5,502	-	5,502	
Network services (other)	3,742	-	3,742	
Contributions (excluding gifted network assets)	50,054	34,755	84,809	11, 12.1
Proceeds from disposal of assets	3,640	-	3,640	
Other income	1,893	-	1,893	
Total income	**347,310**	**34,755**	**382,065**	
Operating expenditure costs	(96,094)	(1,265)	(97,359)	9, 10
Operations	(21,719)	-	(21,719)	
Maintenance	(46,611)	-	(46,611)	
Corporate	(21,050)	(1,265)	(22,315)	12.3
Other operating expenditure	(6,714)	-	(6,714)	
Depreciation and amortisation	(108,647)	1,265	(107,382)	Note 1., 12.3
Bad debts	(104)	-	(104)	
Borrowing costs	(77,532)	(1,567)	(79,099)	12.2
Book value on disposal of assets	(3,021)	-	(3,021)	
Total expenses	**(285,398)**	**(1,567)**	**(286,965)**	
Earnings before tax equivalent	**61,912**	**33,188**	**95,100**	
Tax equivalent	**(18,289)**	**(9,956)**	**(28,245)**	12.6
Profit after tax equivalent	**43,623**	**23,232**	**66,855**	

Covered Distribution

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Network services (revenue cap)	1,194,793	-	1,194,793	
Network services (non-revenue cap)	16,261	-	16,261	
Network services (other)	10,490	-	10,490	
Contributions (excluding gifted network assets)	101,482	17,527	119,009	11, 12.1
Gifted network assets	62,657	-	62,657	11, 12.1
Proceeds from disposal of assets	587	-	587	
Other income	393	-	393	
Total income	**1,386,663**	**17,527**	**1,404,190**	
Operating expenditure costs	(471,147)	(3,412)	(474,559)	9, 10
Operations	(41,281)	-	(41,281)	
Maintenance	(142,043)	-	(142,043)	
Customer service and billing	(26,053)	-	(26,053)	
Corporate	(57,177)	(3,351)	(60,528)	12.3
Other operating expenditure	(204,593)	(61)	(204,654)	12.4
Depreciation and amortisation	(239,102)	3,351	(235,751)	Note 1., 12.3
Bad debts	(437)	-	(437)	
Borrowing costs	(205,128)	-	(205,128)	12.2
Book value on disposal of assets	(13,410)	-	(13,410)	
Total expenses	**(929,224)**	**(61)**	**(929,285)**	
Earnings before tax equivalent	**457,439**	**17,466**	**474,905**	
Tax equivalent	**(135,133)**	**(5,240)**	**(140,373)**	12.6
Profit after tax equivalent	**322,306**	**12,226**	**334,532**	

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 2019

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (unregulated) $'000	Unregulated $'000
Operating activities					
Receipts	1,922,929	410,594	1,472,224	2,926	37,185
Payments	(879,134)	(140,320)	(704,556)	(2,870)	(31,388)
Net operating cash flows	**1,043,795**	**270,274**	**767,668**	**56**	**5,797**
Investing activities					
Receipts	4,533	3,640	587	-	306
Payments	(671,658)	(176,855)	(475,166)	-	(19,637)
Net investing cash flows	**(667,125)**	**(173,215)**	**(474,579)**	**-**	**(19,331)**
Financing activities					
Receipts	1,036,003	272,635	756,399	-	6,969
Payments	(1,414,802)	(336,319)	(1,070,294)	4	(8,193)
Net financing cash flows	**(378,799)**	**(63,684)**	**(313,895)**	**4**	**(1,224)**
Net (decrease)/increase in cash and cash equivalents	**(2,129)**	**33,375**	**(20,806)**	**60**	**(14,758)**
Cash and cash equivalents at beginning of reporting year	33,728				
Net decrease in cash and cash equivalents	(2,129)				
Cash and cash equivalents at end of reporting year*	**31,599**	**5,052**	**12,846**	**-**	**13,701**

* 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 2019

Covered Transmission

Description	Base account $'000	Regulatory adjustment* $'000	Regulatory account $'000	Support reference #
Operating activities				
Receipts	410,594	-	410,594	
Payments	(140,320)	-	(140,320)	
Net operating cash flows	**270,274**	**-**	**270,274**	
Investing activities				
Receipts	3,640	-	3,640	
Payments	(176,855)	3,807	(173,048)	Note 1.
Net investing cash flows	**(173,215)**	**3,807**	**(169,408)**	
Financing activities				
Receipts	272,635	-	272,635	
Payments	(336,319)	-	(336,319)	
Net financing cash flows	**(63,684)**	**-**	**(63,684)**	
Net increase in cash and cash equivalents	**33,375**	**3,807**	**37,182**	

Covered Distribution

Description	Base account $'000	Regulatory adjustment* $'000	Regulatory account $'000	Support reference #
Operating activities				
Receipts	1,472,224	-	1,472,224	
Payments	(704,556)	-	(704,556)	
Net operating cash flows	**767,668**	**-**	**767,668**	
Investing activities				
Receipts	587	-	587	
Payments	(475,166)	(3,398)	(478,564)	Note 1., 12.4
Net investing cash flows	**(474,579)**	**(3,398)**	**(477,977)**	
Financing activities				
Receipts	756,399	-	756,399	
Payments	(1,070,294)	-	(1,070,294)	
Net financing cash flows	**(313,895)**	**-**	**(313,895)**	
Net decrease in cash and cash equivalents	**(20,806)**	**(3,398)**	**(24,204)**	

* 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.

Note:
1. This "adjustment" includes an amount of $3.807 million for the transfer of capital additions between business segments only - being necessary until corrected in the base accounts.

5. Balance sheet (disaggregated) as at 30 June 2019

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (unregulated) $'000	Unregulated $'000
Current assets					
Cash and cash equivalents	31,599	5,052	12,846	-	13,701
Trade and other receivables	99,813	30,498	67,910	126	1,279
Prepayments	8,960	2,453	6,510	-	(3)
Accrued revenue	144,093	27,307	116,786	-	-
Inventories	86,015	28,063	46,560	-	11,392
Derivative financial instruments	131	36	95	-	-
Total current assets	**370,611**	**93,409**	**250,707**	**126**	**26,369**
Non-current assets					
Property, plant and equipment, and intangible assets	10,897,135	2,968,767	7,854,511	-	73,857
Trade and other receivables	384	72	304	-	8
Derivative financial instruments	43	12	31	-	-
Total non-current assets	**10,897,562**	**2,968,851**	**7,854,846**	**-**	**73,865**
Total assets	**11,268,173**	**3,062,260**	**8,105,553**	**126**	**100,234**
Current liabilities					
Borrowings	(12,944)	(3,452)	(9,394)	-	(98)
Trade and other payables	(173,782)	(40,594)	(113,290)	-	(19,898)
Current tax equivalent liabilities	(13,732)	(3,741)	(9,898)	-	(93)
Derivative financial instruments	(41,877)	(11,480)	(30,397)	-	-
Deferred income	(146,560)	(23,560)	(122,477)	-	(523)
Provisions	(83,811)	(22,526)	(60,929)	-	(356)
Total current liabilities	**(472,706)**	**(105,353)**	**(346,385)**	**-**	**(20,968)**
Non-current liabilities					
Borrowings	(7,350,956)	(1,960,375)	(5,335,201)	-	(55,380)
Trade and other payables	(1,584)	-	(1,584)	-	-
Derivative financial instruments	(68,923)	(18,895)	(50,028)	-	-
Deferred tax equivalent liabilities	(888,844)	(242,153)	(640,667)	-	(6,024)
Deferred income	(103,325)	(96,385)	(6,940)	-	-
Provisions	(14,672)	(7,851)	(6,791)	-	(30)
Total non-current liabilities	**(8,428,304)**	**(2,325,659)**	**(6,041,211)**	**-**	**(61,434)**
Total liabilities	**(8,901,010)**	**(2,431,012)**	**(6,387,596)**	**-**	**(82,402)**
Net assets	**2,367,163**	**631,248**	**1,717,957**	**126**	**17,832**
Equity					
Share capital	1,521,621				
*Accumulated profits/reserves**	845,542				
Total equity	**2,367,163**				

* Accumulated profits/reserves	
At start of reporting period	833,107
Profit after tax equivalent	365,935
Other comprehensive loss	(55,973)
Distributions provided for or paid in reporting year	(297,527)
At end of reporting period	**845,542**

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

6. Balance sheet (regulatory financial statement) as at 30 June 2019

Covered Transmission

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Current assets				
Cash and cash equivalents	5,052	-	5,052	
Trade and other receivables	30,498	(10,823)	19,675	12.1
Prepayments	2,453	-	2,453	
Accrued revenue	27,307	-	27,307	
Inventories	28,063	-	28,063	
Derivative financial instruments	36	-	36	
Total current assets	**93,409**	**(10,823)**	**82,586**	
Non-current assets				
Property, plant and equipment, and intangible assets	2,968,767	(109,289)	2,859,478	Notes 1. & 2., 12.2, 12.4, 12.5
Trade and other receivables	72	-	72	
Derivative financial instruments	12	-	12	
Total non-current assets	**2,968,851**	**(109,289)**	**2,859,562**	
Total assets	**3,062,260**	**(120,112)**	**2,942,148**	
Current liabilities				
Borrowings	(3,452)	-	(3,452)	
Trade and other payables	(40,594)	(842)	(41,436)	12.1
Current tax equivalent liabilities	(3,741)	(9,956)	(13,697)	12.6
Derivative financial instruments	(11,480)	-	(11,480)	
Deferred income	(23,560)	16,569	(6,991)	12.1
Provisions	(22,526)	2,723	(19,803)	12.5
Total current liabilities	**(105,353)**	**8,494**	**(96,859)**	
Non-current liabilities				
Borrowings	(1,960,375)	-	(1,960,375)	
Derivative financial instruments	(18,895)	-	(18,895)	
Deferred tax equivalent liabilities	(242,153)	-	(242,153)	
Deferred income	(96,385)	96,385	-	12.1
Provisions	(7,851)	6,167	(1,684)	12.5
Total non-current liabilities	**(2,325,659)**	**102,552**	**(2,223,107)**	
Total liabilities	**(2,431,012)**	**111,046**	**(2,319,966)**	
Net assets	**631,248**	**(9,066)**	**622,182**	

Notes:

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, and stand-alone power systems.

2. This "adjustment" includes an amount of $3.807 million for the transfer of capital additions between business segments only - being necessary until corrected in the base accounts.

6. Balance sheet (regulatory financial statement) as at 30 June 2019

Covered Distribution

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Current assets				
Cash and cash equivalents	12,846	-	12,846	
Trade and other receivables	67,910	859	68,769	12.1
Prepayments	6,510	-	6,510	
Accrued revenue	116,786	-	116,786	
Inventories	46,560	-	46,560	
Derivative financial instruments	95	-	95	
Total current assets	**250,707**	**859**	**251,566**	
Non-current assets				
Property, plant and equipment, and intangible assets	7,854,511	1,467	7,855,978	Notes 1. & 2., 12.2, 12.4, 12.5
Trade and other receivables	304	-	304	
Derivative financial instruments	31	-	31	
Total non-current assets	**7,854,846**	**1,467**	**7,856,313**	
Total assets	**8,105,553**	**2,326**	**8,107,879**	
Current liabilities				
Borrowings	(9,394)	-	(9,394)	
Trade and other payables	(113,290)	(424)	(113,714)	12.1
Current tax equivalent liabilities	(9,898)	(5,240)	(15,138)	12.6
Derivative financial instruments	(30,397)	-	(30,397)	
Deferred income	(122,477)	113,925	(8,552)	12.1
Provisions	(60,929)	231	(60,698)	12.5
Total current liabilities	**(346,385)**	**108,492**	**(237,893)**	
Non-current liabilities				
Borrowings	(5,335,201)	-	(5,335,201)	
Trade and other payables	(1,584)	-	(1,584)	
Derivative financial instruments	(50,028)	-	(50,028)	
Deferred tax equivalent liabilities	(640,667)	-	(640,667)	
Deferred income	(6,940)	6,940	-	12.1
Provisions	(6,791)	1,639	(5,152)	12.5
Total non-current liabilities	**(6,041,211)**	**8,579**	**(6,032,632)**	
Total liabilities	**(6,387,596)**	**117,071**	**(6,270,525)**	
Net assets	**1,717,957**	**119,397**	**1,837,354**	

Notes:

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, and stand-alone power systems.

2. This "adjustment" includes an amount of $3.807 million for the transfer of capital additions between business segments only - being necessary until corrected in the base accounts.

7. Capital expenditure (disaggregated) for the year ended 30 June 2019

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (unregulated) $'000	Unregulated $'000
Capital additions					
Capacity expansion	15,296	8,509	6,787	-	-
Customer driven	185,089	58,860	126,229	-	-
Gifted network assets	62,657	-	62,657	-	-
Asset replacement	125,303	48,324	76,979	-	-
State Underground Power Project (***SUPP*** *)*	30,982	-	30,982	-	-
Metering	28,471	-	28,471	-	-
Wood pole management	122,451	-	122,451	-	-
Reliability driven	5,337	4,103	1,234	-	-
Supervisory Control and Data Acquisition (***SCADA*** *) & communications*	29,970	21,816	8,154	-	-
Regulatory compliance	46,985	16,521	30,464	-	-
Information technology	54,628	14,974	39,654	-	-
Business support	37,889	10,517	27,372	-	-
Capitalised interest	1,567	1,567	-	-	-
Mobile plant and vehicles	17,152	-	-	-	17,152
Stand-alone power systems	2,657	-	-	-	2,657
Total capital additions	**766,434**	**185,191**	**561,434**	**-**	**19,809**

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 2019

Covered Transmission

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Growth				
Capacity expansion	8,509	-	8,509	
Customer driven	58,860	-	58,860	
	67,369	-	67,369	
Asset replacement and renewal				
Asset replacement	48,324	-	48,324	
Improvement in service				
Reliability driven	4,103	(3,807)	296	Note 1.
SCADA and communications	21,816	-	21,816	
	25,919	(3,807)	22,112	
Compliance				
Regulatory compliance	16,521	-	16,521	
Corporate				
Information technology	14,974	-	14,974	
Business support	10,517	2,586	13,103	12.5
	25,491	2,586	28,077	
Other				
Capitalised interest	1,567	(1,567)	-	12.2
Total capital additions	**185,191**	**(2,788)**	**182,403**	

Covered Distribution

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Growth				
Capacity expansion	6,787	(409)	6,378	12.4
Customer driven	126,229	(61)	126,168	12.4
Gifted network assets	62,657	-	62,657	
	195,673	(470)	195,203	
Asset replacement and renewal				
Asset replacement	76,979	-	76,979	
SUPP	30,982	-	30,982	
Metering	28,471	-	28,471	
Wood pole management	122,451	-	122,451	
	258,883	-	258,883	
Improvement in service				
Reliability driven	1,234	3,807	5,041	Note 1.
SCADA and communications	8,154	-	8,154	
	9,388	3,807	13,195	
Compliance				
Regulatory compliance	30,464	-	30,464	
Corporate				
Information technology	39,654	-	39,654	
Business support	27,372	55	27,427	12.5
	67,026	55	67,081	
Total capital additions	**561,434**	**3,392**	**564,826**	

Note:

1. This "adjustment" includes an amount of $3.807 million for the transfer of capital additions between business segments only - being necessary until corrected in the base accounts.

9. Operating expenditure (disaggregated) for the year ended 30 June 2019

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (unregulated) $'000	Unregulated $'000
Directly attributed costs					
Operations	(68,813)	(16,378)	(24,910)	-	(27,525)
Maintenance	(188,654)	(46,611)	(142,043)	-	-
Customer service and billing	(26,580)	-	(26,053)	-	(527)
Corporate	(529)	-	3	-	(532)
Other operating expenditure	(217,263)	(6,714)	(204,593)	(2,866)	(3,090)
Total directly attributed costs	**(501,839)**	**(69,703)**	**(397,596)**	**(2,866)**	**(31,674)**
Causally allocated costs					
Operations	(21,712)	(5,341)	(16,371)	-	-
Maintenance	-	-	-	-	-
Customer service and billing	-	-	-	-	-
Corporate	(78,508)	(21,050)	(57,180)	-	(278)
Other operating expenditure	-	-	-	-	-
Total causally allocated costs	**(100,220)**	**(26,391)**	**(73,551)**	**-**	**(278)**
Total operating expenditure costs	**(602,059)**	**(96,094)**	**(471,147)**	**(2,866)**	**(31,952)**

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 2019

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	(21,450)	(5,499)	(15,950)	-	(1)
Energy Safety Act 2006 levy	(4,541)	(1,245)	(3,296)	-	-
ERA costs under *ERA (Electricity Networks Access Funding) Regulations 2012*	(1,562)	(428)	(1,134)	-	-
Total operating expenditure costs to be excluded from gain sharing mechanism	**(27,597)**	**(7,183)**	**(20,413)**	**-**	**(1)**

10. Operating expenditure (regulatory financial statement) for the year ended 30 June 2019

Covered Transmission

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Operations				
SCADA and communications	(10,879)	-	(10,879)	
Non-revenue cap services	(5,499)	-	(5,499)	
Network operations	(5,341)	-	(5,341)	
	(21,719)	-	(21,719)	
Maintenance				
Preventative condition	(8,961)	-	(8,961)	
Preventative routine	(26,390)	-	(26,390)	
Corrective deferred	(9,562)	-	(9,562)	
Corrective emergency	(1,698)	-	(1,698)	
	(46,611)	-	(46,611)	
Corporate				
Business support	(21,050)	(1,265)	(22,315)	12.3
Other operating expenditure				
Non-recurring expenditure	(6,714)	-	(6,714)	
Total operating expenditure costs	**(96,094)**	**(1,265)**	**(97,359)**	

Covered Distribution

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Operations				
Reliability operations	(1,810)	-	(1,810)	
SCADA and communications	(7,150)	-	(7,150)	
Non-revenue cap services	(15,950)	-	(15,950)	
Network operations	(16,371)	-	(16,371)	
	(41,281)	-	(41,281)	
Maintenance				
Preventative condition	(29,443)	-	(29,443)	
Preventative routine	(37,663)	-	(37,663)	
Corrective deferred	(16,345)	-	(16,345)	
Corrective emergency	(58,592)	-	(58,592)	
	(142,043)	-	(142,043)	
Customer service and billing				
Call centre	(4,344)	-	(4,344)	
Metering	(15,944)	-	(15,944)	
Guaranteed service level payments	(961)	-	(961)	
Distribution quotations	(4,804)	-	(4,804)	
	(26,053)	-	(26,053)	
Corporate				
Business support	(57,177)	(3,351)	(60,528)	12.3
Other operating expenditure				
Non-recurring expenditure	(6,593)	(61)	(6,654)	12.4
Tariff equalisation contribution	(198,000)	-	(198,000)	
	(204,593)	(61)	(204,654)	
Total operating expenditure costs	**(471,147)**	**(3,412)**	**(474,559)**	

11. Contributions for the year ended 30 June 2019

Covered Transmission

Reason for contributions	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Capacity expansion	(4)	-	(4)	
Customer driven	50,064	34,755	84,819	
Asset replacement	(6)	-	(6)	
Total contributions	**50,054**	**34,755**	**84,809**	**12.1**

Covered Distribution

Reason for contributions	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Customer driven	98,409	(10,964)	87,445	
Gifted network assets	62,657	-	62,657	
SUPP	-	28,491	28,491	
Metering	3,073	-	3,073	
Total contributions (including gifted network assets)	**164,139**	**17,527**	**181,666**	**12.1**

12. Regulatory adjustments for the year ended 30 June 2019

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)	**214,193**	**50,054**	**164,139**	**-**	**-**
Regulatory cash adjustments:					
Net capital contributions deferred to balance sheet					
Opening deferred income (capital contributions)	(170,307)	(66,534)	(103,773)	-	-
Closing deferred income (capital contributions)	233,819	112,954	120,865	-	-
	63,512	46,420	17,092	-	-
Net capital contributions invoiced and now received/(not received)	(9,964)	(10,823)	859	-	-
Net capital contributions accrued and now refunded	(1,266)	(842)	(424)	-	-
Total regulatory cash adjustment	**52,282**	**34,755**	**17,527**	**-**	**-**
Capital contributions received (regulatory)	**266,475**	**84,809**	**181,666**	**-**	**-**

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)	(93,177)	(93,177)	-	-	-
Opening balance adjustment:					
To correct 2016/17 reporting year disclosure	(1,848)	(1,848)	-	-	-
Revised opening capitalised borrowing costs (statutory)	(95,025)	(95,025)	-	-	-
Capitalised borrowing costs in reporting year	(1,567)	(1,567)	-	-	-
Closing capitalised borrowing costs (statutory)	**(96,592)**	**(96,592)**	**-**	**-**	**-**

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

To align Western Power's statutory capital additions with regulatory capital additions, i.e. statutory capital expenditure that does not meet the new facilities investment test (**NFIT**) as described in the *Electricity Networks Access Code 2004 (WA)* is not added to the RAB.

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (unregulated) $'000	Unregulated $'000
Non-NFIT capital additions					
To regulated 'operating expenditure costs'	61	-	61	-	-
To unregulated 'capital additions'	409	-	409	-	-

12. Regulatory adjustments for the year ended 30 June 2019 (continued)

RAB adjustments (continued)

12.5 Capital provisions

To align Western Power's statutory capital additions with regulatory capital additions, i.e. statutory capital expenditure provided for environmental and rehabilitation costs is not added to the RAB until incurred.

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (unregulated) $'000	Unregulated $'000
Capital provisions - current					
Opening environmental and rehabilitation costs (statutory)	(2,118)	(1,859)	(259)	-	-
Realignment for the reporting period*	-	1	(1)	-	-
Regulatory incurred adjustments:					
Provided for/transferred in the reporting period	(2,797)	(2,774)	(23)	-	-
Charged in the reporting period	1,366	1,314	52	-	-
Reversed in the reporting period	595	595	-	-	-
Net regulatory (provided for)/incurred adjustment	**(836)**	**(865)**	**29**	**-**	**-**
Closing environmental and rehabilitation costs (statutory)	**(2,954)**	**(2,723)**	**(231)**	**-**	**-**
Capital provisions - non-current					
Opening environmental and rehabilitation costs (statutory)	(11,283)	(9,625)	(1,658)	-	-
Realignment for the reporting period*	-	7	(7)	-	-
Regulatory incurred adjustments:					
Provided for/transferred in the reporting period	2,393	2,370	23	-	-
Charged in the reporting period	4	1	3	-	-
Reversed in the reporting period	1,080	1,080	-	-	-
Net regulatory (provided for)/incurred adjustment	**3,477**	**3,451**	**26**	**-**	**-**
Closing environmental and rehabilitation costs (statutory)	**(7,806)**	**(6,167)**	**(1,639)**	**-**	**-**

** This annual realignment to opening balances reflects the impact of the most recent/accurate causal allocation basis*

Other

12.6 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 (2018/19: 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 standard for the first time in the reporting year commencing 1 July 2018:

> *AASB 9 Financial Instruments*

(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)
Impaired trade receivables	13(j)
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 2019: $144.093 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 2019, Western Power did not have a bank overdraft.

13. Summary of significant accounting policies (continued)

(j) Trade and other receivables

Trade 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. Other receivables generally arise from transactions outside the usual operating activities of the business.

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

An impairment allowance is recognised for the expected credit losses (**ECLs**) on trade receivables. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all cash flows expected to be received, 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.

Western Power applies the simplified approach in calculating ECLs, being an impairment allowance is recognised for credit losses expected to result from all possible default events over the lifetime of the trade receivable. This is estimated using a provision matrix based on Western Power's historical credit loss experience, adjusted for forward-looking factors specific to the receivables and economic environment.

Amounts impaired are recognised in profit or loss. They are generally written off when there is no expectation of recovery. Indicators of this include failure of a debtor to engage in a repayment plan and/or if past due for a significant period. Any 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 economic exposures to movements in interest and foreign exchange rates. Western Power uses derivative financial instruments in accordance with Board approved policy. Under this policy the critical terms of the hedging instruments must align with the hedged items. Speculative trading where a derivative is entered into without an underlying economic 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

Hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item. 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 a 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

At inception of the hedge relationship, Western Power documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. Western Power documents the risk management objective and strategy for undertaking the hedge transactions.

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. During the year ended 30 June 2019, Western Power had not accounted for any derivative financial instruments that qualified for hedge accounting as fair value hedges.

13. Summary of significant accounting policies (continued)

(l) Derivative and hedging activities (continued)

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 re-classified in the same reporting year as the hedged item affects the profit or loss. This is as follows:

> Where the hedged item subsequently results in the recognition of a non-financial asset (such as property, plant and equipment), the amount deferred to equity for the effective portion of a forward exchange contract is transferred to the carrying value of the asset. Where there is no recognition of a non-financial asset, the effective portion is re-classified to profit or loss in the same reporting year as the hedged item affects the profit or loss.

> The amount deferred to equity for the effective portion of an interest rate swap or forward domestic borrowing commitment hedging a floating rate borrowing is recognised in profit or loss within 'borrowing costs', in the same reporting year as the interest expense on the hedged loan.

Hedge ineffectiveness

Hedge ineffectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure an economic relationship exists between the hedged item and hedging instrument.

Hedge ineffectiveness may occur due to:

- changes in the forecast timing of the cash flow transaction
- differences in the critical terms between the hedging instrument and the hedged item
- changes in the credit risk of Australia or the derivative counterparty.

Interest rate swaps and forward domestic borrowing commitments

Western Power enters into interest rate swaps and forward domestic borrowing commitments that have the same critical terms as the hedged item, such as the notional amount, interest rates, payment dates and maturities. Western Power does not hedge all borrowings, therefore the hedged item is identified as a proportion of the outstanding borrowings up to the notional amount of the hedging instrument.

Forward exchange contracts

Western Power enters into forward exchange contracts that have the same critical terms as the hedged item, such as the transaction amount, foreign exchange rates and payment dates.

During the year ended 30 June 2019, Western Power assessed no hedge ineffectiveness. This is because all critical terms matched, ensuring the economic relationships existed between the hedged items and hedging instruments.

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 occurs. 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.

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 2019, 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 2019, Western Power did not derecognise any derivative financial instruments.

13. Summary of significant accounting policies (continued)

(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 2019, 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 2019, 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 2019, 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 with floating rates. 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 relating to the effective portion of the forward is recognised in the hedging reserve and 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.

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 periods of service. Expected future payments are discounted using the Commonwealth bond rates whose terms most closely match the terms of the related liabilities. Independent actuarial valuations are carried out at each reporting date. 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.

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.

13. Summary of significant accounting policies (continued)

(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 2018/19 statutory financial statements (base accounts) authorised for issue in accordance with a resolution of the directors on 6 August 2019

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

C Beckett	**G Martin**
Board Chair	*Deputy Board Chair*

12 December 2019

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Serving the Public Interest

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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 2019

Attached is the report on agreed upon procedures for the regulatory financial statements for the year ending 30 June 2019, 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 2019. 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 18 June 2019 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 2019
REPORT OF FACTUAL FINDINGS

PROCEDURE 1
Agree the RFS base account amounts to Western Power's 30 June 2019 statutory financial statements for:

a) Total income, total expenses and 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 and 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 agree with the 30 June 2019 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 2019
REPORT OF FACTUAL FINDINGS

PROCEDURE 2
Agree the allocations of income in the RFS profit and loss account to Western Power's 30 June 2019 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 agree with the CRAM.

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 disclosed in the RFS	Chart of accounts description and account code	Sample amount $	RFS business segment	Type of allocation	Agreed allocation to CRAM
Network service (revenue cap) $1,477,272,000	Network service (revenue cap) 118012733000	100,618,084	Distribution	Direct	Yes
Network service (non-revenue cap) $21,763,000	Extended Metering Services 991313023000	550,048	Distribution	Direct	Yes
Network service (other) $50,583,000	Material Sales 633010001000	2,451,673	Unregulated	Direct	Yes
Contributions (excluding gifted network assets) $151,536,000	Capital Contributions - Transmission 601330542000	10,101,427	Transmission	Direct	Yes
Gifted network assets $62,657,000	Gifted Assets 602530563000	7,200,037	Distribution	Direct	Yes
Proceeds from disposal of assets $4,533,000	Proceeds from disposal of assets ZONE SUB	3,605,284	Transmission	Direct	Yes
Other income $3,356,000	Insurance Recoveries 100161552000	1,746,371	Transmission	Direct	Yes

ELECTRICITY NETWORKS CORPORATION TRADING AS WESTERN POWER
REGULATORY FINANCIAL STATEMENTS (RFS) – 30 JUNE 2019
REPORT OF FACTUAL FINDINGS

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 to agree 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 disclosed in the RFS	Chart of accounts description and account code	Sample amount $	RFS business segment	Type of allocation	Agreed allocation to CRAM
Operations $90,525,000	Metering Extended Services 991313023000	246,013	Distribution	Direct	Yes
Maintenance $188,654,000	Corrective Emergency 602524153000	1,022,299	Distribution	Direct	Yes
Customer service and billing $26,580,000	Customer Service Centre 994071413000	232,945	Distribution	Direct	Yes
Corporate $79,037,000	Insurance 130061551000	780,291	Transmission & Distribution	Indirect (PPE)	Yes
Other operating expenditure $217,263,000	Metering Extended Services 991313023000	246,013	Distribution	Direct	Yes

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 as disclosed in the RFS	Amount $	Agreed allocation to CRAM
Depreciation and amortisation	348,572,000	Yes
Bad debts	553,000	Yes
Borrowing costs	284,585,000	Yes
Book value on disposal of assets	16,572,000	Yes
Taxation equivalent	153,424,000	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.

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.

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.

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.

ELECTRICITY NETWORKS CORPORATION TRADING AS WESTERN POWER
REGULATORY FINANCIAL STATEMENTS (RFS) – 30 JUNE 2019
REPORT OF FACTUAL FINDINGS

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 disclosed in the RFS	Asset segment code	Sample amount $	RFS business segment	Type of allocatio n	Agreed allocation to CRAM
Capacity expansion $15,296,000	2000	898,475	Transmission	Direct	Yes
Customer driven $185,089,000	3000	6,199,284	Distribution	Direct	Yes
Gifted network assets $62,657,000	3000	8,642,275	Distribution	Direct	Yes
Asset replacement $125,303,000	3000	5,137,887	Distribution	Direct	Yes
State underground power project $30,982,000	3000	2,278,846	Distribution	Direct	Yes
Metering $28,471,000	3000	3,320,648	Distribution	Direct	Yes
Wood pole management $122,451,000	3000	9,638,056	Distribution	Direct	Yes
Reliability driven $5,337,000	2000	3,807,113	Transmission	Direct	Yes
Supervisory control and data acquisition & communications $29,970,000	2000	1,475,831	Transmission	Direct	Yes
Regulatory compliance $46,985,000	2000	2,126,866	Transmission	Direct	Yes
Information technology 54,628,000	2000 & 3000	1,769,812	Transmission & Distribution	Indirect (PPE)	Yes
Business support $37,889,000	2000 & 3000	1,909,091	Transmission & Distribution	Indirect (PPE)	Yes
Capitalised interest $1,567,000	2000	219,117	Transmission	Direct	Yes
Mobile plant and vehicles $17,152,000	1000	569,029	Unregulated	Direct	Yes
Stand-alone power systems $2,657,000	3000	662,000	Unregulated	Direct	Yes

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 capital provisions.

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; and
- The adjustment in respect to capital provisions is required in accordance with the ERA's Access Arrangement 4 (AA4) decision.

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) Capital provisions: The base accounts include provisions for environmental and rehabilitation costs as capital additions when provided for. However, the AA4 decision requires environmental and rehabilitation costs to be capitalised only when incurred.

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 cross-referenced.

Testing details
We 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 intangible assets
RFS: Regulatory financial statements
ERA: Economic Regulation Authority
ERA Guidelines: ERA's Guidelines for Access Arrangement Information December 2010
AA4: ERA's Access Arrangement 4