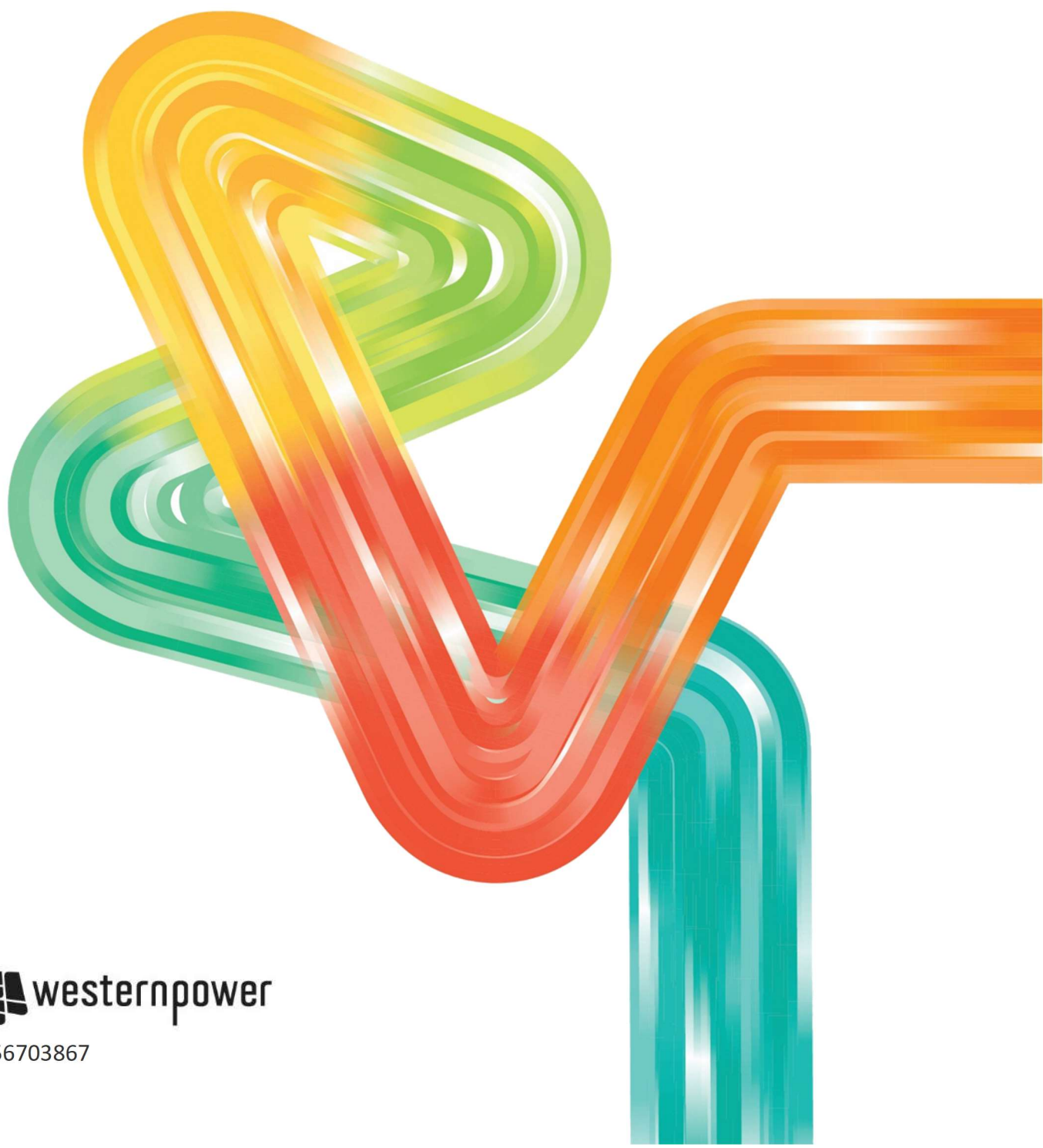


Attachment 7.2

Cost and Revenue Allocation Method (CRAM) 2020/21

Access Arrangement Information

1 February 2022



Cost and Revenue Allocation Method (CRAM) 2021

Public

1 February 2022



It's ON

Stakeholders

In the process of document updates, the following people must be consulted:

Economic Regulation Manager	Regulation & Investment Assurance (RIA)
Enterprise Reporting Manager	Business Planning & Reporting (BPR)
Corporate & Networks Finance Manager	Business Planning & Reporting (BPR)
Financial Accounting Manager	Finance & Metering (FM)

Review & Authorisation

Internal review of the CRAM is undertaken on an annual basis in preparation for the production of the June year-end regulatory financial statements. Internal review is completed by representatives from the RIA, BPR and FM functions.

Approval and sign-off by the Heads of RIA, BPR and FM is required to finalise the CRAM.

Title	Name	Document ID (EDM#)	Date
Head of Regulation & Investment Assurance	[REDACTED]	EDM 58427417	30/09/2021
Head of Business Planning & Reporting	[REDACTED]	EDM 58427417	05/10/2021
Head of Finance & Metering	[REDACTED]	EDM 58427417	02/10/2021

Document History

Rev No	Date	Amended by	Details of amendment
1	September 2021	Regulation & Investment Assurance	New template and revised CRAM 2021

Review Details

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NEXT Review Due:	July 2022 (for 2021/22 financial year)

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1. Introduction

1.1 Purpose

The purpose of the cost and revenue allocation method (**CRAM**) is to present and explain the method applied to allocate and adjust cost and revenue items to the regulated and unregulated business segments in Western Power's annual regulatory financial statements.

Western Power is required to prepare regulatory financial statements in accordance with section 3 of the Economic Regulation Authority's *Guidelines for Access Arrangement Information 2010* (**Guidelines**¹). These statements are prepared by allocating and adjusting Western Power's audited statutory financial statements (base accounts).

1.2 Scope

The CRAM provides responsibilities (section 3) and details on the recording and allocation of Western Power's:

- costs and revenue (refer section 6)
- other financial statements (refer section 7)
- regulatory adjustments (refer section 8)

between the following business segments and services (refer section 5):

- covered transmission (regulated transmission services)
- covered distribution (regulated distribution services)
- System Management (unregulated system operation services)
- unregulated (contestable services).

Western Power's general business and regulatory framework is explained in section 2.

¹ The Guidelines set out in detail the information required in Western Power's access arrangement for the purposes of informing the Economic Regulation Authority, applicants and users. For a copy of the Guidelines, refer to <http://www.erawa.com.au>.

2. Background

2.1 Who we are

The Electricity Networks Corporation trading as Western Power (**Western Power**) is a Western Australian State Government owned corporation with the purpose of connecting people with electricity in a way that is safe, reliable and efficient.

Western Power builds, maintains and operates the transmission and distribution networks in the south-west corner of Western Australia. The Western Power Network forms the vast majority of the south west interconnected network (**SWIN**), which together with electricity generators, comprises the south west interconnected system (**SWIS**).

Western Power does not generate and/or retail electricity (like Synergy) or operate in the non-SWIS areas of Western Australia (like Horizon Power).

Western Power is governed by an independent Board of non-executive directors and a Chief Executive Officer who report to the Western Australian Minister for Energy as the owner's representative.

Western Power has depots and offices throughout the SWIS region including the head office in Wellington Street, Perth.

2.2 Our regulators

To ensure Western Power provides an efficient service at a reasonable cost, business operations are governed by legislation, regulations and codes. These include mechanisms such as performance targets and revenue control (i.e. how much money can be earned), to the proper disposal of waste, and the safety of employees and the public.

Western Power is regulated by:

- Economic Regulation Authority (**ERA**) - an independent body reporting directly to the Western Australian parliament. The ERA regulates Western Power to ensure customers receive the best electricity service that is safe, reliable and at a fair price. The primary review functions performed by the ERA include Western Power's Access Arrangement (**AA**) and technical licenses.
- Energy Policy WA - a stand-alone sub-department of the Western Australian Department of Mines, Industry Regulation and Safety. Energy Policy WA is responsible for the delivery of energy policy to the Minister for Energy to assist government in making decisions that contribute to the supply of energy services to Western Australian households and businesses.
- Building and Energy - part of the Western Australian Department of Mines, Industry Regulation and Safety. Building and Energy licenses electrical contractors and sets technical guidelines for the electricity network in relation to safety.
- Australian Energy Market Operator (**AEMO**) - controls the supply and trading of energy and electricity capacity in the Western Australian Wholesale Electricity Market (**WEM**), and is responsible for electricity system security.

Western Power's day-to-day work is also determined by guidelines set by other bodies such as the Environmental Protection Authority and WorkSafe.

2.3 Our regulatory framework

As the sole owner and operator of the transmission and distribution networks in the south-west corner of Western Australia, Western Power is effectively a natural monopoly delivering an essential service.

To bring about economic efficiency in place of competition the ERA, on behalf of the Western Australian community, oversees Western Power's economic and service performance. The basis for this oversight is the AA which is the regulatory contract agreed with the ERA for a given period, i.e. usually five years.

Western Power's AA:

- defines services to be delivered, services levels to be achieved, tariffs/fees to be charged, general policies, and the terms and conditions for access to the Western Power Network, e.g. by retailers and generators (like Synergy) to transport electricity to customers
- details the future investment plan to ensure customers continue to enjoy a good quality of service, whilst improving network safety, security and capacity.

The AA needs to support fair prices, quality services and choice.

3. Responsibilities and compliance

3.1 Our board and management

In isolation:

- Western Power's relevant Heads of Function, are responsible for approving the annual CRAM
- Western Power's Board, is responsible for authorising the annual regulatory financial statements

Together, Western Power's Board, Chief Executive Officer, Chief Financial Officer and Heads of Function are responsible for declaring the annual regulatory financial statements:

- present in all material aspects, a true and fair view of Western Power's financial position against the audited statutory financial statements (base accounts)
- have been prepared in accordance with Australian accounting standards (and other authoritative pronouncements of the Australian Accounting Standards Board (**AASB**²)), the Guidelines and Western Power's CRAM (as applicable).

3.2 Regulation & Investment Assurance function

The Regulation & Investment Assurance function is responsible for:

- advising key stakeholders of changes to the Guidelines and the AA which impact the CRAM, i.e. via meetings convened in the lead up to the production of the June year-end regulatory financial statements
- updating and reviewing the CRAM to ensure compliance with the Guidelines and the AA, e.g. regulatory adjustments
- obtaining approval and sign-off of the annual CRAM from the Heads of Regulation & Investment Assurance, Business Planning & Reporting, and Finance & Metering
- supporting the Business Planning & Reporting, and Finance & Metering functions in the decisions and implementation of account code recording and reporting requirements to ensure (or advise on) compliance with the regulatory framework and CRAM
- providing Western Power's authorised annual regulatory financial statements to the ERA (together with the external auditor's report).

² The AASB is responsible for developing, issuing and maintaining Australian accounting standards and other authoritative pronouncements. Where applicable, Western Power complies with these standards and pronouncements when preparing the statutory financial statements (base accounts).

3.3 Business Planning & Reporting, and Finance & Metering functions

The Business Planning & Reporting, and Finance & Metering functions are responsible for:

- reviewing and updating the CRAM to ensure compliance with the Guidelines and the AA, i.e. appendices A to D
- advising key stakeholders of account code recording and reporting requirements to ensure compliance with the regulatory framework and CRAM
- preparing June year-end regulatory financial statements, including maintenance of supporting work papers, in accordance with the CRAM
- obtaining sign-off of the annual regulatory financial statements from the:
 - Heads of Regulation & Investment Assurance, Business Planning & Reporting, and Finance & Metering
 - Chief Executive Officer and Chief Financial Officer, i.e. the annual declaration to the Board.

3.4 Our staff

Western Power personnel are responsible for maintaining accounting records and transactions (e.g. within the financial system) in compliance with the regulatory framework and CRAM, including account code postings to business services and segments, e.g. via projects and/or work orders.

3.5 Our compliance

Western Power's CRAM is monitored for accuracy, completeness and application by way of:

1. An internal review of the CRAM prior to the production of the annual regulatory financial statements

This review is completed by representatives from the Regulation & Investment Assurance, Business Planning & Reporting, and Finance & Metering functions (Finance, Regulation & Metering business unit). The representatives meet to discuss Western Power's regulatory framework and requirements for/impact to the June year-end regulatory financial statements. Western Power's CRAM is assessed and updated accordingly.

Finalisation occurs when the CRAM is approved by the Heads of Regulation & Investment Assurance, Business Planning & Reporting, and Finance & Metering.

2. The external review of the annual regulatory financial statements against the approved CRAM

This review is completed by Western Power's external auditor in accordance with Australian auditing standards, i.e. via an agreed-upon procedures engagement. The external auditor reports the findings from this review to Western Power's Board. The audit report is also provided to the ERA as an attachment to Western Power's annual regulatory financial statements.

The ERA may also request an additional audit of the annual regulatory financial statements in accordance with clause 2.7 of the Guidelines.

4. Organisation structure and services

Western Power is a Government Trading Enterprise (GTE) incorporated under the *Electricity Corporations Act 2005*. This means that Western Power:

- is ultimately accountable to the State Government (via the Minister for Energy) as the sole owner and shareholder
- operates as a corporatised enterprise with the autonomy to make decisions regarding the maintenance and operation of the Western Power Network.

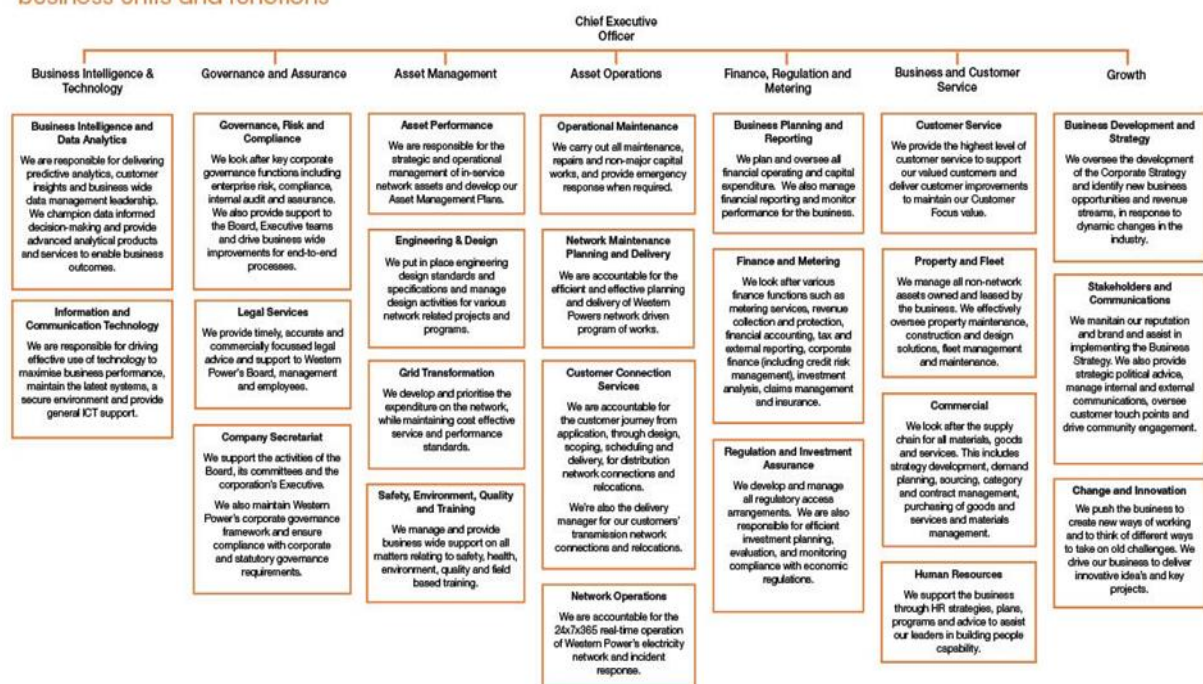
4.1 Our structure

Figure 4.1 illustrates Western Power's year-end organisation structure. This structure supports Western Power's operating model by:

- maximising efficiencies by grouping similar accountabilities together
- distributing workload equitably across the senior leadership team
- improving process flows by reducing the handling of work between functions.

Figure 4.1: Our structure (based on EDM 56822056)

Western Power's business units and functions



4.2 Our categories of service

Western Power provides the following categories of services:

- regulated services, i.e. covered transmission and distribution (refer section 5.1)
- unregulated services, e.g. system management (refer section 5.2) and contestable (refer section 5.3).

Figure 4.2 illustrates Western Power's categories of service in more detail.

Figure 4.2: Our categories of service³

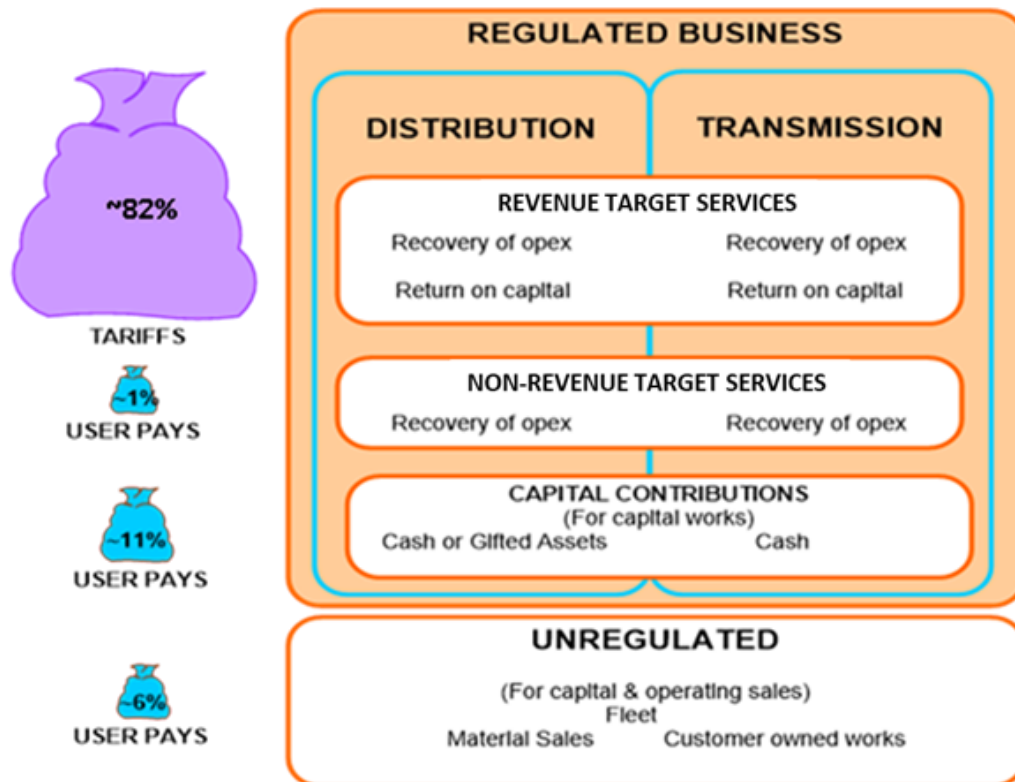


Table 4.2 identifies the customer types that utilise Western Power's services.

Table 4.2: Our customers by services

Service	Category of service	Customers
Regulated	Revenue target services (section 5.1.1)	Residential and business customers
	Non-revenue target services (section 5.1.2)	
	Capital contributions (section 5.1.3)	
Unregulated	System management services (section 5.2)	Australian Energy Market Operator
	Contestable services (section 5.3)	Residential and business customers

³ Percentages are indicative only.

5. Business segments

Section 3 of the Guidelines requires Western Power to disaggregate the audited statutory financial statements (base accounts) into the following business segments:

- covered (regulated) transmission services
- covered (regulated) distribution services
- system management services (unregulated)
- unregulated services
- excluded transmission and distribution services⁴.

The remainder of this section provides an overview of the services provided by each of Western Power's business segments.

5.1 Our transmission and distribution regulated services (monopolistic)

5.1.1 Revenue target services (reference and non-reference services)

Western Power provides revenue target services to generators and retailers accessing the Western Power Network. Revenue target services may be either:

1. Reference services as explicitly listed and defined in the AA, and for which specific tariffs are approved by the ERA as part of Western Power's annual price list.

Examples of these services include:

- entry services - transmission and distribution entry services
- exit services - transmission exit services, anytime and time of use energy exit services, high and low voltage metered demand exit services, street lighting exit services, unmetered supplies exit services
- bi-directional services - anytime and time of use energy bi-directional services (residential and business), high and low voltage metered demand bi-directional services
- connection services - supply abolishment service, capacity allocation swap services
- metering services - unidirectional, accumulation, interval and bidirectional metering services.

These services primarily relate to 'traditional' electricity transport services.

OR

⁴ There are no excluded transmission or distribution services in Western Power's current AA.

2. Non-reference services which are similar in nature to reference services, however the customer is willing to accept different conditions to the standard access contract and service standard benchmark.

Examples of these services include:

- standby transmission access
- run-back generator schemes
- interruptible loans.

Tariffs for these services are negotiated between Western Power and the individual customer but are required to be set with regard to the reference service tariffs. They are included in Western Power's revenue target because these services are provided by way of the 'core' regulated network.

5.1.2 Non-revenue target services (non-reference services)

Western Power provides non-revenue target services to customers on request. These services are always non-reference services, and:

- are only provided by Western Power - albeit the services are not deemed 'core' to the transport of electricity
- are not subject to regulation by the ERA with the revenue from these services in addition to the approved regulatory revenue target
- are restricted to operating work being they do not include capital works.

Examples of non-revenue target services include:

- high load escorts and permits
- transmission enquiry and connection applications, distribution connection applications, access contract modifications
- transmission line relocations.

Fees for commonly requested non-revenue target services are set by Western Power in line with the charging criteria and published on the Western Power web site. For more complex or non-standard non-revenue target services, Western Power negotiates the fees with the individual customers.

5.1.3 Capital contributions (non-revenue target)

Western Power receives capital contributions from developers and customers toward the extension or augmentation of electricity infrastructure to facilitate network connection. These contributions:

- can be in the form of cash or gifted (vested) network assets
- are in addition to the approved regulatory revenue target.

Examples of where Western Power receives capital contributions include:

- work performed for developers, e.g. the construction of electricity infrastructure within a subdivision
- handover works, e.g. upon Western Power's approval, electricity infrastructure constructed by developers is gifted (vested)
- upgrade and new connections: customers (e.g. generators) contribute to the upgrade or extension of electricity infrastructure.

The terms and conditions (including charges) for capital contributions are subject to the methodology in Western Power's contributions policy as approved by the ERA as part of the AA.

5.2 Our system management unregulated services (contestable)

During the 2016/17 financial year, Western Power transferred full responsibility for system management services provided under the WEM⁵ rules to the AEMO. This was to support institutional reforms under the then State Government's electricity market review (EMR)⁶.

The transferred services included:

- the operation and control of generator facilities, transmission and distribution networks and large customer retailer supply management including demand side management
- the scheduling of generator, transmission and certain distribution outages, and management of real-time operation of the power system.

Although full responsibility has been transferred, Western Power continues to provide the following unregulated services per commercial terms and conditions negotiated with the AEMO:

- information and communication technology services for the AEMO, i.e. under a service agreement from 1 November 2016.

5.3 Our unregulated services (contestable)

Western Power provides unregulated services to customers that are contestable by other suppliers. These services are not regulated by the ERA being they are generally:

- not reliant on the use of the regulated network; and
- subject to natural competition.

Examples of Western Power's unregulated services include:

- fleet, information technology and power training services
- private vegetation management
- sales/salvage of materials (including undergrounding)
- undergrounding 'pillar to customer meter' work.

The commercial terms and conditions (including fees) for unregulated services are negotiated between Western Power and the customers. Western Power's business and regulatory objectives require these negotiations be reasonable and in good faith.

⁵ The Western Australian WEM was introduced in 2006 as part of the then State Government's progressive deregulation of the electricity market. It covers wholesale electricity sales within the SWIS between:

- sellers, i.e. generators and demand side management facilities; and
- buyers, i.e. retailers and large users.

⁶ The then Western Australian State Government launched the EMR in 2014 to examine:

- the structure of the electricity generation, wholesale and retail sectors within the SWIS; and
- the incentives for industry participants to make efficient investments and minimise costs.

6. Cost and revenue allocation

Western Power's cost and revenue items are allocated to business services and segments in accordance with the Guidelines (refer section 6.2).

Western Power broadly categorises these allocations into one of two methods:

1. direct attribution method (refer section 6.5)
2. indirect allocation method (refer section 6.6).

The remainder of this section provides an overview of Western Power's cost and revenue allocation method.

6.1 The Guidelines

Clause 3.5 of the Guidelines requires cost and revenue items to be allocated based on the following principles:

1. Items that are directly attributable to a business component are attributed accordingly
2. Items that are not directly attributable to a business component are to be allocated, where practicable, on a causation basis
3. Items that are not directly attributable and cannot be practicably allocated on a causation basis shall be allocated by a method determined by the service provider. In such cases, a supporting note for each item allocated indicating the following is required:
 - a. the basis for allocation
 - b. the reason for choosing that basis
 - c. an explanation for why no causal relationship could be established.

6.2 Our principles

In support of the above, Western Power commits to the following principles:

1. A cost or revenue item will not be attributed and/or allocated more than once
2. A direct cost or revenue item will only be attributed to one category of service
3. An indirect cost or revenue item will only be allocated once between business segments
4. The same cost or revenue item will not be treated as both a direct and an indirect cost or revenue item
5. The same cost will only be recovered once through tariffs and fees
6. Unregulated costs will be allocated to the unregulated business segments and will be ring-fenced from the recovery of costs through regulated services
7. The allocation of a cost or revenue item will be determined by the substance of the transaction or event rather than the legal form
8. An avoided cost allocation method (or any other method of allocation not specifically referred to within this CRAM) is not currently applied to allocate cost or revenue items.

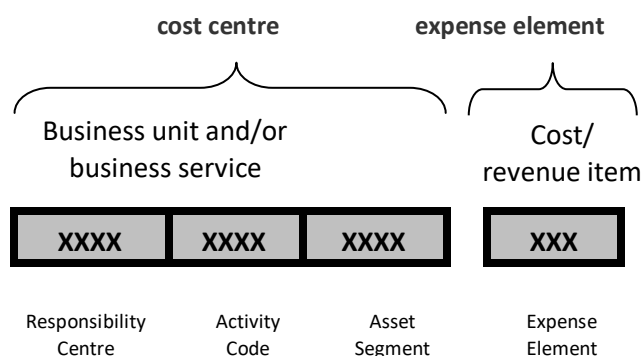
6.3 Our account code structure

All cost and revenue items are recorded in Western Power's financial system via the account code structure⁷. The account code structure enables the production of management, statutory and regulatory reports.

Western Power's account code structure comprises 15 characters made up of a 12 character cost centre (refer section 6.3.1) and a three character expense element (refer section 6.3.2).

Figure 6.3 illustrates the segments of Western Power's account code structure.

Figure 6.3: Our account code structure



6.3.1 Cost centre

A cost centre is assigned to each of Western Power's projects and work orders. The three segments of the cost centre are explained as follows:

1. **Responsibility centre:** comprises the first group of four characters of the cost centre. The characters are numeric and are used to identify the business unit and/or function, e.g. unique responsibility centres are used to directly attribute unregulated system management costs and revenue.
2. **Activity code:** comprises the second group of four characters of the cost centre. The characters are numeric and are used to identify the business service, e.g. 3@@@ denotes capital work; non-3@@@ denotes operating work.
3. **Asset segment:** comprises the third group of four characters of the cost centre. The characters are numeric and are used to identify the asset/business segment, e.g. 1@@@ denotes corporate-related, 2@@@ denotes transmission, 3@@@ denotes distribution and 4@@@ denotes network planning & operations (including unregulated system management).

6.3.2 Expense element

An expense element is assigned to a cost centre (via a project and/or work order) to form a complete account code when a transaction is recorded in Western Power's financial system. The expense element comprises the last three characters of the account code. The characters are numeric and are used to identify the cost or revenue items, e.g. 1@@ denotes revenue and 2@@ denotes labour.

⁷ Refer to EDM 34301593 for Western Power's *Chart of Accounts* including a list of cost centre segments and expense elements.

6.4 Our allocation categories

For cost and revenue allocation purposes, Western Power uses two categories:

1. Direct costs and revenue, i.e. where the underlying transactions can be directly identified and attributed to business services and/or segments. These items are directly attributed using the account code structure (refer section 6.5).
2. Shared costs and revenue, i.e. where the underlying transactions cannot be directly attributed to business segments. These items are allocated using either:
 - the ‘indirect cost allocation method’, e.g. for shared service costs (refer section 6.6.1)
 - a method that most appropriately reflects the causal correlation of the underlying transaction, e.g. for corporate shared costs and other income (refer sections 6.6.2 and 6.6.3).

6.5 Our direct attribution: costs and revenue

Western Power’s direct items include the following:

- direct costs, e.g. labour, materials and services associated with completing the annual program of work (**PoW**). The PoW is a complete schedule of operational and capital works Western Power undertakes annually to meet the needs of the network in terms of public safety, operating risks, regulatory compliance, capacity expansion, maintaining service standards and the reliability needs of customers. The PoW includes both regulated and unregulated services.
- direct revenue, e.g. revenue target, capital contributions, unregulated system management.

These cost and revenue items are directly identified and attributed to business services and/or segments via the account codes of the underlying transactions (typically booked via a project and/or work order), i.e. per the:

- cost centres (refer section 6.3.1); and/or
- expense elements (refer section 6.3.2).

Western Power’s asset profiles in the fixed asset register are also used to directly attribute proceeds and written down value on the disposal of owned assets, e.g. asset profile 53 denotes unregulated owned fleet assets.

Readers should refer to Appendices A to C for a more detailed list of Western Power’s direct cost and revenue items.

6.6 Our indirect allocation: costs and revenue

Western Power’s indirect items include the following:

- shared service costs (refer section 6.6.1)
- corporate shared costs (refer section 6.6.2)
- indirect revenue (refer section 6.6.3).

These cost and revenue items are identified via the account codes of the underlying transactions (typically booked via a project and/or work order), i.e. per the:

- cost centres (refer section 6.3.1); and/or
- expense elements (refer section 6.3.2).

Shared cost and revenue items are allocated using the method that most appropriately reflects the causal correlation of the underlying transaction (refer sections 6.6.1 to 6.6.3).

Readers should refer to Appendices A to C for a more detailed list of Western Power's shared cost and revenue items, and the allocation method applied.

6.6.1 Shared service costs (allocation method)

Western Power's shared service costs cannot be directly attributed to specific services within the PoW, e.g. training, travel and non-timesheet labour. Instead, these costs are identified in a 'shared cost pool' and allocated across the PoW using Western Power's 'indirect cost allocation method'. Shared costs relate to both regulated and unregulated services.

The 'indirect cost allocation method' allocates the 'shared cost pool' across the PoW by applying shared service costs proportionally based on the direct costs incurred by each specific service. The proportional rate at which this occurs (i.e. the 'indirect cost recovery rate') is calculated annually during the budget process and is monitored on a monthly basis to review against the actual recovery. Quarterly adjustments are made if the recovery of costs through the 'indirect cost allocation method' varies from the actual indirect overheads incurred.

The rationale for the 'indirect cost allocation method' is that the amount of shared service costs incurred by a specific service in the PoW is likely to be related to the amount of direct costs incurred by the service. This 'indirect cost allocation method' does not differentiate between operational and capital expenditures. It capitalises shared service costs that are allocated to capital projects, while shared service costs allocated to the maintenance program are treated as operating expenditure.

This allocation method allows Western Power to allocate shared service costs to specific services in the PoW. The allocation across the whole PoW ensures a transparent method of allocating shared service costs. This ensures that projects and programs in the PoW receive both the allocation of their direct costs and a fair portion of related shared service costs. The application of the method achieves:

- standardised cost allocation rules and a consistent allocation of non-attributable shared service costs
- accountability for the allocation of shared service costs, and sensible and relevant cost allocation.

Further information on how shared service costs are allocated can be found in Western Power's *Shared Service Cost Allocation Methodology*⁸.

⁸ Refer to EDM 34020359 for Western Power's *Shared Service Cost Allocation Methodology*.

6.6.2 Corporate shared costs (causal correlation)

Western Power's corporate shared costs include:

- common or shared functions that support all parts of the business, but that are not directly attributed or indirectly allocated to specific services within the PoW, e.g. RIA function and Governance & Assurance business unit costs
- costs that do not fall within operating expenditure costs per clause 3.8.2 of the Guidelines, e.g. depreciation and amortisation, bad debts, borrowing costs, book value on the disposal of owned assets and tax equivalent.

Western Power allocates corporate shared costs to the business segments using the method that most appropriately reflects the causal correlation of the underlying transaction. The most common causal correlation methods are as follows:

1. Full time staff equivalents (FTE): allocation on a FTE basis is applied when the underlying transaction has a causal correlation to the consumption of staff/labour, e.g. fringe benefits tax. FTE is determined by the ratio of FTE within a specific business segment to total FTE.
2. Property, plant and equipment, and intangible assets (PPE): allocation on a PPE basis is applied when the underlying transaction has a causal correlation to Western Power's principal service of building, maintaining and operating the transmission and distribution networks, e.g. insurance. PPE is determined by the ratios of PPE in the transmission and distribution asset segments to total transmission and distribution PPE.

6.6.3 Indirect revenue (causal correlation)

Western Power's indirect revenue includes:

- proceeds from the disposal of owned network planning & operations (excluding unregulated system management) and corporate-related fixed assets, e.g. information and communication technology
- other income, e.g. interest received.

Western Power allocates indirect revenue to the business segments using the method that most appropriately reflects the causal correlation of the underlying transaction.

PPE is the most common causal allocation method used where a direct attribution is not available (refer section 6.6.2).

7. Other financial statement allocation

7.1 Our balance sheet⁹

Western Power's inception-to-date assets and liabilities are allocated to business services and segments based on the substance (and not the legal form) of the underlying transactions. This is typically identified via the correlating cost or revenue items and attributed/allocated accordingly (refer section 6).

Consistent with this, assets and liabilities that cannot be directly attributed to business services and/or segments are allocated using the method that most appropriately reflects the causal correlation of the underlying transaction. FTE and PPE are the most common causal allocation methods applied for this purpose, i.e. where a direct attribution is not available (refer section 6.6.2).

Readers should refer to Appendix D for a more detailed list of assets and liabilities, and the allocation method applied.

7.2 Our cash flow statement

Western Power's cash and cash equivalent transactions (after the isolation of discrete security deposits and high voltage distribution pool cash at bank) are recorded collectively in a single bank account. This is to equitably fund Western Power's business services and segments as required.

For the production of the annual regulatory cash flow statement, these transactions are allocated to business services and segments using the method that most appropriately reflects the causal correlation of the underlying transaction. This is typically identified by the correlating costs, revenue or balance sheet items and attributed/allocated accordingly (refer sections 6 and 7.1).

For the production of the annual regulatory balance sheet, cash and cash equivalents are allocated to business segments using the method that most appropriately reflects the causal correlation of the underlying bank account. PPE is the causal allocation method used where a direct attribution is not available (refer section 6.6.2).

⁹ The allocation of the balance sheet occurs on the inception-to-date balances. This has the impact of annually realigning the balance sheet (i.e. via year-to-date movements) to reflect the most recent and accurate causal allocation basis.

8. Regulatory adjustments

When preparing the annual regulatory financial statements, Western Power adjusts the audited statutory financial statements (base accounts) for differences in:

- accounting policies - differences between the statutory (i.e. Australian accounting standards) and regulatory (i.e. Guidelines) accounting policies (refer section 8.1)
- accounting disclosures - differences between the statutory (i.e. Australian accounting standards) and regulatory (i.e. Western Power's AA forecast) accounting disclosures (refer section 8.2)
- capital expenditure/additions - differences between the statutory (i.e. Australian accounting standards) and regulatory (i.e. regulated asset base (**RAB**¹⁰)) capital expenditure/additions (refer section 8.3).

Any tax equivalent associated with the above is also adjusted for, using the tax rates enacted or substantially enacted as at the reporting date.

The remainder of this section provides an overview of Western Power's regulatory adjustments.

8.1 Our accounting policy adjustments

Clause 3.6 of the Guidelines requires Western Power to make adjustments to the regulatory financial statements where the regulatory accounting policies differ to those in the audited statutory financial statements (base accounts).

Western Power currently reports the following regulatory adjustments for accounting policies.

8.1.1 Capital contributions

Regulatory financial statements - all capital contributions received in the reporting period are recognised as revenue in Western Power's regulatory profit and loss account. This is in compliance with clause 3.8.4 of the Guidelines.

Statutory financial statements - capital contributions received in the reporting period are recognised as revenue in Western Power's statutory profit and loss account only at the point the developers or customers are connected to the network in satisfaction of the performance obligation to which the contributions relate. Until then, contributions are deferred to the statutory balance sheet. This is in compliance with *AASB 1058 Income of not-for-profit entities*.

¹⁰ Western Power's RAB is used to determine the capital costs (the return on and return of components) to be recovered through regulated tariffs

As a result, regulatory adjustments are required for the following:

- To restate 'contributions' in the regulatory profit and loss account for:
 - capital contributions received in the reporting period, but which were deferred in the statutory balance sheet (and hence not recognised in the statutory profit and loss account)
 - capital contributions not yet received in the reporting period, but which were invoiced in the statutory balance sheet (and hence recognised in the regulatory profit and loss account)¹¹
- To remove 'trade and other receivables' (for statutory capital contributions only) from the regulatory balance sheet which have now been removed from the regulatory profit and loss account
- To remove 'deferred income' (for statutory capital contributions only) from the regulatory balance sheet which have now been recognised in the regulatory profit and loss account

The above has the impact of reporting capital contributions on the cash accounting basis in the regulatory financial statements, and not the accrual accounting basis as required in the statutory financial statements.

8.1.2 Borrowing costs

Regulatory financial statements - all borrowing costs are expensed to Western Power's regulatory profit and loss account and hence, excluded from the RAB for subsequent recovery through regulated network tariffs/fees. This is in compliance with clause 3.8.1 of the Guidelines.

Statutory financial statements - all borrowing costs are expensed to Western Power's statutory profit and loss account unless they are directly attributable to the acquisition, construction or production of qualifying assets¹². In this instance, borrowing costs are capitalised to the statutory balance sheet. This is in compliance with *AASB 123 Borrowing Costs*.

As a result, regulatory adjustments are required for the following:

- To restate 'borrowing costs' in the regulatory profit and loss account for those which were capitalised to the statutory balance sheet (and hence not recognised in the statutory profit and loss account)
- To remove statutory 'capitalised borrowing costs' from regulatory 'capital additions' which have now been recognised in the regulatory profit and loss account
- To remove statutory 'capitalised borrowing costs' from 'PPE, and intangible assets' in the regulatory balance sheet which have now been recognised in the regulatory profit and loss account

¹¹ Transmission capital contributions adjusted in the regulatory profit and loss account are directly attributed to the regulatory categories based on the activity codes of the parent capital projects underlying the contributions. Distribution capital contributions are indirectly allocated to the regulatory categories that most appropriately reflect the causal correlation of the contributions, i.e. customer driven or state underground power program.

¹² Qualifying assets are defined as assets that necessarily take a substantial period of time to be ready for their intended use.

8.2 Our accounting disclosure adjustments

Western Power currently reports the following regulatory adjustment for accounting disclosures:

8.2.1 Depreciation

Regulatory financial statements - leased assets and unregulated owned fleet depreciation is recognised as operating expenditure costs in Western Power's regulatory profit and loss account. This is in line with the forecast assumptions and expenditure disclosures in Western Power's current AA.

Statutory financial statements - leased assets and unregulated owned fleet depreciation is recognised as depreciation and amortisation in Western Power's statutory profit and loss account. This is in compliance with *AASB 16 Leases* and *AASB 116 Property, Plant and Equipment*.

As a result, a regulatory adjustment is required to transfer leased assets and unregulated owned fleet depreciation:

- from 'depreciation and amortisation' in the statutory profit and loss account
- to 'operating expenditure costs' in the regulatory profit and loss account

This adjustment (including the adjustment amount) is authorised by the Economic Regulation and Enterprise Reporting Managers in the RIA and BPR functions respectively.

8.3 Our regulated asset base (RAB) adjustments

Western Power currently reports the following regulatory adjustments for the RAB:

8.3.1 Capital additions

Regulatory financial statements - expenditure is capitalised (for addition to the RAB) only when it is demonstrated to meet the requirements of the New Facilities Investment Test (**NFIT**¹³) in section 6.52 of the *Electricity Networks Access Code 2004*.

Statutory financial statements - expenditure is capitalised (for addition to the statutory fixed asset register (**FAR**¹⁴)) in accordance with Australian accounting standards, i.e. *AASB 116 Property, plant and equipment* and *AASB 138 Intangible assets*.

As a result, regulatory adjustments are required for the following:

- Where capitalised expenditure is for unregulated services:
 - to allocate the capitalised expenditure to ‘unregulated capex’ in the RFS; and
 - to remove the capitalised expenditure (statutory) from:
 - regulatory ‘capital additions’; and
 - ‘PPE, and intangible assets’ in the regulatory balance sheet which have been removed from regulatory ‘capital additions’
- Where capitalised expenditure is for regulated services:
 - to restate ‘operating expenditure costs’ in the regulatory profit and loss account for capitalised expenditure (statutory) which does not meet the NFIT (and hence not recognised in the regulatory profit and loss account)
 - to remove capitalised expenditure (statutory) which does not meet the NFIT from:
 - regulatory ‘capital additions’; and
 - ‘PPE, and intangible assets’ in the regulatory balance sheet which have been removed from regulatory ‘capital additions’

This adjustment (including the adjustment amounts) is authorised by the Economic Regulation Manager in the RIA function.

¹³ The NFIT is described in section 6.52 of the *Electricity Network Access Code 2004*. It is applied to:

- assess the efficiency of Western Power’s transmission and distribution network investment
- determine whether a network investment can be added to Western Power’s RAB.

The NFIT assessment applies to the whole lifecycle of the network investment and is largely met by following good commercial business practices, i.e. the right option with the least cost delivery.

¹⁴ The FAR is a listing of all property, plant and equipment, and intangible assets owned by Western Power. It is recognised at historical cost less accumulated depreciation and amortisation, and any provision for impairment losses in accordance with Australian accounting standards. The FAR is not equal to the RAB.

8.3.2 Capital provisions

Regulatory financial statements - expenditure for environmental and rehabilitation costs is capitalised (for addition to the RAB) only when it is incurred and not when provided for. This is per the ERA's AA4 decision, i.e. provisions (being forecasts) do not meet the requirements of the NFIT.

Statutory financial statements - expenditure is capitalised (for addition to the statutory FAR) in accordance with Australian accounting standards, e.g. *AASB 116 Property, plant and equipment* and *AASB 138 Intangible assets*. This includes expenditure provided for in accordance with Australian accounting standards, i.e. *AASB 137 Provisions, contingent liabilities and contingent assets*.

As a result, regulatory adjustments are required for the following:

- To remove capitalised expenditure provided for (statutory) from:
 - regulatory 'capital additions'; and
 - 'PPE, and intangible assets' and 'provisions' in the regulatory balance sheet which have been removed from regulatory 'capital additions'
- To add capitalised expenditure previously provided for and now incurred (statutory) to:
 - regulatory 'capital additions'; and
 - 'PPE, and intangible assets' in the regulatory balance sheet which have been added to regulatory 'capital additions'

8.4 Our regulated operating expenditure adjustments

Western Power currently reports the following regulatory adjustments for operating expenditure:

8.4.1 Operating expenditure costs

Regulatory financial statements - operating expenditure costs are expensed (for recognition in the regulatory profit and loss account) only when they are demonstrated to meet the requirements of the 'non-capital cost' test¹⁵ in sections 6.40 and 6.41 of the *Electricity Networks Access Code 2004*.

Statutory financial statements - all operating expenditure costs are expensed (for recognition in the statutory profit and loss account) in accordance with Australian accounting standards.

As a result, a regulatory adjustment is required to allocate operating expenditure costs (statutory) for regulated services which do not meet the 'non-capital cost' test to 'unregulated opex' in the RFS.

This adjustment (including the adjustment amounts) is authorised by the Economic Regulation Manager in the RIA function.

¹⁵ The 'non-capital cost' test is described in sections 6.40 and 6.41 of the *Electricity Network Access Code 2004*. It is applied to assess the efficiency of Western Power's transmission and distribution operating expenditure costs, and is satisfied when costs:

- are efficiently minimised;
- are recovered by revenue;
- provide a net benefit - justifying higher tariffs; and/or
- maintain the safety or reliability of the network.

9. Maintenance of records

Western Power maintains accounting records and transactions in accordance with:

- Board approved policies and supporting frameworks, guidelines and/or standards (as relevant)
- Australian accounting standards
- other legislative and regulatory requirements.

These records and transactions include, but are not limited to:

- the financial system - including the account code structure within
- account reconciliations
- subsidiary ledger systems and supports
- invoices
- supporting documentation, e.g. submissions, correspondence letters/memos, minutes from Board and sub-committee meetings
- work papers, e.g. calculation models/spreadsheets.

Western Power's accounting records and transactions are made available to the external auditor for the purpose of the annual:

- audit of the statutory financial statements
- review of the regulatory financial statements.

10. Acronyms

Acronym	Description
Access Arrangement (AA)	<p>Western Power's AA:</p> <ul style="list-style-type: none"> defines services to be delivered, services levels to be achieved, tariffs/fees to be charged, general policies, and the terms and conditions for access to the Western Power Network, e.g. by retailers and generators (like Synergy) to transport electricity to customers details the future investment plan to ensure customers continue to enjoy a good quality of service, whilst improving network safety, security and capacity. <p>The AA needs to support fair prices, quality services and choice. It is approved by the ERA.</p>
Australian Accounting Standards Board (AASB)	<p>The AASB is responsible for developing, issuing and maintaining Australian accounting standards and other authoritative pronouncements.</p> <p>Where applicable, Western Power complies with these standards and pronouncements when preparing the statutory financial statements (base accounts).</p>
Australian Energy Market Operator (AEMO)	<p>The AEMO provides system management services under the WEM rules. These services include:</p> <ul style="list-style-type: none"> the operation and control of generator facilities, transmission and distribution networks and large customer retailer supply management including demand side management the scheduling of generator, transmission and certain distribution outages, and management of real-time operation of the power system. <p>Until the end of the 2015/16 financial year, Western Power provided these regulated services.</p>
Cost and Revenue Allocation Method (CRAM)	<p>Western Power's CRAM is an approved document presenting and explaining the method applied to allocate and adjust cost and revenue items to regulated and unregulated business segments in the annual regulatory financial statements.</p>
Electricity Market Review (EMR)	<p>The EMR was launched in 2014 by the then Western Australian State Government to examine:</p> <ul style="list-style-type: none"> the structure of the electricity generation, wholesale and retail sectors within the SWIS; and the incentives for industry participants to make efficient investments and minimise costs.

Acronym	Description
Electricity Networks Corporation (Western Power)	The Electricity Networks Corporation trading as Western Power is a Western Australian State Government owned corporation with the purpose of connecting people with electricity in a way that is safe, reliable and efficient.
Economic Regulation Authority (ERA)	<p>The ERA:</p> <ul style="list-style-type: none"> is an independent body reporting directly to the Western Australian parliament regulates Western Power to ensure customers receive the best electricity service that is safe, reliable and at a fair price. <p>The primary review functions performed by the ERA include Western Power's AA and technical licenses.</p>
Fixed asset register (FAR)	<p>The FAR is a listing of all property, plant and equipment, and intangible assets owned by Western Power. It is recognised at historical cost less accumulated depreciation and amortisation, and any provision for impairment losses in accordance with Australian accounting standards.</p> <p>The FAR is not equal to the RAB.</p>
Full time equivalents (FTE)	<p>FTE is the allocation method Western Power applies when the underlying transaction has a casual correlation to the consumption of staff/labour, e.g. fringe benefits tax.</p> <p>FTE is determined by the ratio of FTE within a specific business segment to total FTE.</p>
Government Trading Enterprise (GTE)	A GTE is a government owned body incorporated under an act establishing it with the same functions as a private sector enterprise, e.g. <i>Electricity Corporations Act 2005</i> .
<i>Guidelines for Access Arrangement Information Guidelines 2010 (Guidelines)</i>	<p>The Guidelines set out in detail the information required in Western Power's AA for the purposes of informing the ERA, applicants and users.</p> <p>Section 3 of the Guidelines requires Western Power to prepare regulatory financial statements.</p>
New Facilities Investment Test (NFIT)	<p>The NFIT is described in section 6.52 of the <i>Electricity Network Access Code 2004</i>. It is applied to:</p> <ul style="list-style-type: none"> assess the efficiency of Western Power's transmission and distribution network investment determine whether a network investment can be added to Western Power's RAB. <p>The NFIT assessment applies to the whole lifecycle of the network investment and is largely met by following good commercial business practices, i.e. the right option with the least cost delivery.</p>

Acronym	Description
Property, plant and equipment, intangible assets (PPE)	<p>PPE is the allocation method Western Power applies when the underlying transaction has a casual correlation to the principal service of building, maintaining and operating the transmission and distribution networks, e.g. insurance.</p> <p>PPE is determined by the ratios of PPE in the transmission and distribution <u>asset segments</u> to total transmission and distribution PPE.</p>
Program of Work (PoW)	<p>The PoW is a complete schedule of operational and capital works Western Power undertakes annually to meet the needs of the network in terms of public safety, operating risks, regulatory compliance, capacity expansion, maintaining service standards and the reliability needs of customers.</p> <p>The PoW includes both regulated and unregulated services.</p>
Regulated asset base (RAB)	<p>Western Power's RAB is used to determine the capital costs (the return on and return of components) to be recovered through regulated network tariffs.</p>
Supervisory Control and Data Acquisition (SCADA)	<p>The SCADA system is Western Power's critical information technology tool for managing the transmission and distribution networks, both day-to-day and in emergencies.</p>
South West Interconnected Network (SWIN)	<p>The SWIN is the network component of the SWIS.</p> <p>It includes all the small pockets of infrastructure Western Power does not own or manage.</p>
South West Interconnected System (SWIS)	<p>The SWIS comprises the Western Power Network together with electricity generators.</p> <p>Western Power does not own the SWIS.</p>
Wholesale Electricity Market (WEM)	<p>The WEM:</p> <ul style="list-style-type: none"> • was introduced in 2006 as part of the then Western Australian government's progressive deregulation of the electricity market • covers wholesale electricity sales within the SWIS between sellers (i.e. generators and demand side management facilities) and buyers (i.e. retailers and large users).

Appendix A

Our cost allocation method

A.1 Appendix A: Our cost allocation method

Clause 3.8.2 of the Guidelines requires Western Power to report at a minimum, within each business segment, the following operating expenditure cost categories:

1. Operations
2. Maintenance
3. Customer service and billing
4. Corporate
5. Other operating expenditure

The remainder of this appendix presents a list of costs for each of these categories, and the allocation method applied.

A.1.1 Operational expenditure

Operational expenditure includes costs associated with the operation of the Western Power Network. This expenditure is allocated as follows:

Table A.1.1: Operational expenditure allocation

Operational Expenditure	Transmission	Distribution	System Management (unregulated)	Unregulated
Access Applications	Direct	Direct	n/a	n/a
Extended Metering Services	Direct	Direct	n/a	n/a
Line Relocations	Direct	Direct	n/a	n/a
Reliability Operations	Direct	Direct	n/a	n/a
SCADA ¹⁶ and Communications	Direct	Direct	n/a	n/a
Works in Vicinity	Direct	Direct	n/a	n/a
D-factor (e.g. demand-side management, OpEx to defer CapEx)	Direct	Direct	n/a	n/a
Other Non-Reference Services (e.g. temporary disconnections, high load escorts, investigations)	Direct	Direct	n/a	n/a
Network Operations (including Control Services) (excluding unregulated system management)	Direct & then PPE for remaining	Direct & then PPE for remaining	n/a	n/a
Retrospective and State Underground Power Programs (SUPP) (e.g. 'pillar to customer meter' work)	n/a	n/a	n/a	Direct
Sales/Salvage of Materials (excl. inventory write downs)	n/a	n/a	n/a	Direct

¹⁶ The Supervisory Control and Data Acquisition (SCADA) system is Western Power's critical information technology tool for managing the transmission and distribution networks, both day-to-day and in emergencies.

A.1.2 Maintenance expenditure

Maintenance expenditure includes costs associated with maintaining the Western Power Network. This expenditure is allocated as follows:

Table A.1.2: Maintenance expenditure allocation

Maintenance Expenditure	Transmission	Distribution	System Management (unregulated)	Unregulated
Corrective Deferred	Direct	Direct	n/a	n/a
Corrective Emergency (including streetlights)	Direct	Direct	n/a	n/a
Preventative Condition (including stand-alone power stations and streetlights)	Direct	Direct	n/a	Direct
Preventative Routine (including stand-alone power stations and streetlights)	Direct	Direct	n/a	Direct

A.1.3 Customer service and billing expenditure

Customer service and billing expenditure includes costs associated with the ongoing operations of the call centre, and provision of metering (excluding unregulated and extended metering services) and connection related services. This expenditure is allocated as follows:

Table A.1.3: Customer service and billing expenditure allocation

Customer Service and Billing Expenditure	Transmission	Distribution	System Management (unregulated)	Unregulated
Call Centre	Direct	Direct	n/a	n/a
Distribution Quotations (i.e. design costs not proceeding: customer driven)	Direct	Direct	n/a	n/a
Guaranteed Service Level Payments	Direct	Direct	n/a	n/a
Metering (including electrical system inspections)	Direct	Direct	n/a	n/a
Power Training Services	n/a	n/a	n/a	Direct

A.1.4 Corporate expenditure

Corporate expenditure includes common or shared functions that support all parts of the business. This expenditure is allocated as follows:

Table A.1.4: Corporate expenditure allocation

Corporate Expenditure	Transmission	Distribution	System Management (unregulated)	Unregulated
Contributory and Supply Extension Schemes	Direct	Direct	n/a	n/a
Information & Communication Technology Services	n/a	n/a	n/a	Direct
Metering Services	n/a	n/a	n/a	Direct
Rental Properties	n/a	n/a	n/a	Direct
Inventory Write Downs to Net Realisable Value	Inventory	Inventory	n/a	n/a
Business & Customer Service, and Growth	FTE	FTE	n/a	FTE
Chief Executive Officer/Managing Director (as relevant)	FTE	FTE	n/a	FTE
Fringe Benefits Tax	FTE	FTE	n/a	FTE
Asset Management & Asset Operations ¹ (excluding unregulated system management and network operations)	PPE	PPE	n/a	FTE
Business Intelligence & Technology ¹	PPE	PPE	n/a	FTE
Finance, Regulation & Metering ¹	PPE	PPE	n/a	FTE
Governance & Assurance ¹	PPE	PPE	n/a	FTE
Insurance ¹	PPE	PPE	n/a	FTE
Annual Rates and Taxes	PPE	PPE	n/a	n/a
Energy Safety Act 2006 Levy	PPE	PPE	n/a	n/a
ERA Costs under ERA (Electricity Networks Access Funding) Regulations 2012	PPE	PPE	n/a	n/a
License Fees	PPE	PPE	n/a	n/a
Realised Gains/Losses on Foreign Exchange	PPE	PPE	n/a	n/a

¹ Asset Management & Asset Operations, Business Intelligence & Technology, Business & Customer Service and Growth, Finance, Regulation & Metering, Governance & Assurance and Insurance costs are allocated in two steps. First, they are allocated to the unregulated business segment on an FTE basis. Second, the remaining regulated costs are indirectly allocated on a PPE basis to the transmission and distribution business segments. This allocation method is also applied to the correlating assets and liabilities in accordance with section 7.1., e.g. prepayments and payables.

A.1.5 Other operating expenditure

Other operating expenditure includes costs that are not associated with operations, maintenance, customer services and billing, and corporate. This expenditure is allocated as follows:

Table A.1.5: Other operating expenditure allocation

Other Operating Expenditure	Transmission	Distribution	System Management (unregulated)	Unregulated
Cancelled Projects (i.e. design costs not proceeding: distribution quotations and management, internally driven)	Direct	Direct	n/a	n/a
Early Strategic Planning	Direct	Direct	n/a	n/a
Non Recurring Expenditure	Direct	Direct	n/a	n/a
Tariff Equalisation Contribution	n/a	Direct	n/a	n/a
System Management	n/a	n/a	Direct	n/a
Fleet Services	n/a	n/a	n/a	Direct
Private Vegetation Management	n/a	n/a	n/a	Direct
Proactive Supply Abolishment	n/a	n/a	n/a	Direct
Other (e.g. customer development service level agreements and design consultancy)	n/a	n/a	n/a	Direct

A.1.6 Other expenditure

Other expenditure includes costs that do not fall within clause 3.8.2 of the Guidelines. This expenditure is allocated as follows:

Table A.1.6: Other expenditure allocation

Other Expenditure	Transmission	Distribution	System Management (unregulated)	Unregulated
Depreciation and Amortisation ^{1,2}	Direct & then PPE for remaining	Direct & then PPE for remaining	Direct	Direct (excluding fleet ²)
Bad Debts	Network Services Revenue	Network Services Revenue	n/a	Network Services Revenue
Borrowing Costs ³	PPE (reported)	PPE (reported)	Direct	PPE (reported)
Book Value on Disposal of Owned Assets ⁴	Direct & then PPE for remaining	Direct & then PPE for remaining	Direct	Direct
Tax Equivalent	Earnings before Tax Equivalent	Earnings before Tax Equivalent	Earnings before Tax Equivalent	Earnings before Tax Equivalent

¹ Depreciation and amortisation is allocated in two steps. First, direct depreciation and amortisation is attributed to the transmission, distribution and unregulated (including system management) business segments. Second, the remaining depreciation and amortisation (e.g. capitalised depreciation, network planning & operations (excluding unregulated system management), corporate-related and fleet² depreciation) is indirectly allocated on a PPE basis to the transmission and distribution business segments.

² Leased and unregulated owned fleet depreciation is allocated to the transmission and distribution business segments consistent with their disclosure as operating expenditure costs in Western Power's current AA (refer section 8.2.1).

³ Borrowing costs are allocated in two steps. First, unregulated system management borrowing costs are directly attributed using the method outlined in the System Management *Financial Management Procedure*¹⁷. Second, the remaining borrowing costs are indirectly allocated on a PPE (as reported in the regulatory balance sheet) basis to the transmission, distribution and unregulated business segments.

⁴ Book value on the disposal of owned assets is allocated in two steps. First, direct disposals are attributed to the transmission, distribution and unregulated (including system management) business segments. Second, the remaining disposals (e.g. network planning & operations (excluding unregulated system management) and corporate-related) are indirectly allocated on a PPE basis to the transmission and distribution business segments.

¹⁷ Refer to EDM 29615024 for Western Power's System Management *Financial Management Procedure*.

Appendix B

Our capital expenditure
allocation method

B.1 Appendix B: Our capital expenditure allocation method

Clause 3.8.1 of the Guidelines requires Western Power to report at a minimum, within each business segment, the following capital expenditure regulatory categories:

1. Growth

Capital expenditure for the purposes of increasing the capacity of assets or construction of new assets to meet growth in demand, e.g.:

- transmission: capacity expansion, customer driven
- distribution: capacity expansion, customer driven, gifted network assets.

2. Asset replacement and renewal

Capital expenditure for the purposes of replacing assets and maintaining service levels, e.g.:

- transmission: asset replacement
- distribution: asset replacement, SUPP, metering, wood pole management, stand-alone power systems.

3. Improvement in service

Capital expenditure for the purposes of improving service levels and reliability to meet customer preferences, e.g.:

- transmission and distribution: reliability driven, SCADA and communications.

4. Compliance

Capital expenditure for the purposes of meeting regulatory obligations, e.g.:

- transmission and distribution: regulatory compliance (safety, environmental, statutory).

5. Corporate

Capital expenditure for corporate-related activities, e.g.:

- transmission and distribution: information technology, business support (corporate shared costs).

B.1.1 Direct attribution

Capital expenditure is directly identified and attributed to business services and/or segments based on the activity codes and asset segments of the parent capital projects underlying the transactions¹⁸, i.e.:

- the activity code identifies the regulatory category of capital expenditure
- the asset segment identifies the business segment.

The responsibility centre is also used to directly attribute capital expenditure to:

- the unregulated system management business segment
- some corporate shared cost categories, i.e. business support (refer table B.2).

B.1.2 Indirect allocation

Capital expenditure that cannot be directly attributed to business segments is allocated using the method that most appropriately reflects the causal correlation of the underlying transaction. PPE is the causal allocation method applied for this purpose, i.e. where a direct attribution is not available (refer section 6.6.2).

Tables B.1 and B.2 list Western Power's indirect capital expenditure, and the allocation method applied.

Table B.1.2: Information technology capital expenditure allocation

Capital Expenditure: Information Technology	Transmission	Distribution	System Management (unregulated)	Unregulated
Information Technology (i.e. strategic, business, infrastructure)	PPE	PPE	n/a	n/a

Table B.1.2A: Corporate shared (business support) capital expenditure allocation

Capital Expenditure: Corporate Shared (Business Support)	Transmission	Distribution	System Management (unregulated)	Unregulated
Corporate Real Estate	PPE	PPE	n/a	n/a
Intellectual Property	PPE	PPE	n/a	n/a
Other Plant and Equipment ¹	Direct & then PPE for remaining	Direct & then PPE for remaining	n/a	n/a

¹ Other plant and equipment capital expenditure is allocated in two steps. First, the direct capital expenditure is attributed to the transmission and distribution business segments. Second, the remaining capital expenditure is indirectly allocated on a PPE basis to the transmission and distribution business segments.

¹⁸ Where capital expenditure is not posted to a project (e.g. strategic spares not yet issued to a service), the asset segment and capital expenditure regulatory category is determined using a method that most appropriately reflects the causal correlation of the underlying transaction (e.g. typically asset replacement).

Appendix C

Our revenue allocation
method

C.1 Appendix C: Our revenue allocation method

C.1.1 Revenue target (regulated)

Western Power's revenue target services are explained in section 5.1.1. Revenue from these services is allocated as follows:

Table C.1.1: Revenue target services allocation (line item: 'network services - revenue target')

Network Services: Revenue Target	Transmission	Distribution	System Management (unregulated)	Unregulated
Tariff	Direct	Direct	n/a	n/a

C.1.2 Non-revenue target (regulated)

Western Power's non-revenue target services are explained in section 5.1.2. Revenue from these services is allocated as follows:

1. Network services - non-revenue target, being this revenue is attributable to non-revenue target services where there is a direct linkage to the expenses associated with the service.

Table C.1.2: Non-revenue target services allocation

Network Services: Non-Revenue Target	Transmission	Distribution	System Management (unregulated)	Unregulated
Access Applications	Direct	Direct	n/a	n/a
Extended Metering Services	Direct	Direct	n/a	n/a
High Load Escorts and Permits	Direct	Direct	n/a	n/a
Line Relocations	Direct	Direct	n/a	n/a
Temporary Supply and Disconnections	Direct	Direct	n/a	n/a
Works in Vicinity	Direct	Direct	n/a	n/a
Other (e.g. standby services)	Direct	Direct	n/a	n/a

For further details in relation to the nature of the network services listed above refer to Appendix E.

2. Network services – other (non-revenue target), being this revenue is attributable to non-revenue target services where there is no direct linkage to the expenses associated with the service.

Table C.1.2A: Other non-revenue target services allocation

Network Services: Other (non-revenue target)	Transmission	Distribution	System Management (unregulated)	Unregulated
Cancelled Projects (i.e. design costs not proceeding: customer driven)	Direct	Direct	n/a	n/a
Contributory and Supply Extension Schemes	Direct	Direct	n/a	n/a
Damages (e.g. car versus pole, corrective deferred and emergency maintenance)	Direct	Direct	n/a	n/a
Metering (i.e. Electrical System Inspections)	Direct	Direct	n/a	n/a
Tax Recoveries on Capital Contributions	Direct	Direct	n/a	n/a
Support Services ¹	Direct & then PPE for remaining	Direct & then PPE for remaining	n/a	n/a

¹ Support network services revenue is allocated in two steps. First, the direct revenue is attributed to the transmission and distribution business segments. Second, the remaining revenue is indirectly allocated on a PPE basis to the transmission and distribution business segments.

For further details in relation to the nature of the network services listed above refer to Appendix E.

C.1.3 Capital contributions (regulated)

Western Power's capital contributions are explained in section 5.1.3. They are allocated as follows:

Table C.1.3: Contributions allocation

Contributions ¹	Transmission	Distribution	System Management (unregulated)	Unregulated
Customer Funded	Direct	Direct	n/a	n/a
Gifted Network Assets	n/a	Direct	n/a	n/a
SUPP	n/a	Direct	n/a	n/a

¹ Where capital contributions have been received for projects later cancelled, the contributions are subsequently recognised as non-revenue target. This is to offset any applicable project costs.

For further details in relation to the nature of the contributions listed above refer to Appendix E.

C.1.4 Unregulated revenue

Western Power's unregulated services are explained in sections 5.2 and 5.3. Revenue from these services is allocated as follows:

Table C.1.4: Unregulated revenue allocation (line item: 'network services - other')

Network Services: Unregulated	Transmission	Distribution	System Management (unregulated)	Unregulated
System Management	n/a	n/a	Direct	n/a
Customer Development Service Level Agreements	n/a	n/a	n/a	Direct
Fleet Services	n/a	n/a	n/a	Direct
Information & Communication Technology Services	n/a	n/a	n/a	Direct
Sales/Salvage of Materials	n/a	n/a	n/a	Direct
Private Vegetation Management	n/a	n/a	n/a	Direct
Power Training Services	n/a	n/a	n/a	Direct
SUPP & other customer funded underground projects ('pillar to customer meter' work)	n/a	n/a	n/a	Direct
Other (e.g. design consultancy, metering services)	n/a	n/a	n/a	Direct

For further details in relation to the nature of the network services listed above refer to Appendix E.

C.1.5 Proceeds from disposal of owned assets

Proceeds are generated from the disposal of Western Power's owned assets and are allocated as follows:

Table C.1.5: Proceeds from disposal of owned assets allocation

Proceeds from Disposal of Owned Assets	Transmission	Distribution	System Management (unregulated)	Unregulated
Proceeds from Disposal of Owned Assets ¹	Direct & then PPE for remaining	Direct & then PPE for remaining	Direct	Direct

¹ Proceeds on the disposal of owned assets are allocated in two steps. First, direct disposals are attributed to the transmission, distribution and unregulated (including system management) business segments. Second, the remaining disposals (e.g. network planning & operations (excluding unregulated system management) and corporate-related) are indirectly allocated on a PPE basis to the transmission and distribution business segments.

C.1.6 Other income

Other income is generated from services incidental to the core activities of Western Power's business and is identified and recognised in line with statutory reporting requirements. It is allocated as follows:

Table C.1.6: Other income

Other income	Transmission	Distribution	System Management (unregulated)	Unregulated
Insurance Recoveries	Direct	Direct	n/a	Direct
Interest Received	PPE	PPE	Direct	n/a
Rental Income	n/a	n/a	n/a	Direct
Other ¹	Direct & then PPE for remaining	Direct & then PPE for remaining	n/a	Direct

¹ Other income is allocated in two steps. First, the direct income is attributed to the transmission, distribution and unregulated business segments. Second, the remaining revenue is indirectly allocated on a PPE basis to the transmission and distribution business segments.

Appendix D

Our balance sheet allocation
method

D.1 Appendix D: Our balance sheet allocation method¹⁹

D.1.1 Current assets

Current assets are allocated as follows:

Table D.1.1: Current assets allocation

Current Assets	Transmission	Distribution	System Management (unregulated)	Unregulated
Cash and Cash Equivalents	PPE	PPE	n/a	Direct
Trade and Other Receivables (incl. Current Tax Equivalent Assets) ¹	Direct & then Network Services Revenue, Accrued Revenue &/or PPE (reported) for remaining	Direct & then Network Services Revenue, Accrued Revenue &/or PPE (reported) for remaining	Direct & then PPE (reported only) for remaining	Direct & then Network Services Revenue &/or PPE (reported only) for remaining
Prepayments ²	Direct & then PPE &/or FTE for remaining	Direct & then PPE &/or FTE for remaining	Direct	Direct & then FTE for remaining
Accrued Revenue	Direct	Direct	n/a	n/a
Inventories ³	Direct & then Inventories for remaining	Direct & then Inventories for remaining	n/a	Direct
Derivative Financial Instruments	PPE	PPE	n/a	n/a

¹ Trade and other receivables are allocated in two steps. First, direct receivables are attributed to the transmission, distribution and unregulated (including system management) business segments. Second, the remaining receivables are indirectly allocated on a network services revenue (e.g. general receivables and allowance for impairment), accrued revenue (e.g. network tariff receivables) or PPE (reported) (e.g. current tax equivalent assets) basis to the transmission, distribution, and/or unregulated (including system management) business segments.

² Prepayments are allocated in two steps. First, direct prepayments are attributed to the transmission, distribution and unregulated (including system management) business segments. Second, the remaining prepayments are indirectly allocated on a PPE (e.g. information technology and insurance) or FTE (e.g. employee-related) basis to the transmission, distribution and/or unregulated business segments.

³ Inventories are allocated in two steps. First, direct inventories are attributed to the transmission, distribution and unregulated business segments. Second, the remaining inventories (e.g. inventory write downs to net realisable value) are indirectly allocated on a direct inventories basis to the transmission and distribution business segments.

¹⁹ The allocation of the balance sheet occurs on the inception-to-date balances. This has the impact of annually realigning the balance sheet (i.e. via year-to-date movements) to reflect the most recent and accurate causal allocation basis.

D.1.2 Non-current assets

Non-current assets are allocated as follows:

Table D.1.2: Non-current assets allocation

Non-Current Assets	Transmission	Distribution	System Management (unregulated)	Unregulated
Property, Plant and Equipment, and Intangible Assets ¹	Direct & then PPE for remaining	Direct & then PPE for remaining	Direct	Direct
Right-of-Use Assets	PPE	PPE	n/a	Direct
Trade and Other Receivables ²	Direct & then Network Services Revenue	Direct & then Network Services Revenue	Direct	Direct & then Network Services Revenue
Derivative Financial Instruments	PPE	PPE	n/a	n/a

¹ Property, plant and equipment, and intangible assets are allocated in two steps. First, direct property, plant and equipment, and intangible assets are attributed to the transmission, distribution and unregulated (including system management) business segments. Second, the remaining property, plant and equipment, and intangible assets (e.g. network planning & operations (excluding unregulated system management) and corporate-related) are indirectly allocated on a PPE basis to the transmission and distribution business segments.

Property, plant and equipment, and intangible assets are regulated unless attributable to wholly unregulated assets.

Works under construction are not allocated to the unregulated business segment until commissioned to a wholly unregulated asset.

² Trade and other receivables are allocated in two steps. First, direct receivables are attributed to the transmission, distribution and unregulated (including system management) business segments. Second, the remaining receivables are indirectly allocated on a network services revenue (e.g. general receivables) basis to the transmission, distribution and unregulated business segments.

D.1.3 Current liabilities

Current liabilities are allocated as follows:

Table D.1.3: Current liabilities allocation

Current Liabilities	Transmission	Distribution	System Management (unregulated)	Unregulated
Borrowings	Borrowings (non-current)	Borrowings (non-current)	n/a	Borrowings (non-current)
Lease Liabilities	PPE	PPE	n/a	Direct
Trade and Other Payables ¹	Direct & then PPE &/or FTE for remaining	Direct & then PPE &/or FTE for remaining	Direct	Direct & then FTE &/or operating expenditure costs
Current Tax Equivalent Liabilities	PPE (reported)	PPE (reported)	PPE (reported)	PPE (reported)
Derivative Financial Instruments	PPE	PPE	n/a	n/a
Deferred Income ²	Direct & PPE for remaining	Direct & PPE for remaining	Direct	Direct
Provisions ³	Direct & then PPE &/or FTE for remaining	Direct & then PPE &/or FTE for remaining	Direct	Direct & then FTE for remaining

¹ Trade and other payables are allocated in two steps. First, direct payables are attributed to the transmission, distribution and unregulated (including system management) business segments. Second, the remaining payables are indirectly allocated on a PPE (e.g. trade and other payables and accruals), FTE (e.g. employee-related) or operating expenditure costs (e.g. unregulated trade payables and accruals) basis to the transmission, distribution and/or unregulated business segments.

² Deferred income is allocated in two steps. First, direct deferred income is attributed to the transmission, distribution and unregulated (including system management) business segments. Second, the remaining deferred income is indirectly allocated on a PPE basis to the transmission and distribution business segments.

³ Provisions are allocated in two steps. First, direct provisions are attributed to the transmission, distribution and unregulated (including system management) business segments. Second, the remaining provisions are indirectly allocated on a PPE (e.g. rehabilitation and environmental costs) or FTE (e.g. employee entitlements) basis to the transmission, distribution and/or unregulated business segments.

D.1.4 Non-current liabilities

Non-current liabilities are allocated as follows:

Table D.1.4: Non-current liabilities allocation

Non-Current Liabilities	Transmission	Distribution	System Management (unregulated)	Unregulated
Borrowings ¹	Net assets (before borrowings)	Net assets (before borrowings)	= PPE (reported)	Net assets (before borrowings)
Lease Liabilities	PPE	PPE	n/a	Direct
Trade and Other Payables ²	Direct & then PPE for remaining	Direct & then PPE for remaining	Direct	Direct
Derivative Financial Instruments	PPE	PPE	n/a	n/a
Deferred Tax Equivalent Liabilities	PPE (reported)	PPE (reported)	PPE (reported)	PPE (reported)
Deferred Income	Direct	Direct	n/a	n/a
Provisions ³	Direct & then PPE &/or FTE for remaining	Direct & then PPE &/or FTE for remaining	Direct	Direct & then FTE for remaining

¹ Borrowings are allocated in two steps. First, borrowings are indirectly allocated to the unregulated system management business segment to equal reported PPE. This is in accordance with the System Management *Financial Management Procedure*²⁰. Second, the remaining borrowings are indirectly allocated on a net assets (before borrowings) basis to the transmission, distribution and unregulated business segments.

² Trade and other payables are allocated in two steps. First, direct payables are attributed to the transmission, distribution and unregulated (including system management) business segments. Second, the remaining payables are indirectly allocated on a PPE (e.g. other payables) basis to the transmission and distribution business segments.

³ Provisions are allocated in two steps. First, direct provisions are attributed to the transmission, distribution and unregulated (including system management) business segments. Second, the remaining provisions are indirectly allocated on a PPE (e.g. rehabilitation and environmental costs) or FTE (e.g. employee entitlements) basis to the transmission, distribution and/or unregulated business segments.

²⁰ Refer to EDM 29615024 for Western Power's System Management *Financial Management Procedure*.

Appendix E

Network service revenue
definitions

E.1 Appendix E: Network service revenue definitions

E.1.1 Non-revenue target (regulated)

Table E.1.1: Non-revenue target services

Non-revenue target revenue is attributable to services where there is a direct linkage to the expenses associated with the service.

Non-Revenue Target	Definition
Access Applications	Development of the access application offer through to the connection process - underpinned by the Applications and Queuing Policy, combining the Electricity Transfer Access Contract (ETAC) and Interconnection Works Contract (IWC).
Extended Metering Services	Metering services, other than the Standard Metering Services (reference services) and for which the User must pay an additional charge. Extended metering services include: <ul style="list-style-type: none">• meter re-configurations, exchanges and communication installations requested by users• meter investigations and testing requested by users• non-scheduled special meter readings requested by users.
High Load Escorts and Permits	Work related to the elevation of overhead lines on the Western Power network to allow the transport of high loads.
Line Relocations	Development of the Relocation Works Contract (RWC) relating to relocation of distribution and transmission infrastructure that has been initiated or requested by a specific customer or organisation.
Temporary Supply and Disconnections	<ul style="list-style-type: none">• Temporary supply: installation of a temporary network connection and direct meter, typically used for building and construction.• Temporary disconnection: temporary isolation from the network, so that electrical and other work can be performed safely.
Works in Vicinity	Processing of enquiries and applications for work performed within prescribed zones for third parties under or near overhead power lines and communication assets.

Table E.1.1A: Other non-revenue target services

Other non-revenue target revenue is attributable to services where there is no direct linkage to the expenses associated with the service.

Other	Definition
Cancelled Projects	<p>Fees that are not refunded for projects that are cancelled as a result of customer requests.</p> <p>This typically includes the revenue associated with design, assessment, materials and labour costs that are incurred by Western Power.</p>
Contributory and Supply Extension Schemes	<ul style="list-style-type: none"> Contributory Extension Schemes: predominantly in rural areas, include a landowner/occupier maintenance component for which the network operator agrees to control all vegetation near power lines, whether naturally occurring, planted or cultivated, for the life of the agreement. Supply Extension Schemes: do not include a maintenance component. <p>Responsibilities for vegetation control near power lines is the same as for normal power lines up to and including 33,000 volts, as set out in the 'Guidelines for the management of vegetation near power lines'.</p>
Damages	Costs recovered by Western Power in relation to damages to the network caused by third parties
Metering - Electrical System Inspections	<p>Electrical System Inspections (WAEI) is responsible for:</p> <ul style="list-style-type: none"> conducting inspections of electrical installations as per the agreed Inspection System Plan (ISP) between Western Power and Building and Energy completing shock and fire related investigations assisting Building and Energy with L1 and L2 investigations of electrical workers and contractors for breaches of the ISP providing support to network operations during emergency events such as bushfires and floods.
Tax Recoveries on Capital Contributions	Fees relating to the recovery of Western Power's tax liability directly driven by customer funded projects, being both cash contributions and assets gifted to Western Power are treated as assessable income under the National Tax Equivalents Regime (NTER).
Support Services ¹	<p>Other fees related to the following activities:</p> <ul style="list-style-type: none"> application fees, commercial solar disconnection and reconnection fees salvage payments for redundant testing equipment settlement and conveyancing fees relating to property easements

E.1.2 Contributions

Table E.1.2: Contributions

Contributions	Definition
Customer Funded	Contributions received from customers in relation to the design and delivery of customer work requests.
Gifted Network Assets	Network assets including property, plant and equipment that are gifted to Western Power.
SUPP	Contributions received from the State and local governments to replace overhead power lines with underground power infrastructure.

E.1.3 Unregulated revenue

Table E.1.3: Unregulated revenue services

Unregulated revenue	Definition
System Management	Recovery of fees for property leasing, and information and communication technology services Western Power provides to the AEMO.
Customer Development Service Level Agreements	Revenue earned in relation to co-sitting for third party assets, use of Western Power's fibre network, sale of PENDA and LV boards, and VLF testing.
Fleet Services	Fleet maintenance services for customers at commercial rates.
Information & Communication Technology Services	Recovery of fees for information and communication technology services Western Power provides on a fee for service basis.
Sales/Salvage of Materials	Revenue earned in relation to the sales of inventory.
Private Vegetation Management	Fees related to vegetation management that Western Power carries out on behalf of the owner/occupier of property adjacent to Western Power lines.
Power Training Services	Registered training organisation that offers enterprise training on a range of courses and programs to Western Power staff, contractors, external organisations and individuals.
SUPP and other customer funded underground projects	Revenue earned in relation to underground cable connection work from the pillar in the street to the adjacent property.
Other	<p>New revenue streams such as:</p> <ul style="list-style-type: none"> turnover relating to design consultancy evolving technologies exceeding the performance and functional requirements defined by metering regulatory instruments and/or defined metering services, expanding the business beyond the core business activities. <p>The "revenue rebate" is received from Cleanaway for the collection and disposal of recycling materials from Western Power depots for assets (mainly scrap cable and transformers) that are disposed of from the fixed asset register at zero value.</p>