Attachment 1.6

Regulatory Financial Statements for the year ending 30 June 2021

Access Arrangement Information

1 February 2022

EDM 58783114

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

for the year ended 30 June 2021

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, including current and likely developments, and significant regulatory changes, refer to the 2021 annual report (including the audited 2020/21 statutory financial statements) available on Western Power's website www.westernpower.com.au.

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 ERA's 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' at the end of 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 these Guidelines, any discretionary headings agree with, or are traceable to the headings in Western Power's audited 2020/21 statutory financial statements.

(a) Regulatory allocations

In compliance with the ERA's Guidelines, these financial statements present Western Power's audited 2020/21 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 2020/21 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 Western Power's audited 2020/21 statutory financial statements (base accounts) and 2020/21 regulatory financial statements, e.g.:

> ***Capital contributions (accounting policy adjustment 12.1)***
For regulatory financial reporting, capital contributions are recognised in the profit and loss account on cash receipt. This contrasts to statutory financial reporting, whereby capital cash contributions are deferred to the balance sheet and subsequently recognised in the profit and loss account in compliance with *AASB 1058 Income of not-for-profit entities* - being only when developers and/or customers are connected to the network in satisfaction of the performance obligations to which the capital contributions relate.

> ***Borrowing costs (accounting policy adjustment 12.2)***
For regulatory financial reporting, borrowing costs are not capitalised to the balance sheet. This contrasts to statutory financial reporting, whereby borrowing costs are capitalised to the balance sheet in compliance with *AASB 123 Borrowing Costs* - being 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.

> ***Depreciation: leased assets and unregulated owned fleet (accounting disclosure adjustment 12.3)***
For regulatory financial reporting, depreciation for leased assets and unregulated owned fleet is recognised as operating expenditure. This contrasts to statutory financial reporting, whereby this depreciation is recognised as 'depreciation and amortisation' in compliance with *AASB 16 Leases* and *AASB 116 Property, plant and equipment* respectively.

> ***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**) as described in the *Electricity Networks Access Code 2004 (WA)* (including forecast environmental and rehabilitation costs provided for) is not capitalised to the RAB. This contrasts to statutory financial reporting, whereby capital expenditure is capitalised to the fixed asset register 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*).

> ***Regulatory operating expenditure (regulatory adjustment 12.6)***
For regulatory financial reporting, operating expenditure costs that do not meet the 'non-capital cost' test as described in the *Electricity Networks Access Code 2004 (WA)* are not expensed to the regulatory profit and loss account. This contrasts to statutory financial reporting, whereby all operating expenditure costs are expensed to the profit and loss account in compliance with Australian accounting standards.

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

Directors' overview (continued)

Regulatory financial statements (continued)

(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 Auditor General for Western Australia (**Auditor General**). The Auditor General'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 2021

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (unregulated) $'000	Unregulated $'000
Network services (revenue target)	1,581,048	424,272	1,156,776	-	-
Network services (non-revenue target)	20,651	7,589	13,062	-	-
Network services (other)	70,434	6,530	14,593	1,693	47,618
Contributions (excluding gifted network assets)	143,973	62,102	81,871	-	-
Gifted network assets	50,415	-	50,415	-	-
Proceeds from disposal of owned assets*	10,489	8,156	1,612	-	721
Other income	1,292	68	186	-	1,038
Total income	**1,878,302**	**508,717**	**1,318,515**	**1,693**	**49,377**
Operating expenditure costs	(656,415)	(122,049)	(490,281)	(1,742)	(42,343)
Operations	(100,742)	(30,803)	(34,201)	-	(35,738)
Maintenance	(208,620)	(53,375)	(154,877)	-	(368)
Customer service and billing	(38,804)	-	(38,109)	-	(695)
Corporate	(101,130)	(29,243)	(70,777)	-	(1,110)
Other operating expenditure	(207,119)	(8,628)	(192,317)	(1,742)	(4,432)
Depreciation and amortisation	(401,587)	(117,970)	(283,278)	-	(339)
Bad debts	(3,397)	(891)	(2,409)	-	(97)
Borrowing costs	(233,013)	(63,990)	(167,950)	-	(1,073)
Book value on disposal of owned assets*	(24,889)	(3,004)	(21,495)	-	(390)
Total expenses	**(1,319,301)**	**(307,904)**	**(965,413)**	**(1,742)**	**(44,242)**
Earnings before tax equivalent	**559,001**	**200,813**	**353,102**	**(49)**	**5,135**
Tax equivalent	**(168,389)**	**(60,491)**	**(106,366)**	**15**	**(1,547)**
Profit/(loss) after tax equivalent	**390,612**	**140,322**	**246,736**	**(34)**	**3,588**

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

Note:

* 'Total income' and 'total expenses' reported in the regulatory financial statements each differ by $10.489 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 - being the proceeds and written down value on the disposal of owned assets are disclosed separately. In contrast, the proceeds and written down value on the disposal of owned assets in the statutory financial statements are disclosed net of one another, i.e. a net loss of $14.400 million. This is in accordance with Australian accounting standards.

2. Profit and loss account (regulatory financial statement) for the year ended 30 June 2021

Covered Transmission

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Network services (revenue target)	424,272	-	424,272	
Network services (non-revenue target)	7,589	-	7,589	
Network services (other)	6,530	-	6,530	
Contributions (excluding gifted network assets)	62,102	(7,836)	54,266	11, 12.1
Gifted network assets	-	-	-	
Proceeds from disposal of owned assets	8,156	-	8,156	
Other income	68	-	68	
Total income	**508,717**	**(7,836)**	**500,881**	
Operating expenditure costs	(122,049)	225	(121,824)	9, 10
Operations	(30,803)	-	(30,803)	
Maintenance	(53,375)	-	(53,375)	
Customer service and billing	-	-	-	
Corporate	(29,243)	225	(29,018)	12.3, 12.6
Other operating expenditure	(8,628)	-	(8,628)	
Depreciation and amortisation	(117,970)	2,509	(115,461)	Note 1., 12.3
Bad debts	(891)	-	(891)	
Borrowing costs	(63,990)	(2,669)	(66,659)	12.2
Book value on disposal of owned assets	(3,004)	-	(3,004)	
Total expenses	**(307,904)**	**65**	**(307,839)**	
Earnings before tax equivalent	**200,813**	**(7,771)**	**193,042**	
Tax equivalent	**(60,491)**	**2,331**	**(58,160)**	12.7
Profit/(loss) after tax equivalent	**140,322**	**(5,440)**	**134,882**	

Covered Distribution

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Network services (revenue target)	1,156,776	-	1,156,776	
Network services (non-revenue target)	13,062	-	13,062	
Network services (other)	14,593	-	14,593	
Contributions (excluding gifted network assets)	81,871	(10,753)	71,118	11, 12.1
Gifted network assets	50,415	(50,415)	-	
Proceeds from disposal of owned assets	1,612	-	1,612	
Other income	186	-	186	
Total income	**1,318,515**	**(61,168)**	**1,257,347**	
Operating expenditure costs	(490,281)	(805)	(491,086)	9, 10
Operations	(34,201)	-	(34,201)	
Maintenance	(154,877)	-	(154,877)	
Customer service and billing	(38,109)	-	(38,109)	
Corporate	(70,777)	(805)	(71,582)	12.3, 12.6
Other operating expenditure	(192,317)	-	(192,317)	
Depreciation and amortisation	(283,278)	6,578	(276,700)	Note 1., 12.3
Bad debts	(2,409)	-	(2,409)	
Borrowing costs	(167,950)	-	(167,950)	12.2
Book value on disposal of owned assets	(21,495)	-	(21,495)	
Total expenses	**(965,413)**	**5,773**	**(959,640)**	
Earnings before tax equivalent	**353,102**	**(55,395)**	**297,707**	
Tax equivalent	**(106,366)**	**16,619**	**(89,747)**	12.7
Profit/(loss) after tax equivalent	**246,736**	**(38,776)**	**207,960**	

Note:

1. 'Depreciation and amortisation' reported in these statements represents 'depreciation and amortisation' reported in the statutory financial statements - being at historical cost per the statutory fixed asset register. This is in accordance with the ERA's Guidelines, whereby these statements are disaggregated from the audited statutory base accounts and the accounting records that underlie these base accounts.

   'Depreciation and amortisation' is regulated unless attributable to wholly unregulated assets - including in-service stand-alone power systems up to 30 September 2020, and excluding "fleet" per regulatory adjustment 12.3.

   Any regulatory adjustment(s) to 'depreciation and amortisation' are for year-to-date accounting disclosure purposes only, i.e. 'leased assets and unregulated owned fleet depreciation' per accounting disclosure adjustment 12.3.

3. Cash flow statement (disaggregated) for the year ended 30 June 2021

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (unregulated) $'000	Unregulated $'000
Operating activities					
Receipts	1,936,205	536,939	1,343,074	1,693	54,499
Payments	(939,829)	(211,249)	(674,204)	(1,727)	(52,649)
Net operating cash flows	**996,376**	**325,690**	**668,870**	**(34)**	**1,850**
Investing activities					
Receipts	10,489	8,156	1,612	-	721
Payments	(745,887)	(213,560)	(522,467)	-	(9,860)
Net investing cash flows	**(735,398)**	**(205,404)**	**(520,855)**	**-**	**(9,139)**
Financing activities					
Receipts	1,117,719	305,906	806,336	-	5,477
Payments	(1,356,573)	(395,044)	(955,907)	-	(5,622)
Net financing cash flows	**(238,854)**	**(89,138)**	**(149,571)**	**-**	**(145)**
Net increase/(decrease) in cash and cash equivalents	**22,124**	**31,148**	**(1,556)**	**(34)**	**(7,434)**
Cash and cash equivalents at beginning of reporting year	28,255				
Net increase in cash and cash equivalents	22,124				
Cash and cash equivalents at end of reporting year*	**50,379**	**10,236**	**26,838**	**-**	**13,305**

* Cash and cash equivalent transactions (after the 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.

Note:
The cash flow statement is for year-to-date accounting disclosure purposes only. It is not adjusted for transfers between business segments that relate to cash transactions in previous financial years.

4. Cash flow statement (regulatory financial statements) for the year ended 30 June 2021

Covered Transmission

Description	Base account $'000	Regulatory adjustment* $'000	Regulatory account $'000	Support reference #
Operating activities				
Receipts	536,939	-	536,939	
Payments	(211,249)	2,734	(208,515)	12.6
Net operating cash flows	**325,690**	**2,734**	**328,424**	
Investing activities				
Receipts	8,156	-	8,156	
Payments	(213,560)	-	(213,560)	
Net investing cash flows	**(205,404)**	**-**	**(205,404)**	
Financing activities				
Receipts	305,906	-	305,906	
Payments	(395,044)	-	(395,044)	
Net financing cash flows	**(89,138)**	**-**	**(89,138)**	
Net increase in cash and cash equivalents	**31,148**	**2,734**	**33,882**	

Covered Distribution

Description	Base account $'000	Regulatory adjustment* $'000	Regulatory account $'000	Support reference #
Operating activities				
Receipts	1,343,074	-	1,343,074	
Payments	(674,204)	5,773	(668,431)	12.6
Net operating cash flows	**668,870**	**5,773**	**674,643**	
Investing activities				
Receipts	1,612	-	1,612	
Payments	(522,467)	-	(522,467)	
Net investing cash flows	**(520,855)**	**-**	**(520,855)**	
Financing activities				
Receipts	806,336	-	806,336	
Payments	(955,907)	-	(955,907)	
Net financing cash flows	**(149,571)**	**-**	**(149,571)**	
Net increase/(decrease) in cash and cash equivalents	**(1,556)**	**5,773**	**4,217**	

* The cash flow statement:

> includes regulatory adjustment(s) that cross business segments only. It does not include regulatory adjustment(s) within a business segment - including those that cross business activities only.

> excludes transfers between business segments that relate to cash transactions in previous financial years.

5. Balance sheet (disaggregated) as at 30 June 2021

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (unregulated) $'000	Unregulated $'000
Current assets					
Cash and cash equivalents	50,379	10,236	26,838	-	13,305
Trade and other receivables	110,922	30,664	77,917	-	2,341
Prepayments	11,921	3,300	8,617	-	4
Accrued revenue	192,235	33,711	158,524	-	-
Current tax equivalent assets	3,081	846	2,221	-	14
Inventories	90,395	28,780	48,182	-	13,433
Derivative financial instruments	400	110	290	-	-
Total current assets	**459,333**	**107,647**	**322,589**	**-**	**29,097**
Non-current assets					
Property, plant and equipment, and intangible assets	11,740,522	3,224,177	8,462,296	-	54,049
Right-of-use assets	19,887	2,030	5,324	-	12,533
Trade and other receivables	407	107	288	-	12
Derivative financial instruments	648	179	469	-	-
Total non-current assets	**11,761,464**	**3,226,493**	**8,468,377**	**-**	**66,594**
Total assets	**12,220,797**	**3,334,140**	**8,790,966**	**-**	**95,691**
Current liabilities					
Borrowings	(9,781)	(2,616)	(7,111)	-	(54)
Lease liabilities	(7,879)	(472)	(1,236)	-	(6,171)
Trade and other payables	(145,511)	(36,467)	(93,252)	-	(15,792)
Derivative financial instruments	(14,123)	(3,899)	(10,224)	-	-
Deferred income	(113,492)	(47,210)	(63,948)	-	(2,334)
Provisions	(97,492)	(31,434)	(65,506)	-	(552)
Total current liabilities	**(388,278)**	**(122,098)**	**(241,277)**	**-**	**(24,903)**
Non-current liabilities					
Borrowings	(7,709,502)	(2,062,085)	(5,604,511)	-	(42,906)
Lease liabilities	(12,314)	(1,579)	(4,139)	-	(6,596)
Trade and other payables	(1)	-	(1)	-	-
Derivative financial instruments	(36,043)	(9,951)	(26,092)	-	-
Deferred tax equivalent liabilities	(1,047,954)	(287,789)	(755,341)	-	(4,824)
Deferred income	(63,527)	(55,034)	(8,493)	-	-
Provisions	(16,051)	(7,326)	(8,665)	-	(60)
Total non-current liabilities	**(8,885,392)**	**(2,423,764)**	**(6,407,242)**	**-**	**(54,386)**
Total liabilities	**(9,273,670)**	**(2,545,862)**	**(6,648,519)**	**-**	**(79,289)**
Net assets	**2,947,127**	**788,278**	**2,142,447**	**-**	**16,402**
Equity					
Share capital	1,688,300				
*Accumulated profits/reserves**	1,258,827				
Total equity	**2,947,127**				
* Accumulated profits/reserves					
At start of reporting period	1,135,284				
Profit after tax equivalent	390,612				
Other comprehensive income	32,691				
Distributions provided for or paid in reporting year	(299,760)				
At end of reporting period	**1,258,827**				

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

6. Balance sheet (regulatory financial statement) as at 30 June 2021

Covered Transmission

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Current assets				
Cash and cash equivalents	10,236	-	10,236	
Trade and other receivables	30,664	(6,235)	24,429	12.1
Prepayments	3,300	-	3,300	
Accrued revenue	33,711	-	33,711	
Current tax equivalent assets	846	-	846	
Inventories	28,780	-	28,780	
Derivative financial instruments	110	-	110	
Total current assets	**107,647**	**(6,235)**	**101,412**	
Non-current assets				
Property, plant and equipment, and intangible assets	3,224,177	(107,572)	3,116,605	Note 1., 12.2, 12.4, 12.5
Right-of-use assets	2,030	-	2,030	
Trade and other receivables	107	-	107	
Derivative financial instruments	179	-	179	
Total non-current assets	**3,226,493**	**(107,572)**	**3,118,921**	
Total assets	**3,334,140**	**(113,807)**	**3,220,333**	
Current liabilities				
Borrowings	(2,616)	-	(2,616)	
Lease liabilities	(472)	-	(472)	
Trade and other payables	(36,467)	-	(36,467)	12.1
Derivative financial instruments	(3,899)	-	(3,899)	
Deferred income	(47,210)	32,752	(14,458)	12.1
Provisions	(31,434)	616	(30,818)	12.5
Total current liabilities	**(122,098)**	**33,368**	**(88,730)**	
Non-current liabilities				
Borrowings	(2,062,085)	-	(2,062,085)	
Lease liabilities	(1,579)	-	(1,579)	
Trade and other payables	-	-	-	12.1
Derivative financial instruments	(9,951)	-	(9,951)	
Deferred tax equivalent liabilities	(287,789)	2,331	(285,458)	12.7
Deferred income	(55,034)	55,034	-	12.1
Provisions	(7,326)	3,983	(3,343)	12.5
Total non-current liabilities	**(2,423,764)**	**61,348**	**(2,362,416)**	
Total liabilities	**(2,545,862)**	**94,716**	**(2,451,146)**	
Net assets	**788,278**	**(19,091)**	**769,187**	

Note:

1. 'Property, plant and equipment (**PPE**), and intangible assets' reported in these statements represents 'PPE, and intangible assets' reported in the statutory financial statements. This is consistent with the accounting policy in notes 13(n) and 13(o) 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**).

   'PPE, and intangible assets' are regulated unless attributable to wholly unregulated assets - including mobile plant and vehicles, and in-service stand-alone power systems up to 30 September 2020 (written down value only).

   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.

6. Balance sheet (regulatory financial statement) as at 30 June 2021

Covered Distribution

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Current assets				
Cash and cash equivalents	26,838	-	26,838	
Trade and other receivables	77,917	(16,646)	61,271	12.1
Prepayments	8,617	-	8,617	
Accrued revenue	158,524	-	158,524	
Current tax equivalent assets	2,221	-	2,221	
Inventories	48,182	-	48,182	
Derivative financial instruments	290	-	290	
Total current assets	**322,589**	**(16,646)**	**305,943**	
Non-current assets				
Property, plant and equipment, and intangible assets	8,462,296	(1,898)	8,460,398	Note 1., 12.2, 12.4, 12.5
Right-of-use assets	5,324	-	5,324	
Trade and other receivables	288	-	288	
Derivative financial instruments	469	-	469	
Total non-current assets	**8,468,377**	**(1,898)**	**8,466,479**	
Total assets	**8,790,966**	**(18,544)**	**8,772,422**	
Current liabilities				
Borrowings	(7,111)	-	(7,111)	
Lease liabilities	(1,236)	-	(1,236)	
Trade and other payables	(93,252)	23	(93,229)	12.1
Derivative financial instruments	(10,224)	-	(10,224)	
Deferred income	(63,948)	59,663	(4,285)	12.1
Provisions	(65,506)	304	(65,202)	12.5
Total current liabilities	**(241,277)**	**59,990**	**(181,287)**	
Non-current liabilities				
Borrowings	(5,604,511)	-	(5,604,511)	
Lease liabilities	(4,139)	-	(4,139)	
Trade and other payables	(1)	1	-	12.1
Derivative financial instruments	(26,092)	-	(26,092)	
Deferred tax equivalent liabilities	(755,341)	16,619	(738,722)	12.7
Deferred income	(8,493)	8,493	-	12.1
Provisions	(8,665)	1,594	(7,071)	12.5
Total non-current liabilities	**(6,407,242)**	**26,707**	**(6,380,535)**	
Total liabilities	**(6,648,519)**	**86,697**	**(6,561,822)**	
Net assets	**2,142,447**	**68,153**	**2,210,600**	

Note:

1. 'Property, plant and equipment (**PPE**), and intangible assets' reported in these statements represents 'PPE, and intangible assets' reported in the statutory financial statements. This is consistent with the accounting policy in notes 13(n) and 13(o) 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**).

   'PPE, and intangible assets' are regulated unless attributable to wholly unregulated assets - including mobile plant and vehicles, and in-service stand-alone power systems up to 30 September 2020 (written down value only).

   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.

7. Capital expenditure (disaggregated) for the year ended 30 June 2021

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (unregulated) $'000	Unregulated $'000
Capital additions					
Capacity expansion	38,426	33,966	4,460	-	-
Customer driven	142,432	39,848	102,584	-	-
Gifted network assets	50,415	-	50,415	-	-
Asset replacement	122,163	58,800	63,363	-	-
State Underground Power Project (***SUPP*** *)*	30,682	-	30,682	-	-
Metering	36,909	-	36,909	-	-
Wood pole management	160,113	-	160,113	-	-
*Stand-alone power systems**	8,158	-	23,562	-	(15,404)
Reliability driven	2,511	173	2,338	-	-
Supervisory Control and Data Acquisition (***SCADA*** *) & communications*	56,950	34,853	22,097	-	-
Regulatory compliance	66,653	23,155	43,498	-	-
Information technology	48,096	13,279	34,817	-	-
Business support	18,025	5,355	12,670	-	-
Capitalised interest	2,669	2,669	-	-	-
Distributed energy resources	2,810	-	-	-	2,810
Mobile plant and vehicles	7,512	-	-	-	7,512
Total capital additions	**794,524**	**212,098**	**587,508**	**-**	**(5,082)**

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

Note:

* The following 'stand-alone power systems (SPS)' capital expenditure has been transferred from the unregulated business segment to the regulated business segment:

> Total capital additions for SPS in-service after 30 September 2020

> The written down value as at 30 September 2020 for SPS in-service up to this date

This is in-line with the amendments to the *Electricity Networks Access Code 2004 (WA)* gazetted by the Western Australian State Government in September 2020.

8. Capital expenditure (regulatory financial statement) for the year ended 30 June 2021

Covered Transmission

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Growth				
Capacity expansion	33,966	-	33,966	
Customer driven	39,848	-	39,848	
	73,814	-	73,814	
Asset replacement and renewal				
Asset replacement	58,800	-	58,800	
Improvement in service				
Reliability driven	173	-	173	
SCADA and communications	34,853	-	34,853	
	35,026	-	35,026	
Compliance				
Regulatory compliance	23,155	-	23,155	
Corporate				
Information technology	13,279	-	13,279	
Business support	5,355	3,742	9,097	12.5
	18,634	3,742	22,376	
Other				
Capitalised interest	2,669	(2,669)	-	12.2
Total capital additions	**212,098**	**1,073**	**213,171**	

Covered Distribution

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Growth				
Capacity expansion	4,460	-	4,460	
Customer driven	102,584	-	102,584	
Gifted network assets	50,415	-	50,415	
	157,459	-	157,459	
Asset replacement and renewal				
Asset replacement	63,363	-	63,363	
SUPP	30,682	-	30,682	
Metering	36,909	-	36,909	
Wood pole management	160,113	-	160,113	
Stand-alone power systems	23,562	-	23,562	Note 1
	314,629	-	314,629	
Improvement in service				
Reliability driven	2,338	-	2,338	
SCADA and communications	22,097	-	22,097	
	24,435	-	24,435	
Compliance				
Regulatory compliance	43,498	-	43,498	
Corporate				
Information technology	34,817	-	34,817	
Business support	12,670	(57)	12,613	12.5
	47,487	(57)	47,430	
Total capital additions	**587,508**	**(57)**	**587,451**	

Note:

1. The following 'stand-alone power systems (**SPS**)' capital expenditure has been transferred from the unregulated business segment to the regulated business segment:
   > Total capital additions for SPS in-service after 30 September 2020
   > The written down value as at 30 September 2020 for SPS in-service up to this date

   This is in-line with the amendments to the *Electricity Networks Access Code 2004 (WA)* gazetted by the Western Australian State Government in September 2020.

9. Operating expenditure (disaggregated) for the year ended 30 June 2021

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (unregulated) $'000	Unregulated $'000
Directly attributed costs					
Operations	(85,147)	(26,497)	(22,912)	-	(35,738)
Maintenance	(208,620)	(53,375)	(154,877)	-	(368)
Customer service and billing	(38,804)	-	(38,109)	-	(695)
Corporate	(605)	-	(12)	-	(593)
Other operating expenditure	(207,119)	(8,628)	(192,317)	(1,742)	(4,432)
Total directly attributed costs	**(540,295)**	**(88,500)**	**(408,227)**	**(1,742)**	**(41,826)**
Causally allocated costs					
Operations	(15,595)	(4,306)	(11,289)	-	-
Maintenance	-	-	-	-	-
Customer service and billing	-	-	-	-	-
Corporate	(100,525)	(29,243)	(70,765)	-	(517)
Other operating expenditure	-	-	-	-	-
Total causally allocated costs	**(116,120)**	**(33,549)**	**(82,054)**	**-**	**(517)**
Total operating expenditure costs	**(656,415)**	**(122,049)**	**(490,281)**	**(1,742)**	**(42,343)**

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 2021

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (unregulated) $'000	Unregulated $'000
Superannuation for defined benefit schemes	(59)	(19)	(40)	-	-
Non-revenue target services	(19,639)	(6,469)	(13,170)	-	-
Energy Safety Act 2006 levy	(4,539)	(1,253)	(3,286)	-	-
Network control services	(10,120)	(9,283)	(837)	-	-
ERA costs under *ERA (Electricity Networks Access Funding) Regulations 2012*	(1,623)	(448)	(1,175)	-	-
Total operating expenditure costs to be excluded from gain sharing mechanism	**(35,980)**	**(17,472)**	**(18,508)**	**-**	**-**

10. Operating expenditure (regulatory financial statement) for the year ended 30 June 2021

Covered Transmission

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Operations				
SCADA and communications	(10,745)	-	(10,745)	
Non-revenue target services	(6,469)	-	(6,469)	
Network operations	(13,589)	-	(13,589)	
	(30,803)	-	(30,803)	
Maintenance				
Preventative condition	(14,255)	-	(14,255)	
Preventative routine	(26,948)	-	(26,948)	
Corrective deferred	(10,782)	-	(10,782)	
Corrective emergency	(1,390)	-	(1,390)	
	(53,375)	-	(53,375)	
Corporate				
Business support	(29,243)	225	(29,018)	12.3, 12.6
Other operating expenditure				
Non-recurring expenditure	(8,628)	-	(8,628)	
Total operating expenditure costs	**(122,049)**	**225**	**(121,824)**	

Covered Distribution

Description	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Operations				
Reliability operations	(1,798)	-	(1,798)	
SCADA and communications	(7,107)	-	(7,107)	
Non-revenue target services	(13,170)	-	(13,170)	
Network operations	(12,126)	-	(12,126)	
	(34,201)	-	(34,201)	
Maintenance				
Preventative condition	(41,169)	-	(41,169)	
Preventative routine	(33,658)	-	(33,658)	
Corrective deferred	(11,065)	-	(11,065)	
Corrective emergency	(68,985)	-	(68,985)	
	(154,877)	-	(154,877)	
Customer service and billing				
Call centre	(5,362)	-	(5,362)	
Metering	(23,823)	-	(23,823)	
Guaranteed service level payments	(3,443)	-	(3,443)	
Distribution quotations	(5,481)	-	(5,481)	
	(38,109)	-	(38,109)	
Corporate				
Business support	(70,777)	(805)	(71,582)	12.3, 12.6
Other operating expenditure				
Non-recurring expenditure	(7,317)	-	(7,317)	
Tariff equalisation contribution	(185,000)	-	(185,000)	
	(192,317)	-	(192,317)	
Total operating expenditure costs	**(490,281)**	**(805)**	**(491,086)**	

11. Contributions for the year ended 30 June 2021

Covered Transmission

Reason for contributions	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Customer driven	62,101	(7,836)	54,265	
Asset replacement	1	-	1	
Total contributions	**62,102**	**(7,836)**	**54,266**	**12.1**

Covered Distribution

Reason for contributions	Base account $'000	Regulatory adjustment $'000	Regulatory account $'000	Support reference #
Customer driven	62,544	10,061	72,605	
Gifted network assets	50,415	(50,415)	-	
SUPP	15,636	(20,838)	(5,202)	
Metering	3,710	-	3,710	
Regulatory compliance	5	-	5	
Other	(24)	24	-	
Total contributions (including gifted network assets)	**132,286**	**(61,168)**	**71,118**	**12.1**

12. Regulatory adjustments for the year ended 30 June 2021

Accounting policy adjustments

12.1 Capital contributions (including gifted network assets)

To align Western Power's statutory accounting policy with regulatory accounting policy, that is, for regulatory financial reporting, capital contributions are recognised in the profit and loss account on cash receipt. This contrasts to statutory financial reporting, whereby capital cash contributions are deferred to the balance sheet and subsequently recognised in the profit and loss account in compliance with *AASB 1058 Income of not-for-profit entities* - being only when developers and/or customers are connected to the network in satisfaction of the performance obligations to which the capital contributions relate.

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (unregulated) $'000	Unregulated $'000
Capital contributions recognised (statutory)	**194,388**	**62,102**	**132,286**	**-**	**-**
Regulatory cash adjustments:					
Net capital contributions deferred to balance sheet					
Opening deferred income (capital contributions)	(151,674)	(89,387)	(62,287)	-	-
Closing deferred income (capital contributions)	155,942	87,786	68,156	-	-
	4,268	(1,601)	5,869	-	-
Non-cash gifted network assets	(50,415)	-	(50,415)	-	-
Net capital contributions invoiced but not received	(16,415)	(6,235)	(10,180)	-	-
Net capital contributions accrued but not received	(6,466)	-	(6,466)	-	-
Other non-cash capital contribution adjustments	24	-	24	-	-
Total regulatory cash adjustment	**(69,004)**	**(7,836)**	**(61,168)**	**-**	**-**
Capital contributions received (regulatory)	**125,384**	**54,266**	**71,118**	**-**	**-**

12.2 Borrowing costs

To align Western Power's statutory accounting policy with regulatory accounting policy, that is, for regulatory financial reporting, borrowing costs are not capitalised to the balance sheet. This contrasts to statutory financial reporting, whereby borrowing costs are capitalised to the balance sheet in compliance with *AASB 123 Borrowing Costs* - being 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.

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (unregulated) $'000	Unregulated $'000
Opening capitalised borrowing costs (statutory)	(100,304)	(100,304)	-	-	-
Capitalised borrowing costs in reporting year	(2,669)	(2,669)	-	-	-
Closing capitalised borrowing costs (statutory)	**(102,973)**	**(102,973)**	**-**	**-**	**-**

Accounting disclosure adjustments

12.3 Depreciation: leased assets and unregulated owned fleet

To align Western Power's statutory accounting disclosures with regulatory accounting disclosures, that is, for regulatory financial reporting, depreciation for leased assets and unregulated owned fleet is recognised as operating expenditure. This contrasts to statutory financial reporting, whereby this depreciation is recognised as 'depreciation and amortisation' in compliance with *AASB 16 Leases* and *AASB 116 Property, plant and equipment* respectively.

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (unregulated) $'000	Unregulated $'000
Depreciation: leased assets and unregulated owned fleet					
To 'operating expenditure costs'	(9,087)	(2,509)	(6,578)	-	-

12. Regulatory adjustments (continued)

Regulated asset base (RAB) adjustments

12.4 Capital additions

To align Western Power's statutory capital additions with regulatory capital additions, that is, for regulatory financial reporting, capital additions that do not meet the New Facilities Investment Test (**NFIT**) as described in the *Electricity Networks Access Code 2004 (WA)* are not capitalised to the RAB. This contrasts to statutory financial reporting, whereby capital additions are capitalised to the fixed asset register in compliance with *AASB 116 Property, plant and equipment* and *AASB 138 Intangible assets* - being whether they meet the NFIT or not.

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (unregulated) $'000	Unregulated $'000
Non-NFIT capital additions	-	-	-	-	-

12.5 Capital provisions

To align Western Power's statutory capital additions with regulatory capital additions, that is, for regulatory financial reporting, capital additions provided for forecast environmental and rehabilitation costs are not capitalised to the RAB until incurred. This contrasts to statutory financial reporting, whereby capital additions provided for are capitalised to the fixed asset register in compliance with *AASB 137 Provisions, contingent liabilities and contingent assets* - being whether incurred or not.

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)	(4,168)	(3,966)	(202)	-	-
Realignment for the reporting period*	-	-	-	-	-
Regulatory incurred adjustments:					
Provided for/transferred in the reporting period	(525)	(416)	(109)	-	-
Charged in the reporting period	2,740	2,740	-	-	-
Reversed in the reporting period	1,033	1,026	7	-	-
Net regulatory (provided for)/incurred adjustment	**3,248**	**3,350**	**(102)**	**-**	**-**
Closing environmental and rehabilitation costs (statutory)	**(920)**	**(616)**	**(304)**	**-**	**-**
Capital provisions - non-current					
Opening environmental and rehabilitation costs (statutory)	(6,014)	(4,377)	(1,637)	-	-
Realignment for the reporting period*	-	2	(2)	-	-
Regulatory incurred adjustments:					
Provided for/transferred in the reporting period	407	384	23	-	-
Charged in the reporting period	-	-	-	-	-
Reversed in the reporting period	30	8	22	-	-
Net regulatory (provided for)/incurred adjustment	**437**	**392**	**45**	**-**	**-**
Closing environmental and rehabilitation costs (statutory)	**(5,577)**	**(3,983)**	**(1,594)**	**-**	**-**

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

Regulatory operating expenditure

12.6 Operating expenditure costs

To align Western Power's statutory operating expenditure with regulatory operating expenditure, that is, for regulatory financial reporting, operating expenditure costs that do not meet the 'non-capital cost' test as described in the *Electricity Networks Access Code 2004 (WA)* are not expensed to the regulatory profit and loss account. This contrasts to statutory financial reporting, whereby all operating expenditure costs are expensed to the profit and loss account in compliance with Australian accounting standards.

Description	Base account $'000	Covered Transmission $'000	Covered Distribution $'000	System Management (unregulated) $'000	Unregulated $'000
'Non-capital cost' operating expenditure costs					
To unregulated 'operating expenditure costs'	8,507	2,734	5,773	-	-

Other

12.7 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 (2020/21: 30 per cent). The regulatory adjustment is recognised against non-current 'deferred tax equivalent liabilities' in the balance sheet.

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 ERA's 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 the following:

> Contributions for capital projects are recognised as income on cash receipt - and are not deferred to the balance sheet as required by *AASB 1058 Income of not-for-profit entities* (refer to regulatory adjustment 12.1)

> Interest (or like allowance) incurred during construction is expensed - and is not capitalised as permitted by *AASB 123 Borrowing costs* (refer to regulatory adjustment 12.2).

In addition, the ERA's final Access Arrangement 4 decision (September 2018) requires expenditure for forecast environmental and rehabilitation costs to be capitalised (for addition to the regulated asset base) only when incurred - and not when provided for as permitted by *AASB 137 Provisions, contingent liabilities and contingent assets* (refer to regulatory adjustment 12.5).

Similarly, under the *Electricity Networks Access Code 2004 (WA)* :

> capital expenditure that does not meet the NFIT is not added to the regulated asset base. This is despite recognition in the statutory fixed asset register in accordance with *AASB 116 Property, plant and equipment* and *AASB 138 Intangible assets* (refer to regulatory adjustment 12.4).

> operating expenditure costs that do not meet the 'non-capital cost' test are not expensed to the regulatory profit and loss account. This is despite recognition in the statutory profit and loss account in accordance with Australian accounting standards (refer to regulatory adjustment 12.6).

New accounting standards and amendments adopted

Western Power has applied the following amendment for the first time in the reporting year commencing 1 July 2020:

> *AASB 2018-7 Amendments to Australian Accounting Standards - Definition of Material (AASB 2018-7)*

(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) Going concern

In accordance with the ERA's Guidelines, these financial statements have been disaggregated from Western Power's audited 2020/21 statutory financial statements. They have been prepared on the going concern basis - being Western Power has reasonable grounds to believe it is able to pay its debts as and when they become due and payable. This is considering the unused portion of the available borrowings facility agreement with the Western Australian Treasury Corporation (**WATC**) as at 30 June 2021, and the forecast net profit and positive operating cash flows in 2021/22.

In making this assessment, consideration has been given to the potential impact of the COVID-19 pandemic on Western Power's operating results. The on-going indications are the demand for, and receipts from network tariff services, being the most sizable revenue source for Western Power have not been materially impacted - hence there remains no expectation of a significant decline in revenue.

In support of this, as at 30 June 2021 there continued to be minimal applications by qualifying market participants for temporary deferral of network access payments under Western Power's 'COVID-19 customer support scheme' - with all amounts deferred in 2019/20 now paid and no new requests received in 2020/21.

13. Summary of significant accounting policies (continued)

(d) 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(h)
Impaired trade receivables	13(k)
Fair values of derivative financial instruments	13(m)
Present value of lease liabilities	13(p) and 13(r)
Present value of employee benefit liabilities	13(t)

(e) Rounding

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

(f) Cost allocations

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

(g) Foreign currency translation

Presentation and functional currency

This financial report is presented in Australian dollars, being 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. Non-monetary items measured in terms of fair value in a foreign currency are translated using the exchange rates at the dates the fair values were determined.

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)

(h) Revenue and income recognition

Western Power recognises revenue when the performance obligation to which it relates is satisfied. This is either at the point the service is provided - being when control of the service is transferred to the customer, or over time where control of the service is progressively transferred to the customer. 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.

Network services revenue

Regulated tariff services ~~:~~

Western Power primarily receives revenue from the rendering of network tariff services. These services largely relate to the transmission and distribution of electricity and are regulated by the Western Australian ERA via an access arrangement agreement.

Where Western Power progressively transfers control of these services to the customer - being for on-going access to the network, the revenue is recognised over time. All other network tariff revenue is recognised when the service is provided to the customer - being at the point the network is used. The consideration invoiced for network tariff services is based on observable stand-alone prices, being mostly fixed access and usage tariffs approved by the ERA and published in Western Power's annual price list.

For network access revenue recognised over time, the output method is used, with revenue measured at the amount Western Power is entitled to invoice the customer. This is because the invoiced amount charged at fixed daily access tariffs, is deemed to correspond directly with the value to the customer of Western Power's performance obligation completed to date.

As at each reporting date, network tariff revenue and trade receivables include amounts attributable to ‘unbilled network tariff revenue’ (30 June 2021: $192.235 million). Unbilled network tariff revenue is an estimate of electricity transported to customers not yet invoiced at the reporting date. It comprises read and unread (for periodical readings) metered services, with the latter estimated using projected revenue consumption at observable stand-alone prices (fixed tariffs). In estimating this revenue, the projection revenue consumption model applies complex methodologies and algorithms based on assumptions and inputs such as customer billing profiles, historical and budget data, and seasonal, growth and emerging technology factors.

Other services (regulated and unregulated) ~~:~~

Western Power also receives revenue from the rendering of other network services, including:

- regulated non-standard access services where the customer is willing to accept different conditions to the standard access contract and service standard benchmark. The tariffs for these services are negotiated between Western Power and the individual customers but must be set with regard to the regulated network tariffs.
- regulated services that can only be offered by Western Power but which are not core to the transmission and distribution of electricity. Where these are commonly requested services, the fees and charges are set in-line with a charging criteria and published on Western Power's web-site. For other complex or non-standard services, Western Power negotiates commercially with the individual customers.
- unregulated services contestable by other suppliers including the sales of materials. The fees and charges for these services are in-line with the methodology disclosed directly above for 'other regulated services'.

The revenue for other network services is recognised when the service is provided to the customer. The consideration invoiced for these services is based on observable stand-alone prices, being fixed at published or contracted fees and charges.

Developer and customer contributions

Western Power receives developer and customer contributions toward the extension or augmentation of electricity infrastructure to facilitate network connection. Contributions are mostly in the form of cash or gifted network assets.

Cash contributions are recognised when received or refunded. They are charged using the methodology included in Western Power's published 'contributions policy' approved by the ERA as part of the access arrangement agreement.

Gifted network assets are recognised as revenue at the point the assets are energised being in satisfaction of the performance obligation to connect the developer or customer to the network, and are measured at their fair value.

The 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.

13. Summary of significant accounting policies (continued)

(i) Income tax equivalent

National taxation equivalent regime

Western Power operates under the National Taxation Equivalent Regime (**NTER**). While income tax equivalent payments under this scheme 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.

Income tax equivalent expense

The income tax equivalent expense for a reporting year comprises current and deferred tax equivalents, being it is calculated on income assessable and expenses deductible for tax - irrespective of when the assessment or deduction arises. It includes adjustments for permanent and temporary differences, with:

- permanent differences recognised for transactions not included in taxable income or loss - although recognised in the financial reporting profit or loss
- temporary differences recognised for transactions included in taxable income or loss - but at a different point in time to recognition in the financial reporting profit or loss.

Income tax equivalent expense is recognised in profit or loss, except to the extent it relates to items recognised in other comprehensive income or directly in equity, in which case the tax equivalent expense too is recognised in other comprehensive income or directly in equity.

Current tax equivalent

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 it is probable 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 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 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.

(j) 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. As at 30 June 2021, Western Power did not have any short-term deposits.

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 2021, Western Power did not have a bank overdraft.

(k) 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 revenue 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.

13. Summary of significant accounting policies (continued)

(k) Trade and other receivables (continued)

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, unless the effect of discounting would be immaterial.

Western Power applies the simplified approach in calculating ECLs, that is, 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. Western Power has identified the Western Australian 'gross state product' to be the most relevant macroeconomic factor, and accordingly adjusts the historical credit loss rates based on the expected changes in this factor.

For the year ended 30 June 2021, changes in this factor reflected estimates for the ongoing impact of, and subsequent recovery from the COVID-19 pandemic on current and future economic conditions. This did not result in a material change to Western Power's allowance for impairment of trade receivables.

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.

(l) 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. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of inventory.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated completion and selling costs.

(m) Derivative and hedging activities

Derivative financial instruments

Derivative financial instruments are used to hedge 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

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 2021, 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)

(m) Derivative and hedging activities (continued)

Hedge accounting (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, that is,:

> where the hedged item subsequently results in the recognition of a non-financial asset (such as inventories and 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 'borrowing costs' in profit or loss , in the same reporting year as the interest expense on the hedged loan.

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 re-classified to profit or loss.

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 can 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, including 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, including the transaction amount, foreign exchange rates and payment dates.

During the year ended 30 June 2021, 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.

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 2021, 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 2021, Western Power did not derecognise any derivative financial instruments.

(n) 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.

13. Summary of significant accounting policies (continued)

(n) Property, plant and equipment (continued)

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
Distributed energy resources (stand-alone power systems and battery storage)	10 - 25
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 2021, 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. This cost is derecognised for the purposes of the regulated asset base, until incurred.

Derecognition

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

(o) 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 the asset created will generate future economic benefits; and 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 2021, 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.

13. Summary of significant accounting policies (continued)

(p) Right-of-use assets

Cost

Right-of-use assets represent leased fleet and other equipment (including properties and information technology) required for the operation of the business. They are recognised at historical cost less accumulated depreciation and any accumulated impairment losses, adjusted for lease liability re-measurements. Historical cost is measured at the amount of the initial lease liability plus any:

> lease payments made at, or before the commencement date less any lease incentives received
> initial direct costs
> restoration costs including dismantling and removing the underlying asset.

Depreciation

In order to recognise the loss of service potential, right-of-use assets are generally depreciated on a straight-line basis over the shorter of the asset's estimated useful life and the lease term.

Where Western Power is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

(q) Borrowings

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

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

Forward domestic borrowing commitments

Western Power enters into forward domestic borrowing commitments with the WATC 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 derivative financial instruments 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 re-classified to profit or loss over the term of the loan.

Borrowing costs

Borrowing costs are expensed when incurred.

(r) Lease liabilities

Western Power leases fleet and other equipment (including properties and information technology) required for the operation of the business. The lease contracts are negotiated on an individual basis and contain a wide range of different terms and conditions. Where the contracts contain both lease and associated non-lease components, Western Power elects not to separate and instead accounts for as single lease components.

At the commencement of a lease, the lease liability is measured at the present value of outstanding payments. These payments include:

> fixed lease payments (including in-substance fixed payments) less any lease incentives receivables
> variable lease payments based on an index or a rate, initially measured using the index or rate as at the lease commencement date
> amounts expected to be payable under residual value guarantees
> payments under extension options if it is reasonably certain the extension will be exercised
> the exercise price of a purchase option if it is reasonably certain the option will be exercised
> payments of penalties for terminating the lease, if the lease term reflects exercising that option.

Lease payments are discounted using the interest rate implicit in the lease. Where this rate is not readily determined an incremental borrowing rate is used. Western Power's incremental borrowing rate is provided by the WATC, being the provider of Western Power's borrowings.

Lease payments are allocated between principal and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Variable lease payments

Variable lease payments can be exposed to potential future increases based on an index or rate. Any increases are not included in the lease liability until they take effect, at which point they are adjusted against the right-of-use asset.

Extension and termination options

Leases can include extension and termination options. This is to maximise operational and asset management flexibility. Periods covered by these options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

Other lease costs

The following lease costs are recognised as 'operating expenditure costs' in profit or loss on a straight-line basis over the period of the lease:

> expenses relating to short-term leases
> expenses relating to leases of low-value assets
> other expenses not captured as lease liabilities under *AASB 16 Leases* - including variable and termination lease payments.

Short-term leases are leases with a lease term of 12 months or less. Low-value leases are for assets individually valued at less than $5,000.

13. Summary of significant accounting policies (continued)

(s) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to Western Power prior to the end of the reporting year which are unpaid. They are usually settled within 20 days of recognition in-line with the Western Australian State Government's updated 2020/21 payment policy introduced in response to the COVID-19 pandemic.

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.

(t) Provisions

Provisions are recognised when Western Power has either a present legal or constructive obligation as a result of past events; it is probable 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. Any movement in the provision due to the unwinding of the discount rate - being for 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 including related on-costs, experience of employee departures and periods of services. 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. Remeasurements 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. The liabilities for retirement benefit obligations are recognised in 'provisions'.

<u>Defined contribution plans</u>

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

<u>Defined benefit plans</u>

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

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

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

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

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

13. Summary of significant accounting policies (continued)

(t) Provisions (continued)

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. Any subsequent changes in the estimated future costs, useful lives and/or the discount rates are added to or deducted from the cost of the related property, plant and equipment. This cost is derecognised for the purposes of the regulated asset base, until incurred.

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.

(u) 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.

Dividends are subject to a solvency test in line with the Act.

(v) 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 of 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 2020/21 statutory financial statements (base accounts) authorised for issue in accordance with a resolution of the directors on 24 August 2021

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

C Beckett AO
Board Chair

G Martin
Deputy Board Chair

09 December 2021

Independent agreed-upon-procedures report

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