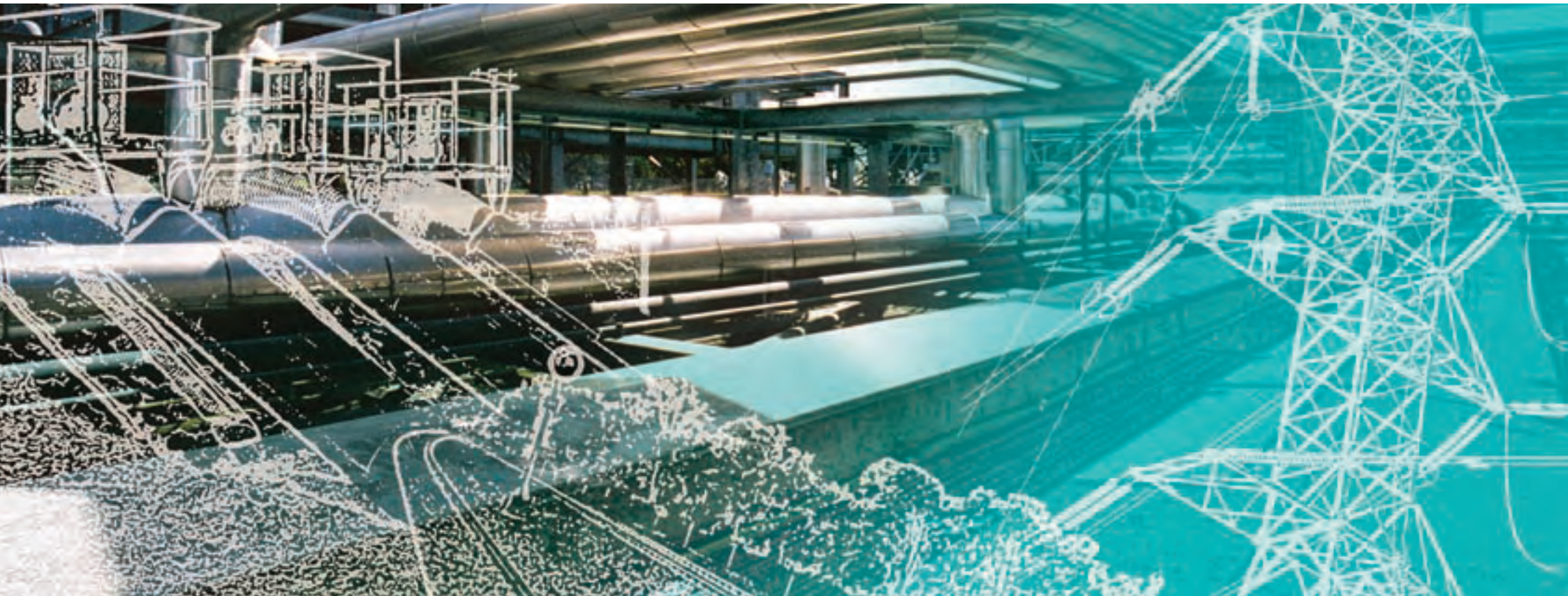


# Annual Report 2004-05



Economic Regulation Authority

 WESTERN AUSTRALIA



Economic Regulation Authority  
Western Australian

**Hon. Eric Ripper BA, Dip Ed, MLA**  
**Treasurer of Western Australia**

In accordance with section 66 of the *Financial Administration and Audit Act 1985*, we hereby submit the Economic Regulation Authority's Annual Report for the year ended 30 June 2005 for your information and presentation to Parliament.

The Annual Report has been prepared in accordance with the provisions of the *Financial Administration and Audit Act 1985* and Treasurer's Instructions.



**MR LYNDON ROWE - CHAIRMAN**  
31 August 2005



**DR KEN MICHAEL - MEMBER**  
31 August 2005



**MR CHRIS FIELD - MEMBER**  
31 August 2005

**Annual Report 2004-05**

The report can be viewed online at the Authority's website [www.era.wa.gov.au](http://www.era.wa.gov.au).

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## The Role of the Authority



Economic Regulation Authority's Governing Body. From left to right: Mr Chris Field (Member), Mr Lyndon Rowe (Chairman) and Dr Ken Michael (Member).

### Role

The Authority administers industry-specific legislation in the areas of gas, rail and water, and the Authority's electricity responsibilities have progressively been introduced from 30 November 2004.

In undertaking its role the Authority is independent of both industry and Government – it is not subject to State or Ministerial direction in relation to regulatory functions.

The Authority is responsible for regulating access to rail, gas transmission and distribution pipelines (where they are “covered”), by the *Railways (Access) Code 2000* (the Rail Code) and the *National Third Party Access Code for Natural Gas Pipeline Systems* (the Gas Code). Since 30 November 2004 the Authority has also been responsible for regulating electricity transmission and distribution lines (in the South West Interconnected Network). In addition, the Authority is responsible for the licensing and performance monitoring of water and gas service providers, and again, from 1 January 2005, electricity service providers.

The Authority also has an inquiry function. The State Government can provide the Authority with references to inquire into matters related to regulated or non-regulated industries. In performing its inquiry functions, the Authority is generally required to undertake a public consultation process (including the release of a draft report) before presenting a final report to the Government. In this role the Authority is not a decision-maker, however, the Minister must cause a copy of the Authority's report to be laid before both Houses of Parliament. It is similar to the role that the Productivity Commission plays at the Federal level.

### Mission

To promote economically efficient outcomes in Western Australia at the lowest practicable cost through: efficient and effective regulation; independent advice to Government; and advancing the debate in economic regulation.

### Vision

To be recognised as a leader in best practice regulation for the benefit of all Western Australians.

### Objectives

The principal objectives of the Authority are to:

- promote regulatory outcomes that are in the public interest;
- promote the long-term interests of consumers;
- encourage investment in relevant markets;
- provide for the legitimate business interests of investors and service providers in relevant markets;
- promote competitive and fair market conduct;
- prevent abuse of monopoly or market power; and
- promote transparent decision-making processes.

### Corporate Values

Accountability; Independence; Integrity; Professionalism; Transparency and Consultation; and Excellence.

### Clients

The clients of the Authority include owners and operators of gas, electricity, rail and water infrastructure, users and consumers of these services, and other interested parties.

### Support

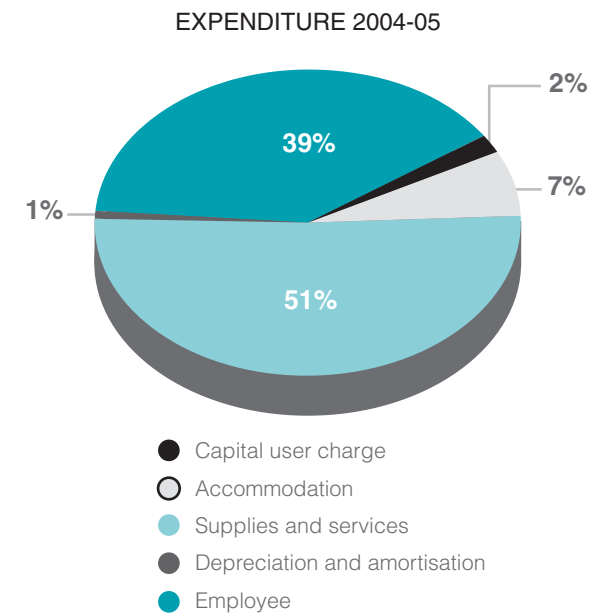
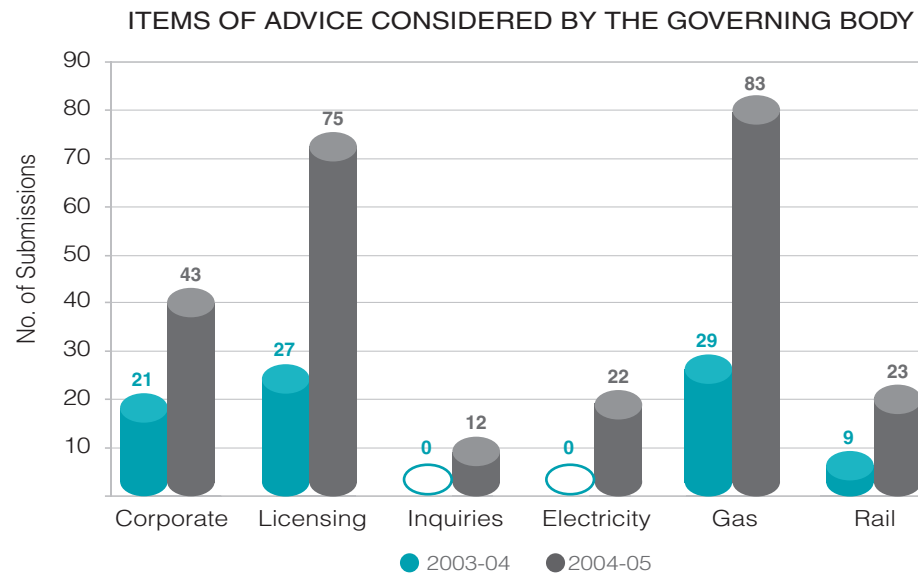
The Authority consists of a governing body (Chairman and two part-time members) and a secretariat, which provides support to the governing body to facilitate its decision-making role. The Authority makes use of contract staff and expert consultants as required.

## Highlights

- In its first full year of operation, the Authority focused on amalgamating three separate industry-specific regulatory agencies: the Office of Gas Access Regulation, Office of the Rail Access Regulator and the licensing and monitoring elements of the Office of Water Regulation, as well as acquiring expertise to deal with a new regulated industry – electricity.
- The Authority made significant progress in completing its assessment of all the gas pipeline Access Arrangements that it has before it, namely: the revisions to the AlintaGas Networks Access Arrangement for its Mid-West and South-West gas distribution systems; the revisions to the Dampier to Bunbury Natural Gas Pipeline (DBNGP) Access Arrangement; and the Goldfields Gas Pipeline. An Access Arrangement sets out terms and conditions (including prices) for access by third parties to regulated infrastructure.
- Three of four appeals against a decision by the Regulator on the Access Arrangement for the DBNGP in December 2003 were discontinued.
- A submission to the Ministerial Council on Energy was coordinated on behalf of the Utility Regulators' Forum, a national group comprising all State and national utility regulators. This was in response to recommendations by the Productivity Commission in its Review of the National Gas Access Regime.
- The Authority assumed responsibility for administering the gas retail market scheme in Western Australia in May 2005. The scheme provides for full retail contestability in gas, which allows all gas consumers in Western Australia to choose their own retail supplier.
- “Floor and ceiling” costs were determined for parts of the Public Transport Authority’s urban network (Perth to Midland and Perth to Fremantle); and four grain lines (Avon to Goomalling, Katanning to Tambellup, Kulin to Yilminning and Mullewa to Narngulu). “Floor” costs of a route and associated railway infrastructure are the incremental costs resulting from the combined operations of all operators and other entities on that route and use of that infrastructure. “Ceiling” costs are the total costs attributable to that route and infrastructure.
- A review of the Railways Access Code commenced and is scheduled for completion in September 2005.

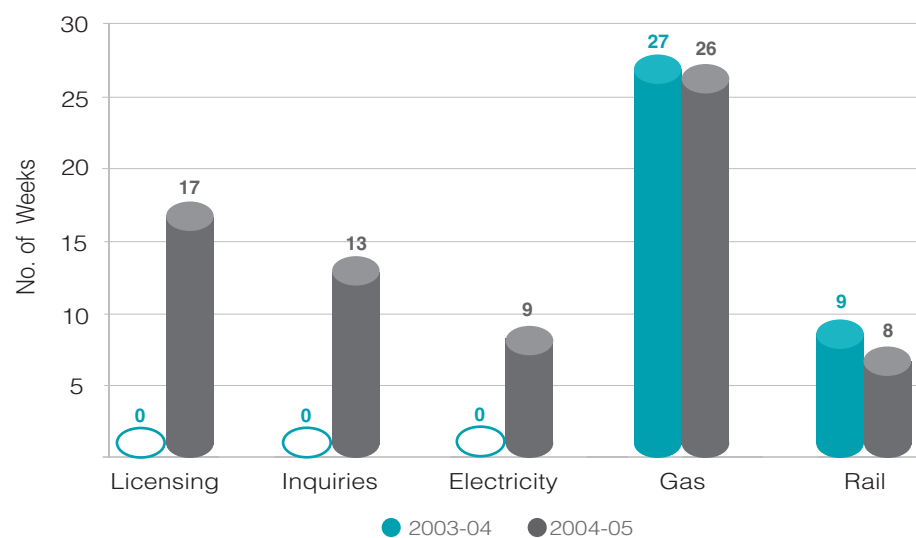
- A decision was published on the preferred methodology to apply to the assessment of the weighted average cost of capital (WACC) for electricity networks. WACC is expressed as a percentage and represents the weighted average of the cost of debt and the cost of equity in relation to an asset.
- A discussion paper was published on arrangements to “ring fence” Western Power Corporation’s generation and retail businesses from its monopoly networks business. “Ring fencing” refers to separating an infrastructure owner/operator’s function and business of providing access to the infrastructure from its other functions and business.
- A Technical Rules Committee was established to assist in approving technical rules proposed by Western Power for its South West Interconnected Network.
- The Authority progressed two inquiries, one being an inquiry on urban water and wastewater pricing; and the other an inquiry on the cost of supplying bulk potable water to Kalgoorlie-Boulder and surrounding regions.
- Operational audits and asset management reviews were completed for four licensees (including the Water Corporation, Bunbury and Busselton Water Boards).
- Thirty-two water licences were reviewed and amended to ensure consistency with the new *Water Services Licensing Act 1995*. A further 28 other associated licence amendments have been completed.
- Standard Customer Contracts for the three gas trading licences were assessed and approved.
- The Authority developed and published its Corporate Plan 2005-07, outlining its key objectives and strategies.
- Authority staff, previously accommodated at four different locations, was brought together offering significant improvements in efficiency.
- In June 2005, the Premier, the Hon. Dr Geoff Gallop MLA, announced that Authority Governing Body Member and former Alternate Chairman, Dr Ken Michael, is to become the next Governor of Western Australia. Dr Michael is due to take up his new role early in 2006. He will continue as a member of the Governing Body until late 2005.

## Facts-at-a-Glance

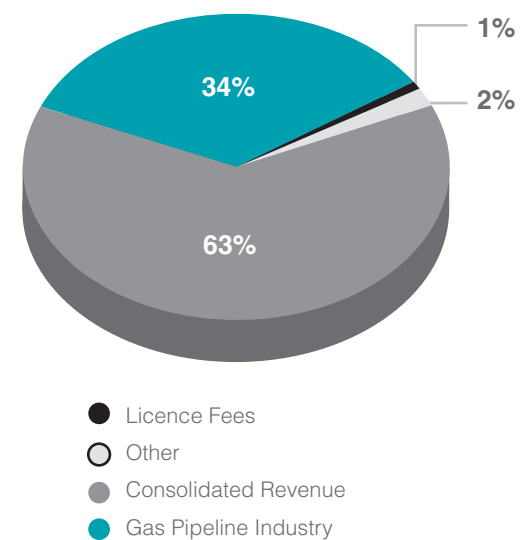




## PUBLIC CONSULTATION



## SOURCES OF INCOME



## The Chairman's Overview

Having completed the Authority's first full year of operation, I am delighted at the progress that has been achieved. The challenge for the Authority has been to bring together three regulatory areas in rail, gas and water and, with the addition of electricity during the year, mould these into a cohesive, functional and focused organisation capable of achieving best practice in economic regulation.

This progress has been achieved at a time of considerable change, both at a State and national level. There have been significant debates at the national level relating to the efficiency and effectiveness of regulation, the consistency in regulatory decisions between different regulators and the degree of regulatory risk flowing from the decisions of regulators. This debate has also raised issues concerning the adequacy of rates of return allowed by regulators and the impact that such regulatory decisions have on investment, particularly in infrastructure.

I have made a particular point of participating in this debate because, if regulation has the effect of creating uncertainty through regulatory risk or if regulation were discouraging efficient

investment in infrastructure, this matter would be of considerable concern to the entire Australian community, including those responsible for the administration of regulatory processes.

In examining the issues in some detail, I have formed a view that regulation in Australia is showing signs of maturing. In discussing these issues with all stakeholders, including those that have an involvement in financing infrastructure, I have found that these parties are expressing increasing confidence in Australian regulatory arrangements and consider these to provide a high degree of consistency and certainty.

In view of the above, there is a real risk that major changes to current regulatory arrangements, as recommended by some, will serve to destabilise the current "regulatory environment and increase the prospect of regulatory risk. This is a risk worth taking only in light of strong evidence that the current system is failing and that a new system would result in a more efficient allocation of resources. The Authority is yet to see this evidence.

Internally, the Authority has undergone major change designed to achieve significant efficiency gains by eliminating duplication and taking advantage of expertise in particular sections for application across all relevant areas of the Authority.

This has been achieved by establishing three functionally oriented divisions: Industry Access; Licensing, Monitoring and Customer Protection; and References and Research, whilst retaining an industry focus.

The Authority has also brought its various operating divisions together to be located at the one address. This, together with a strong focus on corporate and strategic planning, is yielding significant benefits toward the development of a best-practice professional organisation whose vision is "to be recognised as a leader in best practice regulation for the benefit of all Western Australians".

Over the past 12 months, the Authority has received and considered 258 submissions from the Secretariat and issued three draft decisions, one final decision, made five determinations and issued two draft reports.

Particularly significant is that the assessment of revisions to Access Arrangements in the gas area have been, or are nearing completion and, with the expected submission of Western Power's Access Arrangement for the South West Interconnected System early in the new financial year, the Authority's focus in the coming year will be toward the efficient approval of an Access Arrangement in this area.

Another of the Authority's functions is to administer the licensing regimes for each of the electricity, gas and water industries and monitor compliance in the rail and water industries. A number of major achievements were recorded during the year in fulfilling this function. These included reviewing water licences and operational audits of water licensees, as well as reviewing the effectiveness of their asset management systems.

Other achievements included determining "floor and ceiling" costs for parts of the Public Transport Authority's urban network and grain lines in the country network. Significant progress was also made on two inquiries referred by Government to the Authority during the year.

This year also saw the establishment of the Authority's Consumer Consultative Committee chaired by Member, Mr Chris Field, and I thank the Committee Members for their willingness to be involved. The Authority is very mindful of the contribution made by all stakeholders to our work, both in our regulatory and inquiry roles and I would like to express the Authority's appreciation to all who have taken the time to contribute to our activities.

On behalf of all members of the Authority I would like to sincerely congratulate Governing Body Member, Dr Ken Michael, who at the end of the financial year was named by the Premier, Dr Gallop, as Western Australia's Governor Designate. Dr Michael is due to take up his appointment in January 2006.

His contribution to regulation in Western Australia and the establishment of the Authority has been significant. Over the last six years, he has been the Independent Gas Pipelines Access Regulator, Rail Access Regulator, Alternate Chairman of the Authority, and more recently, Governing Body Member. It has truly been a pleasure working with Dr Michael and his experience

and wise counsel will be dearly missed. His appointment as Governor is in due recognition of a highly distinguished career and the ongoing contribution he will make to Western Australia in his new capacity.

I would also like to express my personal appreciation to Mr Chris Field, a part-time member of the Authority, for his support and professional contribution. The part-time members, Dr Ken Michael and Mr Chris Field, have made the role of Chairman much easier than it might otherwise have been.

Finally, I would like to acknowledge the significant contribution made by the staff of the Authority, ably led by General Manager Peter Kolf and, on behalf of the members, thank them for their enthusiasm, support and professionalism in this exciting and challenging undertaking.



LYNDON ROWE  
**CHAIRMAN**

## Issues and Trends

### Operating Environment

The Authority was established by the State Government to achieve positive regulatory outcomes that promote economic efficiency. Since its establishment, the Authority has made significant progress toward these objectives.

In its first year of operation, the Authority focused on amalgamating three separate industry-specific regulatory agencies: the Office of Gas Access Regulation, Office of the Rail Access Regulator and elements of the Office of Water Regulation, as well as acquiring expertise to deal with a new regulated industry, electricity.

The Authority also assumed responsibility for administering the gas retail market scheme in Western Australia in May 2005. The scheme provides for full retail contestability in gas, which allows all gas consumers in Western Australia to choose their own retail supplier, albeit that for residential consumers there is currently only one gas retailer.

One of the responsibilities of the Authority, associated with the introduction of competition into the Western Australian gas retail market, is the monitoring of the operations of the Retail Energy Market Company (REMCo). REMCo is the retail market administrator for gas in Western Australia and South Australia. It began its operations in Western Australia on 31 May 2004.

At a national level, the Ministerial Council on Energy (MCE) is currently considering its response to a number of reviews into third-party access regimes.

The MCE is the national policy and governance body for the Australian energy market, including electricity and gas, as outlined in the COAG Australian Energy Market Agreement (AEMA), 30 June 2004.

It is anticipated that the Council will recommend a number of changes to the Gas Access Regime and these changes may

have a significant impact upon the Authority's economic regulatory responsibilities for gas pipelines.

Among the reviews being considered by the MCE is the report by the Productivity Commission (PC) on the gas access regime, released in August 2004.

The PC report suggested that regulation might be having a "chilling" effect on what would otherwise be efficient investment, due to the presence of regulatory risk and/or regulators applying non-commercial rates of return in setting tariffs.

However, the Authority and other regulators questioned some of the conclusions and recommendations. The Authority subsequently coordinated a submission to the MCE on behalf of all utility regulators highlighting the views of regulators as administrators of the Code.

The Utility Regulators' Forum, in its submission, considered that there was little evidence of unwarranted regulatory risk, given the consistent approach taken by regulators across Australia in applying the building blocks approach to price cap regulation, particularly with respect to regulated asset values and costs of capital.

The submission raised matters that warranted consideration prior to changing regulatory regimes, which the PC confirmed had delivered significant benefits.

### Future Challenges

With the assessment of an Access Arrangement for the Goldfields Gas Pipeline, and revisions to Access Arrangements for the DBNGP and AlintaGas Mid-West and South-West Gas Distribution Systems coming to completion, there will be a shift of emphasis from gas access issues to electricity access.

The State Government has further progressed reform of the electricity industry, principally to facilitate greater competition in upstream

and downstream markets. Many aspects of the reform package were legislated during 2004-05, which have had a significant impact on the Authority's functions and workload.

This has included the Authority acquiring the responsibility for licensing participants in the electricity industry. This is likely to lead to the Authority administering approximately 100 licences over the course of the next few years.

Legislation facilitating the Authority being responsible for establishing a licensing scheme for electricity was proclaimed from 1 January 2005. At present there is no licensing or registrations scheme in the industry and it is therefore unclear as to how many licences will be issued.

Industry participants have until 31 December 2005 to apply for licences in the area of generation, transmission, distribution, retail or integrated regional licences. The Authority has until 30 June 2006 to issue licences to industry participants.

The *Electricity Industry Act 2004* requires the Authority to ensure the technical and financial capacity of applicants and that issuing of a licence would not be contrary to the public interest.

The Authority fulfils a new role as the independent regulator of the State's monopoly electricity transmission and distribution networks. This involves setting terms and conditions, including prices, governing third-party access to Western Power's electricity grid in the South West of the State. The Authority's new responsibility also includes setting supply standards for quality and reliability.

Rules have been legislated for the operation of a new Wholesale Electricity Market, which will be established from 1 July 2006. The Authority anticipates a significant new role in monitoring the behaviour of market participants.



## Issues and Trends *continued*

Importantly, with the State Government undertaking disaggregation of Western Power, there will be considerably greater opportunity for new competitors to enter the market. A challenge for the Authority will be to ensure small use electricity consumers continue to receive a quality electricity supply from the expanded competitive market and to ensure that their interests are protected.

The Independent Market Operator (IMO), a new independent statutory corporation, has been established in Western Australia to administer and monitor the day-to-day operation of the wholesale electricity market. The IMO, whose role is complementary to that of the Authority, was established on 1 December 2004 pursuant to the *Electricity Industry (Independent Market Operator) Regulations 2004*.

The new financial year will also see the arrival of two new independent national regulatory bodies. They are the Australian Energy Regulator (AER) and the Australian Energy Market Commission (AEMC), which commenced operations on 1 July 2005.

The AER will be responsible for the economic regulation of energy markets on the eastern seaboard and compliance with electricity and gas market rules. The AER is being established under the *Trade Practices Act 1974* as a constituent part of the Australian Competition and Consumer Commission.

The AEMC is a national body, established under the *Australian Energy Market Commission Establishment Act 2004 (South Australia)*. It was established to undertake rule-making and market development in the National Electricity Market and, over time, the gas market.

The AEMC reports directly to the MCE. The MCE includes Commonwealth, State and Territory energy ministers, in addition to ministers from New Zealand and Papua New Guinea as observers. The MCE has the power to direct the AEMC to carry out reviews of the National Electricity Market (NEM) and the National Electricity Rules.

# Report on Operations

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## Better Planning: Better Services

The Government's strategic planning framework – "Better Planning: Better Services" outlines five key goals that contribute to the vision of "... the best opportunities for current and future generations". The goals comprise: People and Communities, the Economy, the Environment, the Regions, and Governance.

The Authority seeks to encourage economic development of the State of Western Australia by regulating vital infrastructure in a fair, independent and transparent manner. The Authority is further empowered to inquire and report on matters referred to it by the Government. These matters can relate to 'regulated' or 'non-regulated' industries in the areas of pricing, quality, business practices and compliance costs.

In carrying out these functions, the Authority works on the basis of its principal objectives, which are to:

- promote regulatory outcomes that are in the public interest;

- promote the long-term interests of consumers;
- encourage investment in relevant markets;
- provide for the legitimate business interests of investors and service providers in relevant markets;
- promote competitive and fair market conduct;
- prevent abuse of monopoly or market power; and
- promote transparent decision-making processes.

The Authority contributes most directly to the Government's Strategic Goal 2: The Economy – "to develop a strong economy that delivers more jobs, more opportunities and greater wealth to Western Australians by creating the conditions required for investment and growth".

In pursuing its stated objectives, the Authority also contributes in various ways to the other Government strategic goals, which are:

Goal 1:

People and Communities – "to enhance the quality of life and wellbeing of all people throughout Western Australia".

Goal 3:

The Environment – "to ensure that Western Australia has an environment in which resources are managed, developed and used sustainably, biological diversity is preserved and habitats protected".

Goal 4:

The Regions – "to ensure that regional Western Australia is strong and vibrant"; and

Goal 5:

Governance – "to govern for all Western Australians in an open, effective and efficient manner that also ensures a sustainable future".

## Report on Operations *continued*

### Summary of Activities and Achievements

One of the Authority's principal functions is to regulate third party access to natural monopoly assets such as natural gas pipelines, electricity transmission and distribution networks and rail networks. This involves assessing the terms and conditions, including tariffs (Access Arrangements), proposed by the owners of regulated assets.

The following major achievements were accomplished in the area of third party access to industry infrastructure:

- A Draft Decision was issued on 28 February 2005 for the AlintaGas Networks Pty Ltd (AGN) revised access arrangement for the Mid-West and South-West Gas Distribution Systems. This decision was to not approve the proposed revised access arrangement. The decision required 96 amendments to be made to the proposed access arrangement before the Authority would approve it. The Authority's Final Decision was issued on 12 July 2005 and did not approve revisions submitted by AGN in response to its Draft Decision but required 24 amendments. It should be noted that the Authority issued its Further Final Decision and Final Approval on 10 August 2005, with effect from 25 August 2005.
- An amended Draft Decision was issued on 29 July 2004 to not approve the proposed access arrangement for the Goldfields Gas Pipeline (GGP). A Final Decision not to approve the access arrangement was issued on 17 May 2005, with Goldfields Gas Transmissions Pty Ltd (GGT) being required to submit a revised Access Arrangement. The Authority issued a Further Final Decision approving the revised access arrangement on 14 July 2005. The approved Access Arrangement is effective from 1 August 2005.
- Revisions to the Access Arrangement for the Dampier to Bunbury Natural Gas Pipeline (DBNGP) were scheduled to be submitted to the Authority for approval on 1 December 2004. However, as the pipeline had been sold to DBNGP Transmission (WA) Pty Ltd by Epic Energy in October 2004, the Authority granted extensions of time for the revisions to be lodged. The revisions to the Access Arrangement were lodged on 21 January 2005 and submissions were invited from interested parties who responded by lodging 11 submissions. The Authority issued its Draft Decision on 10 May 2005 requiring 22 amendments before it would approve a revised Access Arrangement. A Final Decision is expected to be issued within the first quarter of 2005-06.
- "Floor and ceiling" costs for parts of the Public Transport Authority's urban network (Perth to Midland, Perth to Fremantle) were determined, as well as for four grain lines (Avon to Goomalling, Katanning to Tambellup, Kulin to Yilminning, and Mullewa to Narngulu). The floor and ceiling costs provide the lower and upper bounds for third parties negotiating access to the railway.

- The Authority published a discussion paper on the weighted average cost of capital (WACC) methodology to apply to Western Power's network in the South West Interconnected System (SWIS) on 14 January 2005 and sought submissions from interested parties. A decision on the preferred methodology to apply to the assessment of the WACC for electricity networks was published on 25 February 2005.
- A discussion paper on arrangements to 'ring fence' Western Power was published on 10 March 2005. The Government's stated intention to disaggregate Western Power resulted in the Authority deferring its further consideration of ring fencing rules.
- A review of the *Railways (Access) Code 2000* was formally initiated in December 2004. A draft report was published on 1 July 2005. The review is scheduled to be completed in September 2005.

- A submission to the Ministerial Council on Energy was co-ordinated on behalf of the Utility Regulators' Forum, a national group comprising all State and national regulators. The submission responded to recommendations by the Productivity Commission on the Review of the National Gas Access Regime.
- A Technical Rules Committee was established to assist in approving technical rules proposed by Western Power for its South West Interconnected Network.

A function of the Authority is to administer the licensing regimes for each of the electricity, gas and water industries and monitor compliance in these industries.

A new function of the Authority is to safeguard the interests of small use customers in the electricity and gas transmission and distribution industries. The introduction of electricity licensing at the beginning of 2005 has given the Authority the opportunity to review and move toward standardising licensing across utility industries.

The following major achievements were accomplished in the area of licensing, monitoring and customer protection:

- Operational audits of four licensees (including the Water Corporation, Bunbury and Busselton Water Boards) were completed and the effectiveness of their asset management systems was reviewed.
- Thirty-two water service licences were reviewed and amended to ensure consistency with the new *Water Services Licensing Act 1995*. A further 28 other associated licence amendments have been completed.
- Standard Customer Contracts for the three gas trading licences were assessed and approved in response to changes associated with the introduction of full retail contestability in the gas market.

## Report on Operations *continued*

The Authority received two references during the year:

### *Urban Water and Wastewater Inquiry*

- Consistent with the terms of reference, an issues paper was released on 22 July 2004 inviting submissions from interested parties. Thirty-one submissions were received. A methodology paper was released on 14 October 2004 describing the methodology the Authority would use to arrive at its pricing recommendations. The document also set out information that Aqwest, Busselton Water and the Water Corporation were asked to provide in their pricing submissions by 24 December 2004.

A draft report was issued on 18 March 2005 and submissions were again invited from interested parties. Twenty-four submissions were received. Public forums in Perth, Bunbury and Busselton were held in May 2005 to discuss and receive feedback on the draft report. The final report was scheduled to be provided to the Government by 30 September 2005.

### *Kalgoorlie-Boulder Bulk Potable Water Inquiry*

- In accordance with the terms of reference, the Authority is comparing the current cost to the Water Corporation of providing bulk potable water to Kalgoorlie-Boulder with the costs of a proposal by United Utilities Australia to pipe desalinated seawater from Esperance to Kalgoorlie-Boulder. The Authority will also be examining the avoidable costs to the Water Corporation if the United Utilities Australia proposed scheme were to go ahead, the impact of each option on government finances and the costs and benefits of each option.
- A draft report was published on 30 June 2005, with the final report due by 16 September 2005.

### Planned Achievements

During the first half of the 2005-06 year, it is expected that the Authority will complete its assessment of all the gas pipeline Access Arrangements that it has before it, namely the revisions to the AlintaGas Networks Access Arrangement for its Mid-West and South-West gas distribution systems and the revisions to

the Dampier to Bunbury Natural Gas Pipeline Access Arrangement. It has completed and approved an Access Arrangement for the Goldfields Gas Pipeline until its next review scheduled in 2009.

The Authority is due to assess proposed revisions to the Tubridgi Pipeline System Access Arrangement in January 2006.

It is expected that other significant matters to be addressed will include the establishment of regulatory reporting guidelines for regulated pipelines.

Major new tasks planned by the Authority in the forthcoming financial year include:

- commencing the assessment of a proposed revised access arrangement for the Tubridgi Pipeline System;
- commencing the assessment of a proposed access arrangement and technical rules for Western Power Corporation in the South West Interconnected System;



- monitoring REMCo gas market operations;
  - approving communication rules developed by Western Power under the *Electricity Industry Customer Transfer Code 2004* and the (yet to be promulgated) *Electricity Industry Metering Code*; and
  - developing an arbitration process for disputes which arise between network operators and retailers under the *Electricity Industry Customer Transfer Code 2004*.
- The licensing of electricity generators, network owners and retailers will continue to be a major focus of activity, with 100 licences anticipated to be issued in the period.
- Significant effort will also be directed toward standardising licensing arrangements, including those relating to the monitoring of performance. Specific major new initiatives include:
- develop a standardised audit scope for performance audits and asset management system reviews in the electricity, gas and water industries;
  - develop a database for licensing and monitoring of service providers across the utility industries;
  - establish a consultative committee to review the *Electricity Code of Conduct for Small Use Customers 2004*;
  - review existing gas and water licences to ensure a consistent format;
  - develop licence application guidelines for the gas industry;
  - undertake approximately 26 audit and asset management reviews of licensees; and develop a financial information guideline to assist small licence holders with asset management reporting; and
  - review and develop performance criteria for gas, water and electricity licensees.

It is also anticipated that the Government will refer one or more new inquiries to the Authority in the coming financial year.

## Funding and Pricing Policies

The activities of the Authority are funded by:

- appropriations from Government;
- fees and charges payable in respect of licences issued by the Authority; and
- fees and charges payable by operators of regulated gas pipelines and by other persons in accordance with the provisions of the *Economic Regulation Authority (Gas Pipelines Access Funding) Regulations 2003* (gazetted 30 December 2003).

Payments to the Authority by operators of regulated pipelines comprise standing charges and service charges, determined in accordance with Regulations 4 and 6, respectively, of the *Economic Regulation Authority (Gas Pipelines Access Funding) Regulations 2003*.

Standing Charges comprise charges levied on pipeline operators in respect of costs incurred by the Authority that are not directly attributable to activities in respect of particular pipeline systems.

## Report on Operations *continued*

The pipeline operators that are liable for Standing Charges and the percentage allocations of costs between these pipeline operators are set out in Schedule 1 of the Regulations.

The Service Charges payable by pipeline operators comprise charges levied in respect of the performance by the Authority of certain functions listed in Schedule 2 of the Regulations.

The total amounts of Standing Charges and Service Charges paid by pipeline operators in the year ending 30 June 2005 are indicated in the table below.

Standing Charges and Service Charges are assessed in arrears for each pipeline operator. Standing Charges are assessed at the end of each calendar quarter, Service Charges are raised when expenditure has been incurred by the Authority and are issued on a monthly basis.

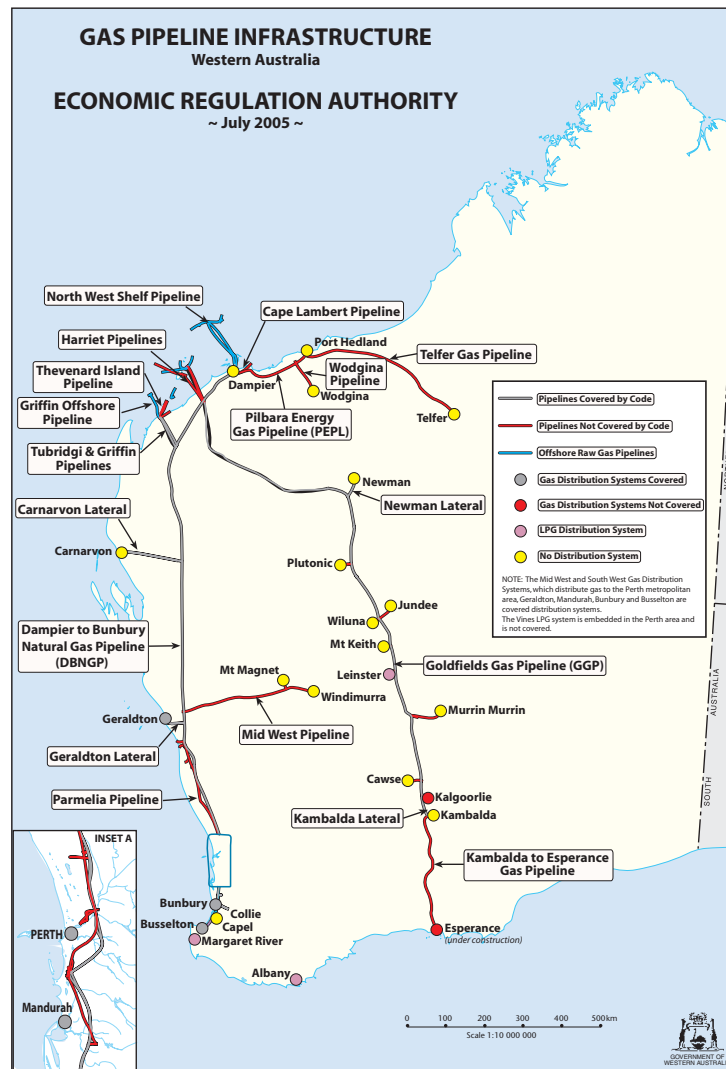
The Funding Regulations also provide for the Regulator to levy fees in respect of:

- provision of documents prepared by or on behalf of the Regulator;
- admission to a meeting held by the Regulator for the purposes of public consultation;
- lodgement of notifications of a dispute under section 6.1 of the Code; and
- interest on any outstanding amounts.

There were no document fees received in 2004-05.

### CHARGES PAID BY PIPELINE OPERATORS for the year ended 30 June 2005

Service Provider	Standing Charges (\$)	Service Charges (\$)	Service Charges Levied but not yet Received (\$)	Standing Charges Levied but not yet Received (\$)
AlintaGas Networks Pty Ltd	311,853	500,427	33,038	73,430
Epic Energy (WA) Transmission Pty Ltd	395,841	129,327	0	0
Goldfields Gas Transmission	275,454	568,141	10,634	64,860
Sagasco SE Inc.	43,998	0	0	10,360
Southern Cross Pipelines Pty Ltd	36,665	0	0	8,633
DBNGP (WA) Transmission Pty Ltd	269,463	79,561	39,453	156,656
<b>TOTAL</b>	<b>1,333,274</b>	<b>1,277,456</b>	<b>83,125</b>	<b>313,939</b>



## Summary of Divisional Operations

### INDUSTRY ACCESS - GAS

#### Objective

To carry out the requirements outlined within the *Gas Pipelines Access (Western Australia) Act 1998* and the *National Third Party Access Code for Natural Gas Pipeline Systems* for covered gas pipelines within Western Australia and to administer the requirements of Parts 2B and 2C of the *Energy Coordination Act 1994*. These functions are related to gas supply, the Retail Market Scheme (RMS) and the Code of Conduct for marketing of gas to small use customers.

The following are “covered” gas pipelines in Western Australia:

- Dampier to Bunbury Natural Gas Pipeline;
- Goldfields Gas Pipeline;
- Mid-West and South-West Gas Distribution Systems;
- Kalgoorlie to Kambalda Pipeline; and
- Tubridgi Pipeline System.

## Report on Operations *continued*

### Key Accountabilities

- To assist and advise the Governing Body on the assessment of proposed Access Arrangements for covered gas pipelines, and proposed revisions to Access Arrangements.
- To support the Gas Marketing Code Consultative Committee, including by providing a Chairman and Executive Officer.
- To advise the Authority on matters relating to the operation of the Gas Marketing Code of Conduct.
- To advise the Authority on: (i) reports received from the Retail Market Administrator concerning the operation of the REMCo Retail Market Scheme (RMS); (ii) the approval of any additional schemes which may be established within gas retail markets in Western Australia; (iii) the approval of any amendments to the RMS; and (iv) enforcing compliance with the RMS.

### Key Outputs

- Advice and assistance to the Governing Body on three draft decisions and one final decision issued during the year relating to the assessment of Access Arrangements.
- One meeting of the Gas Marketing Code Consultative Committee held on 26 May 2005.
- Advice provided to the Authority on matters relating to the operation of REMCo RMS following the transfer of this responsibility from the Office of Energy to the Authority on 31 May 2005.
- The provision of 83 submissions to the Governing Body for decision.

### Key Outcomes

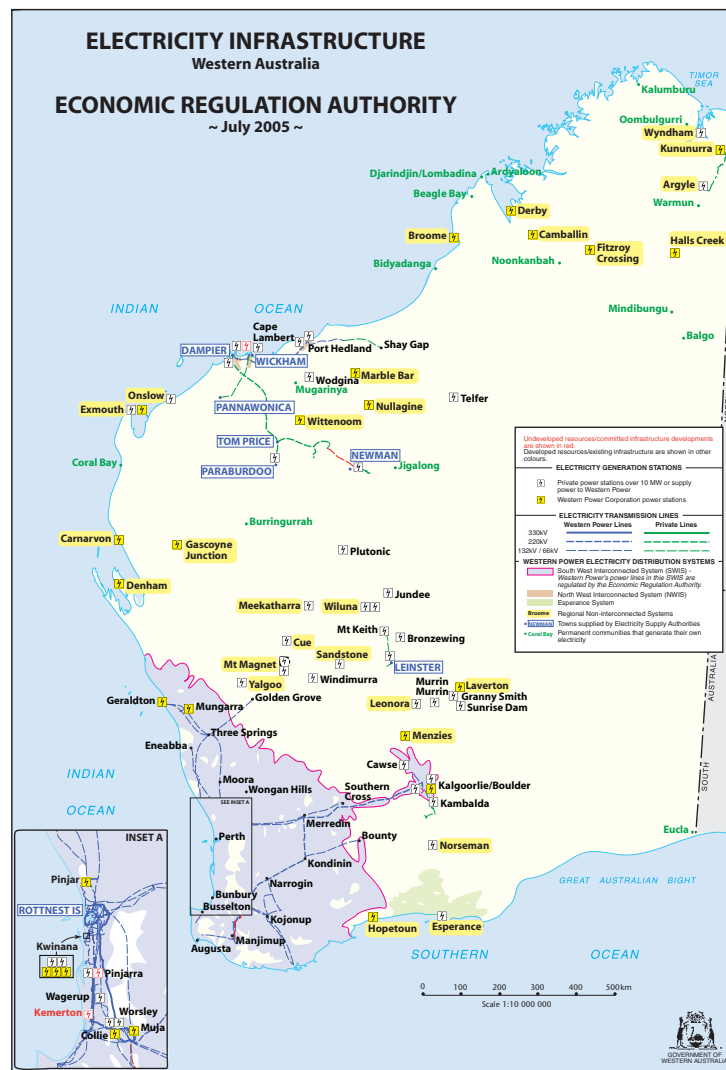
- Access Arrangements are in place for covered gas pipelines setting out the terms and conditions including prices for third party users to transport gas on these pipelines.
- The Gas Marketing Code of Conduct provides the appropriate level of protection

to gas consumers with respect to marketing activities carried out by gas retailers as required under this legislation.

- The REMCo RMS and other related responsibilities under the relevant legislation are administered in a manner that ensures that the retail gas market supplied via the gas distribution system covered by the scheme is regulated and operated in a manner that is open and competitive, is efficient and is fair to gas market participants and their customers.

### Future Directions

- The Authority is to complete the assessment of Access Arrangements and revisions to Access Arrangements.
- Proposed revisions to the Access Arrangement for the Tubridgi Gas Pipeline are scheduled to be lodged for assessment on 2 February 2006.
- A Final Report on the Review of the Gas Marketing Code of Conduct is expected to be issued in late 2005.



## INDUSTRY ACCESS - ELECTRICITY

### Objective

To facilitate regulatory outcomes that are consistent with the promotion of economically efficient investment in, and operation and use of, electricity networks and the services provided by electricity networks in Western Australia.

### Key Accountabilities

- To provide advice to the Governing Body on matters concerning the regulation of electricity networks.
- To assist the Governing Body in assessing arrangements governing the terms and conditions, including prices, for third party access to electricity networks.
- To assist the Governing Body in assessing technical and quality standards for regulated electricity networks.
- To assist the Governing Body in the assessment and approval of annual network access charge adjustments.



## Report on Operations *continued*

- To monitor the performance of network operators against benchmark service standards.
- To assist the Governing Body in arbitrating disputes between network operators and retailers concerning the transfer of “contestable customers”.

### Key Outputs

- Publication of two discussion papers and one determination by the Governing Body.
- The provision of 22 submissions to the Governing Body for decision.

### Key Outcomes

- During 2004-05, the Authority acquired staff and resources to manage the new electricity functions.
- Recognition amongst industry participants of the Authority’s new electricity regulatory responsibilities.

### Future Directions

Electricity access will play an increasingly significant role in the functions of the Authority, from 2005-06 onwards, as it will:

- acquire responsibility for assessing and responding to Western Power Corporation’s proposed Access Arrangement and Technical Rules for its network in the South West Interconnected System;
- monitor performance of network operators against benchmark service standards;
- establish competencies to monitor the ongoing effectiveness of the wholesale electricity market (to be established on 1 July 2006);
- monitor and arbitrate transfers of contestable customers between retailers; and
- undertake ongoing monitoring of compliance with “ring fencing” obligations.



## INDUSTRY ACCESS – RAIL

### Objective

To facilitate regulatory outcomes that are consistent with the promotion of economically efficient investment in, and operation and use of, railway systems as set out in the *Railways (Access) Act 1998* and the *Railways (Access) Code 2000* within Western Australia.

### Key Accountabilities

- To coordinate the review of the Rail Code, and assist the Governing Body in the preparation of a report outlining amendments, incorporating comments from interested parties in submissions made during the public consultation process following the release of a draft report on the review of the Rail Code.
- To prepare advice for consideration by the Governing Body on its determination of matters such as:
  - floor and ceiling costs that should apply to certain routes, on a segment-by-segment basis, as specified by the Railway Owner;

## Report on Operations *continued*

- weighted average cost of capital for urban and freight railway networks;
- Costing Principles and Over-payment Rules that should underpin third-party access charges;
- ring fencing or segregation arrangements that should apply to the railway owners;
- Train Management Guidelines and Statement of Train Path Policy that should apply to the railway owners; and
- approval of the negotiation of access agreements that may preclude other entities from access (Section 10 of the Code).
- Ensuring compliance audits of railway owners are carried out based on the Authority's approved scope of work.
- Ensuring that the audit of WestNet Rail's (WNR) Over-payment Rules is carried out based on the requirements in the approved Over-payment Rules.
- Establishing a working group comprising interested parties to assess the various methodologies for the allocation of common costs.

### Key Outputs

- The publication of one issues paper and determination of floor and ceiling costs for six lines and terminal ends.
- Compliance audits were issued for WNR and the Public Transport Authority.
- An audit for WNR's compliance with the Over-payment Rules was released.
- The provision of 23 submissions to the Governing Body for decision.

### Key Outcomes

- Improvement of the operation of the rail regulatory regime for the covered rail network within Western Australia through the review of the *Railways (Access) Code 2000*.
- The efficient operation of the rail regulatory regime within Western Australia through the efficient and effective administration of the *Railways (Access) Code 2000*.

### Future Directions

- Finalisation of the Report on the Rail Code Review expected in September 2005.

- Following release of the Final Report on the Rail Code Review, provide assistance to the Department of Treasury and Finance to prepare the relevant amendments to the Code.
- Monitor the performance of railway owners in meeting required service standards.
- Monitor the methodology and input parameters to calculate the WACC prior to the next determination on 30 June 2006.
- Ensure that any findings of non-compliance associated with the audit scope of work are rectified.
- Review the Over-payment Rules and Costing Principles to ensure that they are fair to both the railway owner and access seeker.
- Monitor the cost allocation methodologies to see what occurs in other jurisdictions and elsewhere in the rail industry.
- Provide recommendations to the Authority on the Review of Methodologies for the allocation of Common Costs, which is expected by the end of September 2005.



## LICENSING

To assess, approve and amend, where necessary, licences for the delivery of particular services in the water, gas and electricity industries.

- To assist the Governing Body in the preparation of required advice to the relevant Minister on the operation of the licensing schemes.
- Provide advice to the Governing Body on the assessment and approval of licence applications and applications for transfer or amendment.

## Submissions

- Thirty-eight submissions were presented to the Governing Body for its information, review or approval relating to licensing activities.

## Report on Operations *continued*

### *Water*

- No new water licences were approved, 37 licences were amended and one licence was renewed.
- An application by the Water Corporation to amend its water services operating licence to extend the metropolitan operating area boundary for drinking water and sewerage services, to align it with the Western Australian Planning Commission's Metropolitan Region Scheme boundary, was approved. The licence was also amended to change the status of the metropolitan operating area to be non-exclusive. Other regional operating areas included in the licence were also amended to be non-exclusive.

### *Gas*

- Standard Form Customer Contracts were approved for the six Gas Trading Licences.
- One gas licence was amended to transfer ownership to a related company.

### *Electricity*

- Draft licences for electricity generation, transmission, distribution, retail and integrated regional services were developed in conjunction with industry and consumer representative groups.
- One electricity generation licence was issued, being the first electricity licence to be issued in Western Australia.
- Licence application guidelines and an approved application form were developed.

### **Key Outcomes**

#### *Water*

- Licences were amended to more accurately reflect the role and functions of the Economic Regulation Authority.
- Competition in the provision of water services in Western Australia is being facilitated through changes to the status of water licences to be non-exclusive.

### *Gas*

- Residential and small business customers are provided a level of protection through standard contracts that are consistent with legislation that was enacted to protect their rights.

### *Electricity*

- An Electricity Licensing Scheme, consistent with the *Electricity Industry Act 2004*, is in the process of being established.
- The terms and conditions of the current draft licence provide for the protection of small use customers.

### **Future Directions**

- Develop Public Consultation Guidelines for licence applications.
- Continue to assess applications for new licences and applications for transfer or amendment of existing licences for the supply of particular water and gas services.



- Assess an estimated 50 electricity generation, transmission, distribution, retail and integrated regional services licence applications expected to be submitted by 31 December 2005. The licences are scheduled to be issued by 1 July 2006.
- Review the format of gas and water licences with a view to standardising any common provisions to facilitate more efficient regulatory oversight of these licences.
- Continue to review and enhance the licensing function in response to changes to the legislative and operating environment for licensed services.

## MONITORING

### Objective

- To ensure that licensees comply with the requirements of their licence.

### Key Accountabilities

- Prepare advice to the relevant Minister on compliance by licensees with their licences and failure to meet operational standards or other requirements of the licence.

- Monitor the performance of licensees and, for the purposes of such monitoring, to consult with interested groups and persons.
- Ensure that performance audits, asset management system reviews, key performance indicators, financial information and other information as required by the licence are provided.

### Key Outputs

#### Submissions

- Thirty-three submissions were presented to the Governing Body for its information, review or approval relating to licence monitoring activities.

#### Water

- Five Operational Audits and five Asset Management System Reviews were provided and reviewed, with reports provided to the relevant Minister.
- The Water Service Providers Statistics Report, comparing the operational details and service performance of all potable water licensees over the period 2002 to

2004, was completed and published on the ERA website.

#### Gas

- Ten Performance Audits and five Asset Management System Reports were provided and reviewed, with reports provided to the relevant Minister.
- Proposed Alinta retail gas tariff increases, to be effective from 1 July 2005, were approved in accordance with the *Energy Coordination (Gas Tariffs) Regulations 2000*.

#### Electricity

- Comments have been provided on various industry codes being developed by Government, which the Authority will be responsible for administering and reviewing.
- Compliance requirements and draft licences were made available to potential licensees via newspapers and the website.

## Report on Operations *continued*

### *Rail*

- Key performance indicators for the two railway owners were collected quarterly and the annual results posted on the ERA website.
- Key performance indicators were renegotiated with railway owners.

### **Key Outcomes**

#### *Water*

- Comparative information on the performance of the licensed Water Service Providers is publicly available.
- Recommendations for improvements required by licensees are readily identified, remedial plans established and the progress of the implementation of these plans monitored.
- Post-Audit implementation plans were received and reviewed following performance audits and asset management reviews.

### *Gas*

- The performance of gas licensees was reported, potential problems identified and corrective plans submitted to the Governing Body.

### *Electricity*

- Potential electricity licence applicants are aware of possible licence conditions and compliance requirements.

### *Rail*

- Improvements in the quality and usefulness of performance reports from railway owners have been achieved.

### **Future Directions**

- Twenty Operational Audits and 20 Asset Management System Reviews will be undertaken, with summary comments to be sent to the relevant Minister.
- The performance monitoring function to be further streamlined by developing a Standard Audit Scope to be used across the water, gas and electricity industries.

- Performance criteria for electricity licensees to be further developed in conjunction with industry and consumer groups.
- A licensing database to be developed to improve the efficiency and effectiveness of the licence monitoring function and to provide improved levels of information to internal management and external stakeholders.

### **CUSTOMER PROTECTION**

#### **Objective**

- To specify and protect the rights of residential and small business customers in dealing with service providers through licence provisions.

#### **Key Accountabilities**

- To protect consumers by adopting a broad consultative approach before making decisions relating to any significant industry licensing matter.
- To provide an effective complaint and disputes resolution processes for customers.

## Key Outputs

### Submissions

- Four submissions were presented to the Governing Body for their information, review or approval relating to customer protection activities.

### Water

- Fourteen customer charters were received and approved; and five Operational Audits which included specific performance criteria relating to customer charters, were received and reviewed during the year.

### Gas

- Standard Form Customer Contracts have been approved by the Authority for the six gas trading licensees in the operating areas of Coastal, Great Southern, Kalgoorlie-Boulder, Margaret River, Leinster and Goldfields-Esperance.
- A Memorandum of Understanding was negotiated with the Gas Industry Ombudsman.

- The Authority reviewed proposed amendments to the Gas Industry Ombudsman Scheme which will enable the creation of an energy ombudsman.
- The 'Gas Marketing Code Consultative Committee', comprising key individuals from industry, regulation and consumer groups, was established and commenced a review of the *Gas Marketing Code of Conduct*.

### Electricity

- Draft electricity generation, transmission, distribution, retail and integrated regional services licences were issued for comment.
- The Authority contributed to the development of a variety of codes being established for regulation of the industry, relating to customer service standards.

## Key Outcomes

- Licensees have significantly improved internal processes for dealing with customer complaints.

- Residential and small use customers of licensed water, gas and electricity service providers have a range of customer charters, standard contracts and codes of conduct to set minimum service levels.
- All customers have access to a range of complaint resolution processes, including mediation and arbitration.
- A greater understanding by licensees of the needs of customers has been achieved.

## Future Directions

- Expansion of the existing Gas Industry Ombudsman Scheme to include complaints against electricity service providers. The new scheme will be known as the Energy Ombudsman Scheme.
- Continue to review Customer Charters.
- Undertake a review of "The Code of Conduct for the Supply of Electricity to Small Use Customers".
- Review water and gas operating licences to be "user friendly" and more readily understood by customers.

## Report on Operations *continued*

- Ensure operational audits focus on reviewing industry compliance with Customer Charters and Codes.
- Review Standard Form Contracts in conjunction with electricity and gas retail licence applications.

### REFERENCES AND RESEARCH

#### Objective

- To conduct inquiries into any matters referred to the Authority, which may be in relation to either regulated or other industries, and to assist the Authority in undertaking its functions by providing research, modelling and legal advice.

*Inquiry into Urban Water and Wastewater Pricing*

#### Key Accountabilities

- Undertake an inquiry at the request of the Treasurer into the level and structure of prices for water and wastewater services in urban Western Australia. Service providers covered by the inquiry are the Water Corporation, AQWEST and Busselton Water Board. The period for the inquiry is 15 June 2004 to 30 September 2005.

#### Key Outputs

- The provision of seven submissions to the Governing Body for decision.
- The publication of an Issues paper, methodology paper and draft report.
- Public forums on the Draft Report were held in Perth, Bunbury and Busselton.

#### Key Outcomes

- The Final Report will make recommendations to the Government on the level and structure of urban water and wastewater prices.

#### Future Directions

- The Final Report is due to be delivered to Government on 30 September 2005. The Government will have 28 days to table the report in Parliament.

*Inquiry into the cost of supplying bulk potable water to Kalgoorlie-Boulder*

#### Key Accountabilities

- Undertake an inquiry at the request of the Treasurer into the cost of supplying bulk potable water to Kalgoorlie-Boulder

and surrounding regions. The period for the inquiry is 13 January 2005 to 16 September 2005.

#### Key Outputs

- The provision of five submissions to the Governing Body for decision.
- A Draft Report was published on 30 June 2005 and public submissions invited.

#### Key Outcomes

- The Final Report will identify the costs and benefits of two options of supplying bulk potable water to Kalgoorlie-Boulder (continuing use and expansion of Water Corporation's supply system, or an alternative scheme to pipe desalinated seawater from Esperance).

#### Future Directions

- The Final Report is due to be delivered to Government on 16 September 2005. The Government will have 28 days to table the report in Parliament.

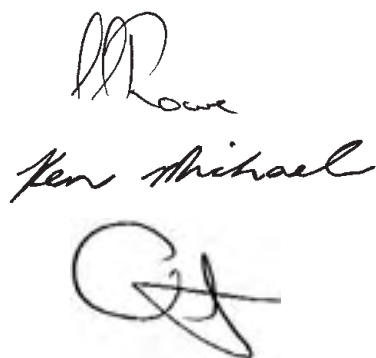
# Performance Indicators

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## Statement of Certification

We hereby certify that the accompanying performance indicators are based on proper records and are relevant and appropriate for assisting users to assess the performance of the Economic Regulation Authority (Authority).

These performance indicators fairly represent the performance of the Authority for the financial year ended 30 June 2005.



**ACCOUNTABLE AUTHORITY  
ECONOMIC REGULATION AUTHORITY**

31 August 2005



## Independent Audit Opinion

To the Parliament of Western Australia  
ECONOMIC REGULATION AUTHORITY  
PERFORMANCE INDICATORS FOR THE YEAR ENDED 30 JUNE 2005

### Audit Opinion

In my opinion, the key effectiveness and efficiency performance indicators of the Economic Regulation Authority are relevant and appropriate to help users assess the Authority's performance and fairly represent the indicated performance for the year ended 30 June 2005.

### Scope

#### *The Authority's Role*

The Authority is responsible for developing and maintaining proper records and systems for preparing performance indicators.

The performance indicators consist of key indicators of effectiveness and efficiency.

#### *Summary of my Role*

As required by the *Financial Administration and Audit Act 1985*, I have independently audited the performance indicators to express an opinion on them. This was done by looking at a sample of the evidence.

An audit does not guarantee that every amount and disclosure in the performance indicators is error free, nor does it examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the performance indicators.



D D R PEARSON  
**AUDITOR GENERAL**

14 October 2005

4th Floor Dumas House, 2 Havelock Street, West Perth 6005 Western Australia  
Tel: 08 9222 7500 Fax: 08 9322 5664

# Performance Indicators for 2004-05

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## Scope

As the Authority is subject to new legislation and has new functions associated with reforms in the electricity industry and the amendment of Treasurer's Instruction 904, a fresh approach to the reporting of performance indicators has been taken.

## Formulation of the Authority's Performance Indicators

Broad, high-level government strategic goals are supported at agency level by more specific desired outcomes. Agencies deliver services/programs to achieve these desired outcomes, which ultimately contribute to meeting the higher level government strategic goals.

These services/programs are the basis for performance indicators.

The strategic high-level government goal relevant to the Authority is:

*To develop a strong economy that delivers more jobs, more opportunities and greater wealth to Western Australians by creating the conditions required for investment and growth.*

The desired outcome of the activities of the Authority in support of this high level strategic goal is:

*The efficient, safe and equitable provision of utility services in Western Australia.*

The Authority cannot achieve this high-level outcome directly, but instead seeks to play its part towards the achievement of this goal.

More directly, the Authority seeks:

*To encourage economic development of the State of Western Australia by regulating vital infrastructure in a fair, independent and transparent manner, including independent reviews as referred by Government.*

It is recognised that decisions of the Authority in support of this outcome are very difficult to measure objectively, as the Authority must balance the interests of the various parties impacted.

## Performance Indicators for 2004-05 *continued*

The requirement on the Authority to prepare performance indicators has, therefore, been modified by legislation to limit them to management functions. Section 23 of the *Economic Regulation Authority Act 2003* states that:

*“any requirement under the Treasurer’s Instructions (issued under section 58 of the Financial Administration and Audit Act 1985) that the Authority prepare performance indicators is to be limited to the Authority’s management functions (including financial management), and is not to apply to the performance of any other function of the Authority.”*

A more objective and administrative measure of performance is the quality, quantity and cost of the submissions that are considered by the Authority’s Governing Body to facilitate their decision-making.

Therefore, the essential measurable output for the Authority in support of this revised outcome is:

*Submissions by the Secretariat to the Authority’s Governing Body.*

### Effectiveness

The key effectiveness indicators are:

#### Quantity

Number of submissions made to the Authority’s Governing Body.

#### Quality

Rating by the Authority’s Governing Body as to the content, accuracy and presentation of these submissions.

#### Timeliness

Number (percentage) of submissions provided by the required deadline.

These ratings are assigned and collated monthly. This enhances the accuracy and therefore the value of the indicators, and provides important feedback on the quality and timeliness of submissions received each month.

The timeliness indicator has been expanded to include a rating by the Authority’s Governing Body as to their perception of the timeliness of the submissions.

### Efficiency

The key efficiency indicator is:

#### Cost

Average cost per submission.

This cost is calculated to include the costs of all personnel and other resources involved since 1 July 2004.

### Submissions – 2004-05

Thirty-eight meetings of the Authority's Governing Body have been held since 1 July 2004 to review and discuss submissions. In addition to the meetings, a number of submissions were reviewed by email. The number of submissions exceeded the target significantly for two main reasons:

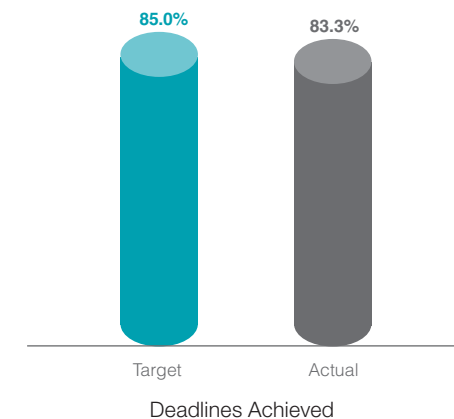
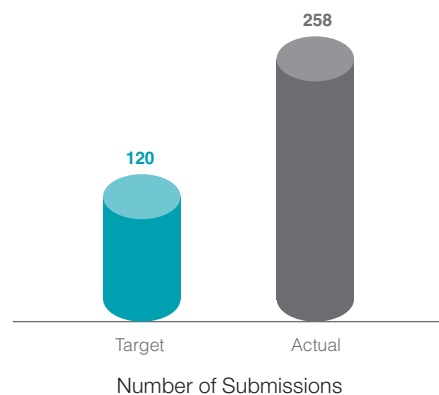
- the process of making submissions to the Authority's Governing Body is relatively new and there was no other relevant information on which to estimate a target; and
- there was a larger than anticipated number of submissions requiring formal approval.

The members of Authority's Governing Body rate the submissions they review each month for quality and timeliness. Ratings are assigned on a range of one to five, where one is "well below expectations", three is "expected level of performance" and five is "well above expectations". Ratings are averaged for the three members.

Quality was consistently rated above the expected level of performance, with the average rating for the year being 4.1.

Of the 258 submissions reviewed during the year, six had deadlines. These deadlines related to extensions of time for the submission of revisions to Access Arrangements, acceptance of late public submissions, the adoption of guidelines for working papers etc.

Of the six submissions with deadlines, five were provided on or before the deadline. This equates to 83.3 per cent of submissions achieving their deadline, marginally below the target of 85 per cent.



## Performance Indicators *continued*

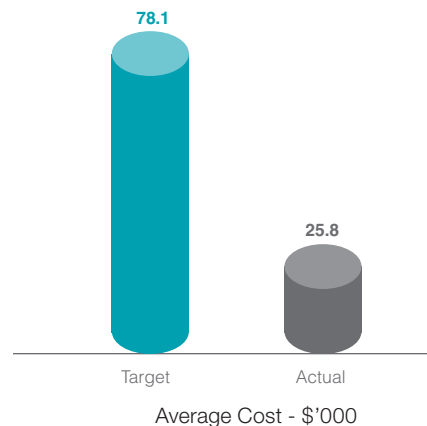
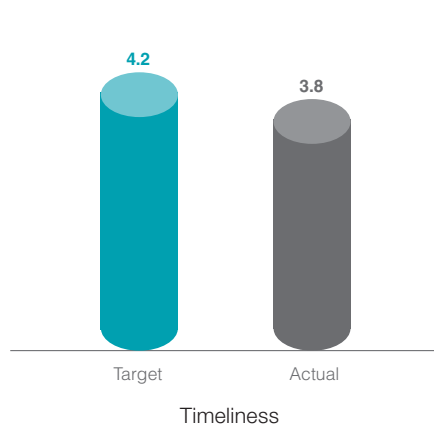
Timeliness in this case refers to the ratings assigned by the members of the Authority's governing body following each meeting of the Authority. It reflects members' perception of the timeliness of the submissions.

The target was not met because the agency experienced rapid growth in workload, including tasks required to establish the Authority.

The total cost of the operations of the Authority for the 12 months since 1 July 2004 was \$6.664 million, compared to an expenditure limit of \$9.366 million. The budget estimate for 2004-05 was set at \$5.437 million but as this was the first full year of operation for the Authority, approval was received for an increase in the expenditure limit and supplementary funding. There were 258 submissions compared to the target of 120.

The average cost per submission of \$25,853 is well below the expected average of \$78,050.

The combination of expenditure, which was under the approved expenditure limit used to set the target, and the number of submissions, which was well above target, resulted in the average cost of each submission being well below target.





# Report on Corporate Activities

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## Developing Our Organisational Culture

As a new organisation, the Authority is striving to develop its own strong identity and corporate culture. This is particularly important, because like many leading organisations, the Authority regards its people as its most important asset.

In its first full year of operation, the Authority focused on amalgamating three separate industry-specific regulatory agencies (Office of Gas Access Regulation, Office of the Rail Access Regulator and elements of the Office of Water Regulation). It also acquired expertise in dealing with a new regulated industry – electricity.

The Authority determined the need for a revised corporate structure to deal with functional commonalities and ensure that resources are allocated efficiently. The agency subsequently identified the expertise and optimal staffing levels it required to fulfil its many and varied regulatory functions.

During the year the Authority developed its Corporate Plan 2005-2007, mapping the Authority's strategic direction, as well as a Business Plan and Work Program for 2005-06. The plans are aimed at achieving the agency's key objectives and dealing with major challenges. Prominent among the challenges is the need to "bring the agency together" in terms of culture, location, corporate and management information systems and strategies.

Towards the end of the 2004-05 financial year, the Authority completed the consolidation of all staff from four locations within the Perth CBD, to the sixth floor of Governor Stirling Tower in St Georges Terrace – a vital step in assisting the agency to feel "as one". At the same time, the Authority undertook the development of corporate "branding", in terms of graphic design to be used in various applications, including publications. It also commenced planning of a major upgrade of its document and records management system.

## Organisation Structure

The Economic Regulation Authority was established on 1 January 2004 as a body corporate with perpetual succession.

Dr Ken Michael AM CitWA, previously the Independent Gas Pipelines Access Regulator, was initially appointed as the Alternate Chairman until the Governing Body of the Authority was appointed. The Governing Body consists of a full-time Chairman and two part-time members.

On 8 March 2004, Mr Lyndon Rowe, formerly Chief Executive Officer of the Chamber of Commerce and Industry of Western Australia, was appointed as the full-time chairman for a period of five years.

Dr Michael and Mr Chris Field (Chairman of the Australian Consumers' Association, Director of the Energy and Water Ombudsman Victoria and Director of the Consumer Utilities Advocacy Centre, Victoria) were appointed as part-time members of the Governing Body.

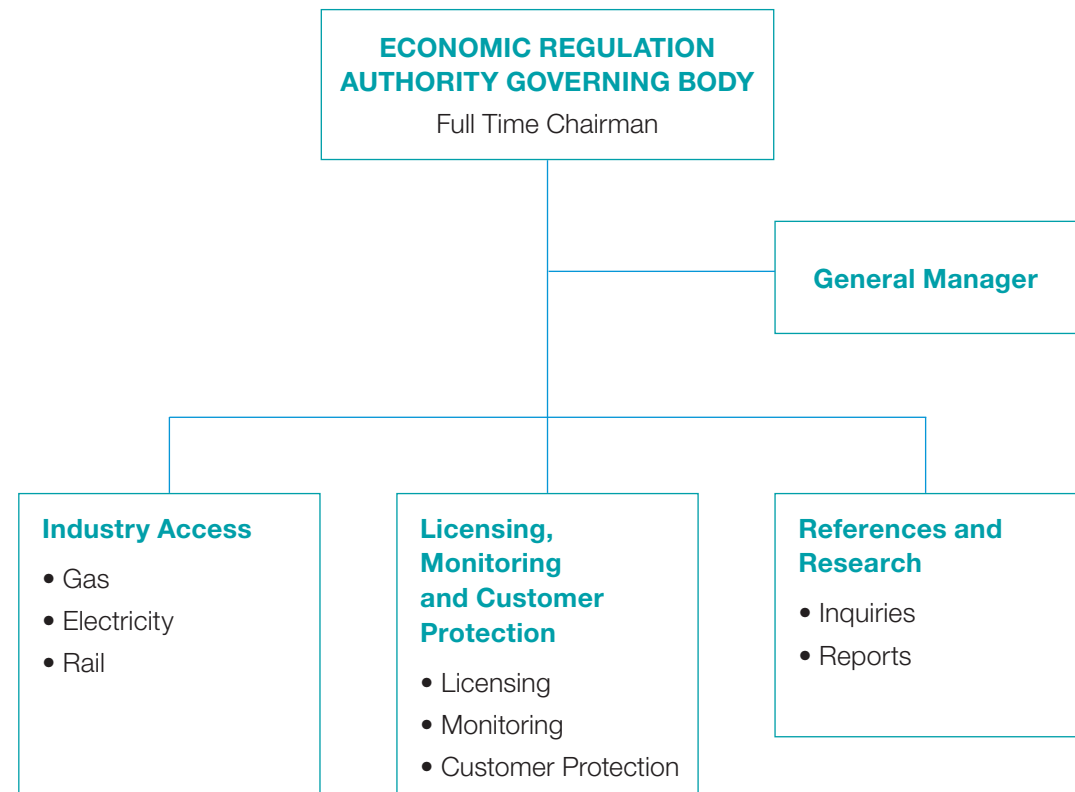
## Report on Corporate Activities *continued*

These part-time positions are for periods of one year (reappointed on 8 March 2005) and five years (appointed on 8 March 2004) respectively.

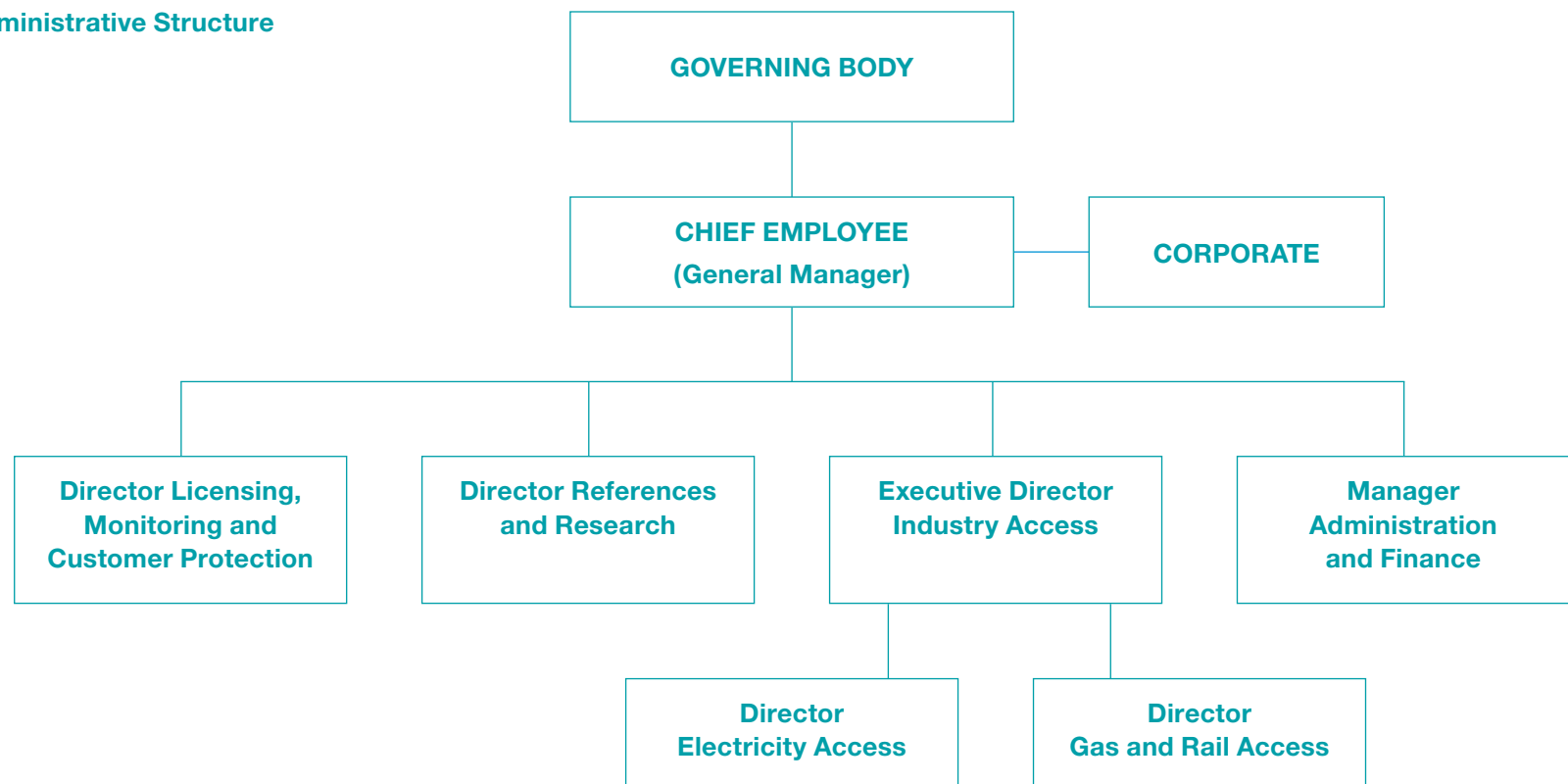
The Authority also provides Secretariat support to the Gas Disputes Arbitrator, whose position is established by the *Gas Pipelines Access (Western Australia) Act 1998*.

Authority staff members are the initial point of contact in day-to-day dealings on matters concerning gas pipeline, electricity, rail and water regulation. While Authority staff may provide advice or other assistance in relation to these matters, it is the Governing Body of the Authority that is responsible for the regulatory decisions.

### Regulatory Structure



### Administrative Structure



## Report on Corporate Activities *continued*

### Key Personnel



*Mr Lyndon Rowe*  
**Chairman**

Mr Rowe has an honours degree in Economics from the University of Adelaide, South Australia. Prior to his appointment as Chairman, he was Chief

Executive of the Chamber of Commerce and Industry of WA since 1990.

After working for the National Bank and Flinders University in South Australia, Mr Rowe came to Perth to teach Economics at the WA Institute of Technology (now Curtin University of Technology).

Mr Rowe has a strong interest in labour economics, micro-economics, education and training and has published a number of papers dealing with Australia's industrial relations system. He was the recipient of the 1999 Austin Holmes Award awarded by the Economic Society of Australia (WA), and was

awarded the Centenary Medal for service to Australian society and to commerce and industry in 2003.

In addition to his role at the Authority, Mr Rowe is also a member of The University of WA Senate, Chairman of Sevenoaks Senior College Board and a Director of Perth Airport.



*Dr Ken Michael AM CITWA*  
**Member of the Governing Body**

Dr Michael has a Bachelor of Engineering degree with first class honours from The University of Western Australia and has a

Doctor of Philosophy from the University of London.

Dr Michael is Chancellor of The University of Western Australia, Chairman of the Board of Trustees of the Western Australian Museum and Chairman of the East Perth Redevelopment Authority.

He is a former Commissioner of Main Roads Western Australia and concurrently served as Public Service Commissioner in 1993-94. He is also a former Chairman of Commissioners of the City of Albany.

Dr Michael was appointed to the position of Western Australian Independent Gas Pipelines Access Regulator for a period of three years in June 1999 after having acted in the position since February 1999. He remained in the position from June 2002 in an acting capacity, and was reappointed in April 2003 for a further five years.

He was also appointed as the Rail Access Regulator on 27 August 2001, and remained in that position until the Authority subsumed the functions of that role on 1 January 2004.

On 6 June 2005, the Hon. Geoff Gallop, Premier, announced Dr Michael's appointment as Western Australia's Governor Designate. Dr Michael will formally take up the appointment in January 2006.



*Mr Chris Field*  
**Member of the  
Governing Body**

Mr Field holds Arts and Law (Honours) degrees from La Trobe University, Victoria.

Until June 2005, Mr Field was the

Executive Director of the Consumer Law Centre Victoria, a position he held for a period of seven years. In that role, he was widely regarded as one of Australia's leading consumer advocates, well known for his work in promoting effective competition and appropriate consumer protection frameworks.

In addition to his role at the Authority, Mr Field is the Chairman of the Australian Consumers' Association, a Director of the Energy and Water Ombudsman Victoria, a Director of the Consumer Utilities Advocacy Centre, Victoria and an Adjunct Professor at La Trobe University.

Over the past seven years, Mr Field has delivered approximately 30 speeches each year on competition and consumer issues and has been a leading national media commentator.

He publishes regularly on competition, regulatory and consumer issues and is the 'Consumer Dealings' section editor of the Australian Business Law Review.



*Mr Peter Kolf*  
**General Manager**

Mr Kolf has a Master of Economics degree from Adelaide University and a Bachelor of Commerce degree with honours from the University of Melbourne.

Mr Kolf's previous positions include being Executive Director of the Office of Gas Access Regulation, Senior Manager with the Western Australian Office of Energy, Director of the Independent Air Fares

Committee (responsible for regulating air fares under the two airlines policy) and Manager, Pricing Policy, Telecom Australia.

Mr Kolf was appointed to the position of General Manager in July 2004, having acted in the position since 1 January 2004.



## Report on Corporate Activities *continued*

### Management Team

In addition to the General Manager, the management team comprises:



**Mr Robert Pulella**  
*Acting Executive Director,  
Industry Access*



**Mr Russell Dumas**  
*Director,  
Gas and Rail Access*



**Mr Greg Watkinson**  
*Acting Director,  
References and Research*



**Mr Paul Kelly**  
*Director,  
Licensing, Monitoring and  
Customer Protection*



**Mr Alistair Butcher**  
*Acting Director,  
Electricity Access*



**Ms Pam Herbener**  
*Administration Manager*

### Permanent and Contract Employees

<b>Classification</b>	<b>Number of Permanent Employees 30 June 2005</b>	<b>Number of Contract Employees 30 June 2005</b>
Class 3	1	-
Level 9	3	-
Level 7	7	2
Level 6	3	1
Level 5	1	-
Level 4	3	-
Level 3	1	1
Level 2	3	-
Level 1	-	-
<b>Totals</b>	<b>22</b>	<b>4</b>

Additionally, a number of contractors have been engaged for varying periods.

### Boards and Committees

During the 2004-05 financial year, the Economic Regulation Authority was represented on the following committees:

#### Economic Regulation Authority Consumer Consultative Committee

The Economic Regulation Authority Consumer Consultative Committee (ERACCC) was established by the Authority in 2005 to facilitate the exchange of information between the Authority and consumers on regulatory issues in the gas, electricity, rail and water industries. More specifically, the purpose of the ERACCC is to provide:

- a source of advice to the Authority from consumer representatives in relation to its decision-making and policy development on regulatory issues affecting customers;
- a means for the Authority to keep consumer representatives informed on regulatory issues;
- consumer representatives with the opportunity to present their views on specific issues to the Authority; and
- an avenue for broader consumer consultation on utility regulation issues.

## Report on Corporate Activities *continued*

The ERACCC comprises an Authority Member, Mr Chris Field (as the Chairperson), and core representatives of different sectors of the community, particularly from the consumer movement.

The membership of the ERACCC is as follows:

- Ms Shaheen Hughes – Chamber of Minerals and Energy of WA (Inc)
- Ms Shona Zulsdorf – Chamber of Minerals and Energy of WA (Inc)
- Mr Bill Sashegyi – Chamber of Commerce and Industry of WA
- Mr Joe Lenzo – Property Council of Australia
- Ms Jan Star – WA Local Government Association
- Mrs Yvonne Lawrence – Country Women's Association of WA (Inc)
- Mr Dale Park – WA Farmers Federation
- Mr Hugh Harding – Pastoralists and Graziers Association of WA (Inc)
- Ms Deirdre O'Donnell – State Ombudsman's Office

- Ms Lisa Baker – WA Council of Social Services
- Ms Kate Mills – WA Council of Social Services
- Mr Gary Newcombe – Department of Consumer and Employment Protection
- Mrs Genette Keating – Consumers Association of Western Australia
- Ms Su Mahalingham – Consumer Credit Legal Services (WA) Inc
- Ms Lisa Scaffidi – Committee for Economic Development of Australia

### Gas Marketing Code of Conduct Consultative Committee

The Gas Marketing Code of Conduct Consultative Committee was established for the purpose of:

- advising the Authority on matters relating to the Gas Marketing Code of Conduct;
- undertaking public reviews of the Code; and
- providing advice to the Authority on proposed amendment or replacement of the Code of Conduct.

The Gas Marketing Code of Conduct specifies what gas suppliers can and cannot do when they market gas to residential and small business customers. All gas companies that market gas to residential and small business customers in Western Australia are required to comply with the Code of Conduct.

The Authority chairs the Committee, which includes representatives from the Minister for Consumer Protection (Department of Consumer and Employment Protection), the Chamber of Commerce and Industry of Western Australia, a nominated consumer association (Western Australian Council of Social Services) and each retailer who holds a gas trading licence.

During the reporting period, the Authority had an observer role on the following committees:

### Technical Rules Committee

Under the *Electricity Networks Access Code 2004*, Western Power is required to submit to the Authority a set of proposed Technical Rules for its South West Interconnected Network (SWIN) in the South West Interconnected System (SWIS) at the

same time it submits its proposed Access Arrangement. Technical Rules consist of the standards, procedures and planning criteria governing the construction and operation of an electricity network.

The Authority is required to assess and, where appropriate, approve the proposed Technical Rules.

A Technical Rules Committee has been established to provide specialist knowledge and advice to assist the Authority in approving the Technical Rules proposed by Western Power for its SWIN.

The Technical Rules Committee is chaired by a representative of the Coordinator of Energy and its membership includes representatives of:

- Western Power;
- each service provider of a network interconnected with Western Power's SWIN; and
- users of the SWIN.

### Transitional Market Advisory Committee

The Transitional Market Advisory Committee (TMAC) is an informal forerunner of the Market Advisory Committee, which is to be established on 1 July 2006 under section 2.3 of the Wholesale Electricity Market Rules, made under the *Electricity Industry (Wholesale Electricity Market) Regulations 2004*.

TMAC comprises industry representatives convened by the Independent Market Operator (IMO), the independent statutory corporation tasked with the administration and operation of the Western Australian Wholesale Electricity Market. The committee's functions are to advise the IMO on:

- market rule change proposals; and
- market operations and SWIS operation matters.

The committee also advises the IMO and System Management on procedural change proposals.

### Retail Energy Market Company (REMCo) Board

REMCo is the Retail Market Administrator for the contestable gas retail markets of Western Australia and South Australia. REMCo is governed by a Board of Directors.

### Rule Change Committee

The Rule Change Committee is operated by REMCo. Its purpose is to assist REMCo in the administration of gas full retail contestability in Western Australia and South Australia.

The objectives of the Rule Change Committee are to ensure:

- that the retail gas market in Western Australia and South Australia operates in an open, competitive, efficient and fair manner;
- compliance with all applicable laws;
- that neither of the abovementioned jurisdictions is advantaged or disadvantaged in comparison with the other jurisdiction; and
- consultation with all relevant parties is undertaken as is reasonably required to meet the objectives of REMCo.

## Report on Corporate Activities *continued*

### Balancing, Load, Allocation and Settlement Team

The Balancing, Load, Allocation and Settlement Team has broad membership across gas market participants, pipeline operators, and prescribed persons across both Western Australia and South Australia. It deals with the technical issues related to balancing, load allocation and settlement.

### Code of Conduct Consultative Committee

From 1 January 2005, under Part 6 of the *Electricity Industry Act 2004*, the Authority is required to convene the Code of Conduct Consultative Committee, which is to advise the Authority on matters relating to the *Code of Conduct for the Supply of Electricity to Small Use Customers*. The Code regulates and controls the conduct of retailers, distributors and electricity marketing agents.

This committee has not yet transitioned from the Minister for Energy.

### Corporate Support

A small team provides high-level strategic and operational support to the Governing Body, including support in relation to the preparation of the Annual Report, Corporate Plan and Work Program.

### Administration and Finance

Other major corporate services, including Human Resource and Accounting Services, are managed by the Administration and Finance Division. Some of this work is outsourced through a service level agreement with the Western Australian Department of Treasury and Finance. Other services are internally sourced and some, such as information services are outsourced.

The Authority procures goods and services in accordance with the Western Australian State Supply Commission policies.

The Administration and Finance group provided 42 submissions to the Governing Body for decision.

### Compliance

#### Compliance with Human Resource Management Standards

Human resource services are provided by the Department of Treasury and Finance, in accordance with a service level agreement between the two agencies.

With the exception of the Governing Body, all permanent and contract employees are employed under the provisions of the *Public Sector Management Act 1994 (the Act)*. The *Government Officers Salaries, Allowances and Conditions General Agreement 2004* in conjunction with the *Public Service Award 1992* prescribes the conditions of employment for all staff.

All employee recruitment is performed in accordance with the public sector standards in human resource management and the approved procedures under the Act.

In addition to its own permanent employees, the Authority relies on the use of specialist external consultants and contract staff to provide necessary expertise on an



“as needed” basis. The creation of a single Authority to regulate a number of functions provides a resource pool of specialist analysts who can undertake work and contribute to various aspects of each type of infrastructure.

Handling of complaints relating to Human Resource Management Standards is dealt with under the Authority’s Code of Conduct, which advises that anyone having a serious concern about the actions of any member of the Authority in relation to the observance of the Code should refer the matter to the General Manager.

Employees and consultants working for the Authority are provided with a copy of the Code of Conduct that sets out policies relating to Human Resource Management Standards.

The Authority has procedures in place and has undertaken appropriate assessments to ensure ongoing compliance with the Public Sector Standards in Human Resource Management.

Compliance is assessed through:

- ensuring consistency of policies with the Standards;
- internal reviews;
- external audits;
- independent checks of individual transactions;
- staff feedback through staff forums; and
- staff feedback from exit interviews or exit questionnaires.

There were no claims of breach of the Public Sector Standards in Human Resource Management during the reporting period.

### **Compliance with Codes of Ethics and Codes of Conduct (Ethical Codes)**

The Authority has adopted the Western Australian Public Sector Code of Ethics, which provides for the ethical principles of justice, respect for persons and responsible care. In addition, the Authority upholds the values of teamwork, leadership, research and development and encouragement.

All executive staff, employees and consultants providing services to the Authority are bound by the Public Sector Code of Ethics and the Economic Regulation Authority Code of Conduct.

The Authority’s Code of Conduct elaborates on the Public Sector Code of Ethics so as to more clearly relate the broad principles and values to executive personnel, other employees and consultants.

The Authority has complied with the Western Australian Public Sector Code of Ethics and the Authority’s Code of Conduct in undertaking its functions.

Procedures are in place to ensure that ongoing compliance and appropriate internal assessments have been made. Compliance is assessed through:

- external financial audits;
- specific examinations by external agencies;
- internal reviews;
- staff feedback through staff forums;

## Report on Corporate Activities *continued*

- staff feedback from exit interviews and questionnaires; and
- the analysis of, and action on, substantiated complaints on issues raised about non-compliance with ethical codes.

No issues of non-compliance with the Code of Ethics or the Code of Conduct arose during the reporting period.

### Equal Employment Opportunity (EEO) Outcomes

The Authority supports the principles of equity and diversity in the workforce and is committed to the promotion of equal employment opportunity.

The Authority is in the process of developing its EEO Policy and Plan, which are to be completed and approved during the 2005-06 financial year.

### Workers' Compensation

There were no claims for workers' compensation by any employees of the Authority during the year under review.

### Internal Audit

An internal audit of the Authority was undertaken in accordance with the requirements of Section 55(f) of the *Financial Administration and Audit Act 1985* and relevant Treasurer's Instructions.

The audit concluded that adequate controls are being maintained in most financial areas. The auditor's recommendations largely related to the management of information available from the systems of the Department of Treasury and Finance, to enable more effective review of financial transactions and payroll. These issues are being addressed through the implementation of a new Financial Management Information System in July 2005, as well as further discussion with the Department of Treasury and Finance on the information provided to the Authority.

### Risk Management

Following the amalgamation of economic regulatory functions in gas, electricity, rail and water, during the review period the Authority began a complete revision of its risk register and risk management strategy.

Senior staff held workshops to identify the major business risks affecting the Authority achieving its objectives and to develop the necessary Risk Treatment Plans, where risks need to be reduced or managed.

The Authority's risk register and risk management strategy will be monitored annually and reviewed as part of the internal audit function.

### Corruption Prevention

The Authority maintains a comprehensive Code of Conduct to guide Members, management, employees, contractors and consultants in the appropriate manner on which they should conduct themselves and the affairs of the organisation. This includes ensuring that all outcomes and dealings have contributed to the benefit of the community as a whole.

The Authority has an expectation of the behaviour of persons employed or contracted to the organisation. All Members, management, employees, contractors and consultants for the Authority are required to comply with the Authority's Code of Conduct.

It outlines the measures taken by the Authority to prevent corruption and misconduct, including measures in relation to employees' responsibilities with regard to:

- conflicts of interest;
- rewards, gifts and gratuities;
- the use of agency resources; and
- the treatment of official information and communication.

The Code of Conduct sets out that, if corruption is suspected or is occurring, this should be reported to the General Manager, the Governing Body or the Western Australia Gas Disputes Arbitrator. Alternatively, employees are encouraged to obtain advice from the Anti-Corruption Commission.

The Authority has specific obligations concerning the confidentiality of information it receives from third parties. These obligations vary depending on the function the Authority is exercising and the particular legislation governing that function.

In addition, a person who is or has been a Member of the Governing Body or a staff member of the Authority must comply with the obligations set out under section 57 of the *ERA Act* in relation to the treatment of confidential information obtained in the course of duty. A breach of such obligations may attract a penalty of \$10,000 or imprisonment for 12 months.

The Authority has put in place measures to ensure all confidential information is secure as would reasonably be expected.

### Public Interest Disclosures

The *Public Interest Disclosure Act 2003* has been enacted to protect the privacy and confidentiality of both the individual making a public interest disclosure and the subject of that disclosure. The Act deals with the disclosure of information on the improper conduct of government officials, public authorities or government contractors.

The General Manager has been appointed as the Public Interest Disclosure Officer for the Authority and procedures are in place to

process any public interest disclosure that is referred to the Authority.

Internal procedures relating to the Authority's obligations under the *Public Interest Disclosure Act 2003* have been developed and implemented in accordance with the guidelines provided by the Office of the Public Sector Standards Commissioner.

There were no public interest disclosures in the period under review.

### Staff Declarations

Pursuant to section 30 of the *ERA Act*, members of the Authority's Governing Body and employees have a duty to avoid conflict of interest. The Authority's Corporate Governance Manual and Code of Conduct provide information on what constitutes a conflict of interest, to whom it is applicable, how to avoid it and how to deal with any suspected or actual conflicts of interest.

In accordance with Treasurer's Instruction 903, the Authority confirms that no shares in any subsidiary body of the agency are held

## Report on Corporate Activities *continued*

as a nominee or held beneficially by a Senior Officer of the Authority. In addition, Treasurer's Instruction 903 requires particulars of any interest in any existing or proposed contract, which a Senior Officer, or a firm of which a Senior Officer is a member, or an entity in which the Senior Officer has a substantial financial interest, has made with the agency or any related or affiliated body. There are no such interests.

### Stakeholder and Public Communication

#### Overview

Thorough and transparent communication processes are critical in engendering confidence in regulatory processes and outcomes and the success of those regulatory processes and outcomes. For that reason, the Authority is committed to the importance of undertaking open and comprehensive communication processes in relation to the regulatory matters with which it deals.

In performing its regulatory functions, the Authority is guided by the various codes and acts that outline the Authority's obligations in relation to stakeholder and public communication.

Stakeholder and public communication is undertaken in a number of ways, including through comprehensive public consultation involving submissions, public forums, consultative committees (refer to Boards and Committees), specific purpose conferences and meetings with the Authority or Secretariat.

Submissions from interested parties may be made on either a public or confidential basis. Public submissions are published on the Authority's website [www.era.wa.gov.au](http://www.era.wa.gov.au).

#### ERA website

The Economic Regulation Authority website ([www.era.wa.gov.au](http://www.era.wa.gov.au)) is a key communication tool for the Authority.

This financial year, following the amalgamation of economic regulatory functions in gas, rail, water and electricity, it has been a priority for

the Authority to redevelop its website to cater for the needs of the industries it regulates, Government, stakeholders and the general public.

A new website is being developed in accordance with the Western Australian Government's compliance requirements and consistent with the Authority's new corporate image.

In developing the new website, the Authority is aiming to ensure that the site is user-friendly and the information provided is easily accessible.

### Publications

The following publications were issued during 2004-05 and may be found on the Authority's website:

1 July 2004

Determination of the Weighted Average Cost of Capital for the urban and freight railway infrastructure for 2004-05

9 July 2004  
Floor and Ceiling Costs on Four WestNet Rail Grain Route Sections

9 July 2004  
Ceiling Costs on Seven Terminal End Sections of the SW Main Line

22 July 2004  
Issues Paper on the Inquiry on Urban Water and Wastewater Pricing

29 July 2004  
Amended Draft Decision for the Goldfields Gas Pipeline Access Arrangement

17 August 2004  
2003-04 Rail Network Information and KPIs for WestNet Rail and the Public Transport Authority

27 September 2004  
WestNet Rail's Audits for 2003-04

15 October 2004  
Inquiry on Urban Water and Wastewater Pricing - Methodology Paper

20 October 2004  
Floor and Ceiling Costs for the Public Transport Authority

30 November 2004  
ERA 2003-04 Annual Report

9 December 2004  
2005 Tariff Variations for the AlintaGas Mid-West and South-West Distribution Systems

30 December 2004  
ERA Corporate Plan 2005-07

14 January 2005  
Discussion Paper on the Weighted Average Cost of Capital (WACC) Methodology to Apply to Western Power's Network in the SWIS

20 January 2005  
Issues Paper for Comment on the Water Corporation's Application to Amend its Metropolitan Operating Area Boundary

23 February 2005  
Issues Paper for Comment on the Review of the Western Australian Railways (Access) Code 2000

25 February 2005  
Preferred WACC Methodology Determination for Electricity Networks

28 February 2005  
Draft Decision on the AlintaGas Networks proposed Access Arrangement for 2005-2009

10 March 2005  
Discussion Paper on Ring Fencing Rules to Apply to Western Power's Networks Business

18 March 2005  
Draft Report for the Inquiry on Urban Water and Wastewater Pricing

11 May 2005  
Draft Decision on the Proposed Revised Dampier to Bunbury Natural Gas Pipeline Access Arrangement for 2005-2010

17 May 2005  
Final Decision on the Proposed Access Arrangement for the Goldfields Gas Pipeline

30 June 2005  
Draft Report for Inquiry into the Cost of Supplying Bulk Potable Water to Kalgoorlie-Boulder



## Report on Corporate Activities *continued*

### Complaint Handling

There are three areas that may be the source of complaints to the Authority. These are: the administration of the Secretariat; employment-related matters; and matters concerning the regulatory functions of the Authority.

Handling of complaints relating to administration of the Secretariat and employment-related matters are dealt with under the Code of Conduct. This is available in either hard copy form at reception or on the home page of the Authority's website [www.era.wa.gov.au](http://www.era.wa.gov.au).

The Code of Conduct advises that anyone having a serious concern about the actions of any member of the Authority in relation to their observance of the Code should refer the matter to the General Manager. Employees and consultants working for the Authority are provided with a copy of the Code of Conduct that sets out relevant policies in some detail, including the handling of complaints on administrative and employment-related matters.

A variety of circumstances may give rise to complaints in the performance of the Authority's functions. Many of these functions involve the exercise of discretion in circumstances where the competing interests of owners of infrastructure or other interested parties may give rise to complaints.

Complaints relating to regulatory matters are handled through comprehensive public consultation involving submissions, public forums, specific-purpose conferences and meetings with the Authority or Secretariat. Submissions may be made on either a public or confidential basis. Public submissions are published on the Authority's website [www.era.wa.gov.au](http://www.era.wa.gov.au).

In the event that parties are unable to resolve a dispute, several avenues are available for review.

Specific decisions by the Authority under the *Gas Pipelines Access (Western Australia) Act 1998 (the Act)* and the *Electricity Industry Act 2004*, such as to impose an access arrangement, may be referred to the Western Australian Gas Review Board.

No appeals were lodged.

Under the Act and the *Electricity Networks Access Code 2004*, a prospective user of a covered gas pipeline or a covered electricity network may make an application to the Western Australian Gas Disputes Arbitrator to resolve a dispute.

No disputes were lodged.

The *Railways (Access) Act 1998* makes provision for the *Railways (Access) Code 2000* to include the arbitration of disputes between railways owners and a proponent.

No disputes were lodged.

The *Water Services Licensing Act 1995* (WSL Act) provides for a framework for the arbitration of disputes arising from the Authority's decisions in relation to its water services licensing functions.

On 29 April 2004, Chittering Valley Irrigation Limited lodged an appeal with the Minister for the Environment against the Authority's decision to refuse to grant Chittering Valley Irrigation Limited a licence to supply water.

During the appeal investigation, the responsibility for the administration of the WSL Act was transferred from the Minister for the Environment to the Minister Assisting the Minister for Water Resources.

On 27 June 2005, the Minister Assisting the Minister for Water Resources dismissed the appeal. The Minister Assisting the Minister for Water Resources determined that the decision made by the Authority to refuse to grant Chittering Valley Irrigation Limited a licence to supply water was appropriate.

### Memoranda of Understanding

The Authority has signed Memoranda of Understanding with the following organisations:

#### *Gas Industry Ombudsman*

The Memorandum of Understanding between the Authority and the Gas Industry Ombudsman will assist the Authority to identify and deal with systemic complaints from residential and small business customers about their gas suppliers or other matters that may need to be addressed by way of

licence, code or guideline amendment or by way of action under the *Economic Regulation Authority Act 2003*.

#### *Office of Water Policy*

On 5 August 2004, the Authority signed a Memorandum of Understanding with the Office of Water Policy to:

- ensure that decision-making processes of both parties are closely integrated and well informed;
- provide a process for seeking and providing policy guidance on minimum standards for the management of the water services licensing scheme established under the *Water Services Licensing Act 1995*; and
- provide for information sharing as appropriate between the parties in the context of their respective roles in the water services industries.

On 1 July 2005, the Water Services Planning Branch of the Department of Environment commenced operations, continuing the functions formerly undertaken by the Office of

Water Policy. As a result, the Memorandum of Understanding will need to be reviewed.

### Environment

The Authority is mindful of its social and environmental obligations at all times. Accordingly Authority members, management, staff and contractors have been encouraged to reduce, re-use and recycle consumable materials, wherever practicable. The extensive use of the Authority's website for publication of notices, reports and publications has also reduced the reliance on hard copy publications, which also helps the environment.

### Waste paper recycling

Recycling bins have been placed throughout offices used by the Authority during the year and approximately 3,000 kilograms of paper were collected for recycling.

## Report on Corporate Activities *continued*

### Energy smart government policy

The Energy Smart Government Policy requires Government agencies with 25 or more full-time employees to commit to achieving a 12 per cent reduction in non-transport related energy usage by 2006-07. As part of this initiative, each agency is required to establish a baseline against which energy consumption behaviour is reported.

Since the Authority's establishment, staff have been spread over four office premises on a temporary basis. As a result, it has not been possible to determine a meaningful baseline against which the Authority could measure its energy usage trends.

Following the recent location of all staff to the sixth floor of Governor Stirling Tower in St Georges Terrace, it is the Authority's intention to determine its energy usage baseline in the 2005-06 financial year and to implement measures to ensure the Authority's compliance with the requirements of the Energy Smart Government Policy from there on.

### Sustainability

Commitment 1.2 of the Sustainability Code of Practice for Government Agencies and Resource Guide for Implementation requires agencies to report on compliance with the Code and other sustainability achievements in annual reports, consistent with the Annual Report framework.

In accordance with the Sustainability Code of Practice, the Authority is in the process of developing its Sustainability Action Plan, which is expected to be implemented by the end of 2005.

### Performance Evaluations

In accordance with section 7(e) of the *Public Sector Management Act 1994*, the Authority strives for continued improvement in the efficiency and effectiveness of its performance.

The Authority's recent organisational restructure represents a major achievement in relation to the Authority's commitment to the continuous improvement of its performance, as it will enable the Authority to streamline

processes, address potential overlap between divisional functions and improve the distribution of workloads.

Expected benefits from the organisational restructure are significant cost reductions from minimising duplicated fixed and operational operating costs, better administrative synergies and encouraging cross-fertilisation of regulatory approaches.

Further, the Authority has begun the review of its Delegations Register with a view to maximising operational efficiency. The Authority may delegate to a member of the Governing Body or a staff member any power or duty of the Authority under the *Economic Regulation Authority Act 2003* or under any other written law.

### Freedom of Information and Information Statement

The *Freedom of Information Act (FOI Act)* does not apply to the Authority in respect of the Authority's regulatory function relating to access to gas pipelines. In other respects the Act does apply.

The Authority's Information Statement is available on request in either hard copy form at reception or on the home page of the Authority's website [www.era.wa.gov.au](http://www.era.wa.gov.au).

During the year under review the Authority processed one FOI request made by Chittering Valley Irrigation Limited.

### Record-keeping plans

Section 21 of the *State Records Act 2000* requires that any Government organisation must submit a draft record-keeping plan within six months of its creation.

The Authority's Record-keeping Plan was cleared by the State Records Commission on 16 December 2004. Following this, the Authority commenced a major system upgrade for document and records management, designed to meet State Records Office requirements and improve the Authority's efficiency and responsiveness. The system upgrade is to be implemented in late 2005.

The Authority is currently in the process of developing policies and procedures to:

- evaluate the efficiency and effectiveness of its record-keeping system;
- conduct record-keeping training programs;
- evaluate the efficiency and effectiveness of its record-keeping training programs; and
- ensure that the Authority's induction program addresses employees' responsibilities in relation to their compliance with the Record-keeping Plan.

The Authority is in the process of implementing a records management system and document management system and is continuing to work towards developing a functional thesaurus and dealing with records relating to the three previous regimes including accommodating the record requirements of the new electricity regime.

### Advertising and sponsorship

In accordance with Section 175ZE of the *Electoral Act 1907*, the Authority has detailed below the expenditure incurred in advertising, market research, polling, direct mail and media advertising.

Total expenditure for 2004-05 was \$168,237. Expenditure was incurred in the following areas:

### Electoral Act Disclosure Requirements 1 July 2004 to 30 June 2005

Advertising Agencies	nil
Market Research Organisations	nil
Polling Organisations	nil
Direct Mail Organisations	nil
Media Advertising Organisations	
- Marketforce Productions	\$168,237

Note: Amount shown includes GST

## Report on Corporate Activities *continued*

### Disability Services Plan Outcomes

The Authority will develop its Disability Services Plan during the 2005-06 financial year.

### Cultural Diversity and Language Services Outcomes

The Authority will develop a Cultural Diversity and Language Services Policy in the coming financial year.

### Youth Outcomes

The Authority will develop a youth policy/program in the coming financial year.

### Enabling Legislation

The Authority was created by the *Economic Regulation Authority Act 2003 (ERA Act)*. The Authority has a number of powers and obligations that are derived from certain Acts of Parliament, Regulations made pursuant to those Acts and other subsidiary legislation, such as Codes. The relevant legislation includes:

- *Economic Regulation Authority Act 2003*;
- *Gas Pipelines Access (Western Australia) Act 1998*;
- *Public Sector Management Act 1994*;
- *Financial Administration and Audit Act 1985*;
- *Water Services Licensing Act 1995*;
- *Railways (Access) Act 1998*;
- *Energy Coordination Act 1994*;
- *Electricity Industry Act 2004*;
- *Electricity Legislation Amendment Act 2004*;
- *Equal Opportunity Act 1984*;
- *Disability Services Act 1993*;
- *Industrial Relations Act 1979*;
- *State Records Act 2000*; and
- *Freedom of Information Act 1992* (in relation to non-regulatory matters).

This list is not exhaustive and does not include the Regulations and Codes that are relevant to the Authority.

### Functions

The functions of the Authority comprise:

- (a) the inquiry, reporting and other functions given by the Act;
- (b) the functions referred to in section 11AA of the *Energy Coordination Act 1994*;
- (c) the functions referred to in section 36(1) of the *Gas Pipelines Access (Western Australia) Act 1998*;
- (d) the functions referred to in section 20(1) of the *Railways (Access) Act 1998*;
- (e) the functions referred to in section 4 of the *Water Services Licensing Act 1995*; and
- (f) the functions it is given by or under any other enactment.

The latter include the functions referred to under the *Electricity Industry Act 2004*.

### The Authority is to have regard to certain matters

In performing its functions, other than (c) and (d) above, the Authority must have regard to:

- (1) the need to promote regulatory outcomes that are in the public interest;



- (2) the long-term interests of consumers in relation to the price, quality and reliability of goods and services provided in relevant markets;
- (3) the need to encourage investment in relevant markets;
- (4) the legitimate business interests of investors and service providers in relevant markets;
- (5) the need to promote competitive and fair market conduct;
- (6) the need to prevent abuse of monopoly or market power;
- (7) the need to promote transparent decision-making processes that involve public consultation.

Functions (c) and (d) refer to legislation that separately specify factors to be taken into consideration.

The Authority has discretion as to the weight it gives to each of the matters to be taken into consideration in the performance of a particular function.

Nothing in the matters to be taken into consideration limits a provision of another written law that requires the Authority, in performing a particular function, to have regard to, or take into account, particular objectives, considerations or other matters.

If there is any conflict or inconsistency between the matters to be taken into consideration and a provision of another written law, the latter provision prevails to the extent of the conflict or inconsistency.

### Powers

The Authority may do all things necessary or convenient to be done for or in connection with the performance of its functions.

The Authority may also produce and publish information on matters relating to its functions.

### Independence of Authority

The Authority is independent of direction or control by the State or any Minister or officer of the State in the performance of its functions.

However, the Minister may give directions in relation to general policies to be followed by the Authority in matters of administration, including financial administration.

If a direction is given by the Minister, the Authority must, within 14 days:

- (a) cause the text of the direction to be published in the Gazette; and
- (b) send a copy of the direction to the Code Registrar under the *Gas Pipelines Access (Western Australia) Act 1998*.

A copy of any direction must also be laid before each House of Parliament within 14 days. In addition, the text of a direction must be included in the annual report of the Authority.

### Funding

The *Economic Regulation Authority (Gas Pipelines Access Funding) Regulations 2003*, gazetted on 30 December 2003 under the *Economic Regulation Authority Act 2003*, provide for costs incurred in connection with the performance of the functions of the

## Report on Corporate Activities *continued*

Authority under the *Gas Pipelines Access (Western Australia) Act 1998*, to be recovered from pipeline operators. The regulations set out the methodology for determination of the amounts payable by operators of covered pipelines to which the activities of the Authority relate.

The *Energy Coordination Act 1994* provides for fees to be paid for gas distribution and trading licences. The licence fees are prescribed by the *Energy Coordination (Licensing Fees) Amendment Regulations 2002*, gazetted on 19 March 2004.

The *Water Services Licensing Act 1995* provides for a prescribed fee to be set to accompany licence applications.

In addition, the *Electricity Industry Act 2004* provides for fees to be paid for electricity generation, distribution, trading and general licence applications and annual fees.

### Responsible Minister

The Minister responsible for the administration of the Act is the Hon. Eric Ripper MLA, Treasurer of Western Australia.

### The Regulatory Regimes

While the administration of the regulatory regimes for gas, rail and water has been transferred to the Authority, the underlying Acts and Codes remain substantially unchanged.

Descriptions of the gas pipelines, rail and water regulatory regimes are available on the Authority's website [www.era.wa.gov.au](http://www.era.wa.gov.au).

### Impacting Legislation

As an agent of the State, the Authority must comply with all legislation that is binding on the Crown in the right of the State of Western Australia.

### Directions Given

Section 28(2) of the *Economic Regulation Authority Act 2003* provides for the Minister to give directions in writing to the Authority in relation to general policies to be followed by the Authority in matters of administration, including financial administration. The text of any such direction is required to be included in the Authority's Annual Report.

There were no directions given to the Authority during the year under review.

## Expenditure

### *Expenditure against written laws*

Section 24 of the *Economic Regulation Authority Act 2003* requires that, without limiting section 43 of the *Financial Administration and Audit Act 1985*, the Authority must keep separate records of expenditure incurred in respect of each written law under which it has functions. The following table provides details of this expenditure.

Written Law	Expenditure
<i>Economic Regulation Authority Act 2003</i>	\$1,515,320
<i>Gas Pipelines Access (Western Australia) Act 1998</i>	\$2,374,742
<i>Railways (Access) Act 1998</i>	\$463,960
<i>Water Services Licensing Act 1995</i>	\$594,221
<i>Energy Coordination Act 1994</i>	\$1,170,511
Costs of Appeals lodged under the <i>Gas Pipelines Access (Western Australia) Act 1998</i>	\$566,726
<b>TOTAL</b>	<b>\$6,685,479</b>

### *Expenditure on consultants*

Expenditure on Consultants for the year ended 30 June 2005		
Value of Consultancy	Number of Consultancies Commissioned *	Expenditure in 2004-05
Up to \$50,000	96	\$1,393,947
Over \$50,000	7	\$964,978
<b>TOTALS</b>	<b>103</b>	<b>\$2,358,925</b>

\* A consultancy is defined as the total of all work performed by a consultant on a specific task.

## Statement of Compliance

Compliance with *Public Sector Management Act 1994* Section 31(1) for the 12 months from 1 July 2004 to 30 June 2005

In the administration of the Economic Regulation Authority (Authority), I have complied with the Public Sector Standards in Human Resource Management, the Western Australian Public Sector Code of Ethics and the Authority's Code of Conduct.

Procedures are in place designed to ensure ongoing compliance and appropriate internal assessments have been made.

No Applications for Breach of Standards were made during the year.



K PETER KOLF  
**GENERAL MANAGER**  
**ECONOMIC REGULATION AUTHORITY**

31 August 2005

# Financial Statements

## Certification of Financial Statements

for the year ended 30 June 2005

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The accompanying financial statements of the Economic Regulation Authority have been prepared in compliance with the provisions of the *Financial Administration and Audit Act 1985* from proper accounts and records to present fairly the financial transactions for the financial year ending 30 June 2005 and the financial position as at 30 June 2005.

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



**PRINCIPAL ACCOUNTING OFFICER**

29 August 2005



Ken Michael



**ACCOUNTABLE AUTHORITY**

29 August 2005



## Independent Audit Opinion

To the Parliament of Western Australia  
ECONOMIC REGULATION AUTHORITY  
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2005

### Audit Opinion

In my opinion,

- (i) the controls exercised by the Economic Regulation Authority provide reasonable assurance that the receipt and expenditure of moneys, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions; and
- (ii) the financial statements are based on proper accounts and present fairly in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia and the Treasurer's Instructions, the financial position of the Authority at 30 June 2005 and its financial performance and cash flows for the year ended on that date.

### Scope

#### *The Authority's Role*

The Authority is responsible for keeping proper accounts and maintaining adequate systems of internal control, preparing the financial statements, and complying with the Financial Administration and Audit Act 1985 (the Act) and other relevant written law.

The financial statements consist of the Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows and the Notes to the Financial Statements.

#### *Summary of my Role*

As required by the Act, I have independently audited the accounts and financial statements to express an opinion on the controls and financial statements. This was done by looking at a sample of the evidence.

An audit does not guarantee that every amount and disclosure in the financial statements is error free. The term "reasonable assurance" recognises that an audit does not examine all evidence and every transaction. However, my audit procedures should identify errors or omissions significant enough to adversely affect the decisions of users of the financial statements.



D D R PEARSON  
**AUDITOR GENERAL**

14 October 2005

4th Floor Dumas House, 2 Havelock Street, West Perth 6005 Western Australia  
Tel: 08 9222 7500 Fax: 08 9322 5664

# Statement of Financial Performance

for the year ended 30 June 2005

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	Note	2004-05 \$'000	6 months to 30/06/04 \$'000
<b>COST OF SERVICES</b>			
<b>Expenses from ordinary activities</b>			
Employee expenses	2	2,579	1,172
Supplies and services	3	3,482	1,049
Depreciation expenses	4	61	37
Accommodation expenses	5	439	129
Capital user charge	6	103	37
<b>Total cost of services</b>		<b>6,664</b>	<b>2,424</b>
<b>Revenues from ordinary activities</b>			
<i>Revenue from operating activities</i>			
User charges and fees	7	2,269	692
<i>Revenues from non-operating activities</i>			
Interest revenue	8	69	21
Other revenues from ordinary activities	9	44	4
<b>Total revenues from ordinary activities</b>		<b>2,382</b>	<b>717</b>
<b>NET COST OF SERVICES</b>		<b>4,282</b>	<b>1,707</b>
<b>REVENUES FROM STATE GOVERNMENT</b>	10		
Service appropriation		4,353	2,500
Resources received free of charge		16	14
<b>Total revenues from State Government</b>		<b>4,369</b>	<b>2,514</b>
<b>CHANGE IN NET ASSETS</b>		<b>87</b>	<b>807</b>
<b>Total changes in equity other than those resulting from transactions with WA State Government as owners</b>		<b>87</b>	<b>807</b>

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

# Statement of Financial Position

as at 30 June 2005

	Note	2004-05 \$'000	2003-04 \$'000
<b>Current Assets</b>			
Cash assets	11	1,212	765
Receivables	12	823	1,422
Amounts receivable for services	14	18	18
Other assets	13	9	7
<b>Total Current Assets</b>		<b>2,062</b>	<b>2,212</b>
<b>Non-Current Assets</b>			
Amounts receivable for services	14	13	11
Furniture, fittings and equipment	15	660	101
<b>Total Non-Current Assets</b>		<b>673</b>	<b>112</b>
<b>TOTAL ASSETS</b>		<b>2,735</b>	<b>2,324</b>
<b>Current Liabilities</b>			
Payables	16	606	362
Amount due to the Treasurer	17	-	200
Provisions	18	354	173
<b>Total Current Liabilities</b>		<b>960</b>	<b>735</b>
<b>Non-Current Liabilities</b>			
Provisions	18	249	150
<b>Total Non-Current Liabilities</b>		<b>249</b>	<b>150</b>
<b>Total Liabilities</b>		<b>1,209</b>	<b>885</b>
<b>EQUITY</b>	19		
Contributed equity		632	632
Accumulated surplus/(deficiency)		894	807
<b>Total Equity</b>		<b>1,526</b>	<b>1,439</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>2,735</b>	<b>2,324</b>

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

# Statement of Cash Flows

for the year ended 30 June 2005

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	Note	2004-05 \$'000	2003-04 \$'000
<b>CASH FLOWS FROM STATE GOVERNMENT</b>			
Service appropriations		4,353	2,500
<b>Net cash provided by State Government</b>		<b>4,353</b>	<b>2,500</b>
<b>Utilised as follows:</b>			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Payments</b>			
Employee costs		(2,269)	(854)
Supplies and services		(3,318)	(1,042)
Accommodation expenses		(439)	(126)
Capital user charge		(103)	(37)
GST payments on purchases		(351)	(149)
GST payments to ATO		(78)	-
<b>Receipts</b>			
User charges and fees		2,889	387
GST receipts on sales		59	-
GST receipts from ATO		381	19
Other receipts		113	22
<b>Net cash used in Operating Activities</b>	<b>20(b)</b>	<b>(3,116)</b>	<b>(1,780)</b>

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

## Statement of Cash Flows *continued*

for the year ended 30 June 2005

	Note	2004-05 \$'000	2003-04 \$'000
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for the purchase of non-current assets		(590)	(40)
<b>Net cash used in Investing Activities</b>		<b>(590)</b>	<b>(40)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of Treasurer's Advance		(200)	(800)
<b>Net cash used in Financing Activities</b>		<b>(200)</b>	<b>(800)</b>
<b>Net increase/(decrease) in Cash Held</b>		<b>447</b>	<b>(120)</b>
Cash assets at the beginning of the financial year		765	-
Cash assets transferred from other sources		-	885
<b>CASH ASSETS AT THE END OF THE FINANCIAL YEAR</b>	<b>20(a)</b>	<b>1,212</b>	<b>765</b>

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



# Notes to the Financial Statements

for the year ended 30 June 2005

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## 1. Significant accounting policies

The following accounting policies have been adopted in the preparation of the financial statements. Unless otherwise stated these policies are consistent with those adopted in the previous year.

### General statement

The financial statements constitute a general purpose financial report which has been prepared in accordance with Accounting Standards, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board and Urgent Issues Group (UIG) Consensus Views as applied by the Treasurer's Instructions. Several of these are modified by the Treasurer's Instructions to vary the application, disclosure, format and wording. The Financial Administration and Audit Act 1985 and the Treasurer's Instructions are legislative provisions governing the preparation of financial statements and take precedence over Accounting Standards, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting

Standards Board, and UIG Consensus Views. The modifications are intended to fulfil the requirements of general application to the public sector together with the need for greater disclosure and also to satisfy accountability requirements.

If any such modification has a material or significant financial effect upon the reported results, details of that modification and where practicable, the resulting financial effect, are disclosed in individual notes to these financial statements.

### Basis of accounting

The financial statements have been prepared on the accrual basis of accounting using the historical cost convention.

#### (a) Service Appropriation

Service Appropriations are recognised as revenues in the period in which the Authority gains control of the appropriated funds. The Authority gains control of the appropriated funds at the time those funds are deposited into the Authority's bank account or credited

to the holding account held at the Department of Treasury and Finance.

#### (b) Contributed Equity

Under UIG 38 "Contributions by Owners Made to Wholly-Owned Public Sector Entities" transfers in the nature of equity contributions must be designated by the Government (owners) as contributions by owners (at the time of, or prior to transfer) before such transfers can be recognised as equity contributions in the financial statements. Capital contributions (appropriations) and non-discretionary transfers of net assets from other government agencies have been designated as contributions by owners and have been credited directly to Contributed Equity in the Statement of Financial Position.

#### (c) Interest

Interest revenue is recognised when the interest has been credited to the bank account.

## Notes to the Financial Statements *continued*

for the year ended 30 June 2005

(d) Acquisition of Assets

The cost method of accounting is used for all acquisition of assets. Cost is measured as the fair value of the assets given up or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition.

Assets costing less than \$1,000 are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

(e) Depreciation of non-current assets

All non-current assets having limited useful lives are systematically depreciated over their useful lives in a manner that reflects the consumption of their future economic benefits.

Depreciation is calculated on the straight-line basis, using rates, which are reviewed annually. Useful lives for each class of depreciable asset are:

Furniture and equipment	5 years
Computer equipment	3 years
Office upgrade	10 years

(f) Leases

The Authority has entered into a number of operating lease arrangements for office accommodation and motor vehicles where the lessors effectively retain all of the risks and benefits incident to ownership of the items held under the operating leases. Equal instalments of the lease payments are charged to the Statement of Financial Performance over the lease term as this is representative of the pattern of benefits to be derived from the leased property.

(g) Cash

For the purposes of the Statement of Cash Flows, cash includes cash assets and restricted cash assets.

(h) Web site costs

Costs in relation to web sites controlled by the Authority are charged as expenses in the period in which they are incurred unless they relate to the acquisition of an asset, in which case they are capitalised and amortised over the period of expected benefit. Generally, costs in relation to feasibility studies during the planning phase of a web site, and ongoing costs of maintenance during the operating phase are considered to be expenses.

(i) Payables

Payables, including accruals not yet billed, are recognised when the Authority becomes obliged to make future payments as a result of a purchase of assets or services. Payables are generally settled within 30 days.

## (j) Employee Benefits

*Annual leave*

This benefit is recognised at the reporting date in respect to employees' services up to that date and is measured at the nominal amounts expected to be paid when the liabilities are settled.

*Long service leave*

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provisions for employee benefits and is measured at the nominal amounts expected to be paid when the liability is settled. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provisions for employee benefits and is measured at the present value of the expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given, when assessing expected future payments, to expected future wage and salary levels

including relevant on costs, experience of departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash flows.

*Superannuation*

Staff may contribute to the Pension Scheme, a defined benefits pension scheme now closed to new members, or to the Gold State Superannuation Scheme, a defined benefit and lump sum scheme now also closed to new members. All staff who do not contribute to either of these schemes become non-contributory members of the West State Superannuation Scheme, an accumulation fund. The Authority contributes to this accumulation fund in compliance with the Commonwealth Government's *Superannuation Guarantee (Administration) Act 1992*. All of these schemes are administered by the

Government Employees Superannuation Board (GESB).

The superannuation expense is comprised of the following elements:

- (i) change in the unfunded employer's liability in respect of current employees who are members of the Pension Scheme and current employees who accrued a benefit on transfer from that Scheme to the Gold State Superannuation Scheme; and
- (ii) employer contributions paid to the Gold State Superannuation Scheme and the West State Superannuation Scheme.

The superannuation expense does not include payment of pensions to retirees, as this does not constitute part of the cost of services provided by the Authority in the current year.

The Authority is funded for employer contributions in respect of the Gold State Superannuation Scheme and the West

## Notes to the Financial Statements *continued*

for the year ended 30 June 2005

State Superannuation Scheme. These contributions were paid to the GESB during the year. The GESB subsequently paid the employer's contribution in respect of the Gold State Superannuation Scheme to the Consolidated Fund.

### *Employee benefit on-costs*

Employee benefit on-costs are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities and expenses (See notes 2 and 18).

### (k) Receivables

Receivables are recognised at the amounts receivable as they are due for settlement no more than 30 days from the date of recognition. Collectability is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for doubtful debts is raised where some doubt as to collection exists.

### (l) Revenue recognition

Revenue from the sale of goods, disposal of other assets and the rendering of services is recognised when the Authority has passed control of the goods or other assets or delivery of the service to the customer.

The revenue from the recovery of costs associated with the gas access regulation, Standing and Service Charges and fees is recognised when pipeline operators are charged.

### (m) Resources received free of charge or for nominal value

Resources received free of charge or for nominal value, which can be reliably measured are recognised as revenues and as assets or expenses as appropriate at fair value.

### (n) Comparative Figures

The Authority commenced on 1 January, 2004 and comparative figures reflect six months operation. Comparative figures are, where appropriate, reclassified so as to be comparable with the figures presented in the current financial year.

### (o) Rounding

Amounts in the financial statements have been rounded to the nearest thousand dollars, or in certain cases, to the nearest dollar.

### (p) Amounts due to the Treasurer

The Authority held a Treasurer's Advance for the purpose of funding legal costs associated with Supreme Court actions. This amount has been repaid in 2004-05.

	2004-05 \$'000	2003-04 \$'000
<b>2 Employee expenses</b>		
Salaries	2,287	916
Superannuation	174	48
Annual Leave	9	78
Long Service Leave	-	111
Other related expenses (1)	109	19
	<b>2,579</b>	<b>1,172</b>
(1) These employee expenses include superannuation, workers' compensation premiums and other employment on-costs associated with the recognition of annual and long service leave liability. The related on-costs liability is included in employee benefit liabilities at note 18.		
<b>3 Supplies and services</b>		
Communication	56	12
Consultants and contractors	2,361	736
Consumables	112	33
Insurance	86	10
Legal costs	568	153
Motor vehicles	57	19
Travel	88	19
Repairs and maintenance	1	-
Other	153	67
	<b>3,482</b>	<b>1,049</b>



## Notes to the Financial Statements *continued*

for the year ended 30 June 2005

	2004-05 \$'000	2003-04 \$'000
<b>4 Depreciation expenses</b>		
Computer equipment	47	24
Office fit-out	4	6
Furniture and fittings	1	1
Office equipment	9	6
	<b>61</b>	<b>37</b>
<b>5 Accommodation expenses</b>		
Office accommodation rental	365	94
Other accommodation expenses	63	34
Cleaning	11	1
	<b>439</b>	<b>129</b>
<b>6 Capital user charge</b>		
	<b>103</b>	<b>37</b>
<p>A capital user charge rate of 8 per cent has been set by the Government for 2004-05 and represents the opportunity cost of capital invested in the net assets of the Authority used in the provision of services. The charge is calculated on the net assets adjusted to take account of exempt assets. Payment is made to the Department of Treasury and Finance.</p>		
<b>7 User charges and fees</b>		
Standing charges	1,256	685
Service charges	964	2
Licence fees and charges	49	5
	<b>2,269</b>	<b>692</b>

	2004-05 \$'000	2003-04 \$'000
<b>8 Interest revenue</b>		
Interest	69	21
	<b>69</b>	<b>21</b>
<b>9 Other revenues from ordinary activities</b>		
Motor Vehicle GVS Scheme	44	4
	<b>44</b>	<b>4</b>
<b>10 Revenues from State Government</b>		
Appropriation revenue received during the year:		
Service appropriations (a)	4,353	2,500
	<b>4,353</b>	<b>2,500</b>
Resources received free of charge		
Determined on the basis of the following estimates provided by agencies		
Department of Justice		
– legal service charges	16	14
	<b>16</b>	<b>14</b>
<b>Total Revenues from State Government</b>	<b>4,369</b>	<b>2,514</b>
(a) Service appropriations reflect the full price paid for services purchased by the Government. The appropriation revenue comprises a cash component and a receivable (asset). The receivable (holding account) comprises the depreciation expense for the year and any agreed increase in leave liability during the year.		
<b>11 Cash assets</b>		
Operating account	1,211	765
Cash on hand	1	-
	<b>1,212</b>	<b>765</b>

# Notes to the Financial Statements *continued*

for the year ended 30 June 2005

	2004-05 \$'000	2003-04 \$'000
<b>12 Receivables</b>		
Accounts receivable for services supplied	182	492
Accrued revenue	405	706
Goods and Services Tax receivable – ATO	236	224
	<b>823</b>	<b>1,422</b>
<b>13 Other assets</b>		
Prepayments	9	7
	<b>9</b>	<b>7</b>
<b>14 Amounts receivable for services</b>		
Current	18	18
Non-current	13	11
<b>Total amounts receivable for services</b>	<b>31</b>	<b>29</b>
This asset represents the non-cash component of service appropriations. It is restricted in that it can only be used for asset replacement or payment of leave liability.		
<b>15 Furniture, fittings and equipment</b>		
Office equipment		
At cost	38	13
Accumulated depreciation	(14)	(5)
	<b>24</b>	<b>8</b>
Furniture and fittings		
At cost	2	2
Accumulated depreciation	(2)	(1)
	<b>-</b>	<b>1</b>

	2004-05 \$'000	2003-04 \$'000
<b>15 Furniture, fittings and equipment</b> <i>continued</i>		
Computer equipment		
At cost	136	94
Accumulated depreciation	(72)	(24)
	<b>64</b>	<b>70</b>
Office fit-out		
At cost	526	-
Accumulated depreciation	(4)	-
	<b>522</b>	<b>-</b>
Work in progress		
At cost	50	22
	<b>50</b>	<b>22</b>
Total		
At cost	752	131
Accumulated depreciation	(92)	(30)
	<b>660</b>	<b>101</b>
Reconciliation of the carrying amounts of each class of asset at the start and the end of the current year are set out below:		
Office equipment		
Carrying amount at start of year	8	-
Additions	25	13
Disposals	-	-
Depreciation expense	(9)	(5)
Carrying amount at end of year	<b>24</b>	<b>8</b>

# Notes to the Financial Statements *continued*

for the year ended 30 June 2005

	2004-05 \$'000	2003-04 \$'000
<b>15 Furniture, fittings and equipment <i>continued</i></b>		
Furniture and fittings		
Carrying amount at start of year	1	-
Additions	-	2
Disposals	-	-
Depreciation expense	(1)	(1)
Carrying amount at end of year	<b>-</b>	<b>1</b>
Computer equipment		
Carrying amount at start of year	70	-
Additions	42	95
Disposals	(1)	(1)
Depreciation expense	(47)	(24)
Carrying amount at end of year	<b>64</b>	<b>70</b>
Office fit-out		
Carrying amount at start of year	-	-
Additions	526	31
Disposals	-	(25)
Depreciation expense	(4)	(6)
Carrying amount at end of year	<b>522</b>	<b>-</b>



	2004-05 \$'000	2003-04 \$'000
<b>15 Furniture, fittings and equipment</b> <i>continued</i>		
Work in progress		
Carrying amount at start of year	22	-
Additions	50	22
Transfer to assets	(22)	-
Carrying amount at end of year	<b>50</b>	<b>22</b>
Total carrying amount at start of year	101	-
Additions	643	163
Disposals	(1)	(26)
Transfer to assets	(22)	-
Depreciation expense	(61)	(36)
Total carrying amount at the end of year	<b>660</b>	<b>101</b>
<b>16 Payables</b>		
Trade payables	2	33
Accrued expenses	604	329
	<b>606</b>	<b>362</b>
<b>17 Amount due to the Treasurer</b>		
Treasurer's Advance	-	200
	<b>-</b>	<b>200</b>

## Notes to the Financial Statements *continued*

for the year ended 30 June 2005

	2004-05 \$'000	2003-04 \$'000
<b>18 Provisions</b>		
Employee Benefits		
Current:		
Annual leave	230	118
Long service leave	53	55
Other employee benefits	71	-
	<b>354</b>	<b>173</b>
Non-current:		
Annual leave	-	66
Long service leave	224	84
Other employee benefits	25	-
	<b>249</b>	<b>150</b>
	<b>603</b>	<b>323</b>
<p>The settlement of annual and long service leave liabilities gives rise to the payment of employment on-costs including superannuation and workers' compensation premiums. The liability for such on-costs is included here. The associated expense is included under Other related expenses (under Employee expenses) at Note 2.</p>		
<i>Employee Benefits Liability</i>		
The aggregate employee benefits liability recognised and included in the financial statements is as follows:		
Provision for employee benefits:		
Current	354	173
Non-Current	249	150
	<b>603</b>	<b>323</b>

	2004-05 \$'000	2003-04 \$'000
<b>19 Equity</b>		
Equity represents the residual interest in the net assets of the Authority. The Government holds the equity interest in the Authority on behalf of the community.		
<b>Contributed equity</b>		
Opening balance	632	-
Contribution by owner (this relates to transfer of the net assets from other agencies (i))	-	632
Closing balance	<b>632</b>	<b>632</b>
<b>Accumulated surplus</b>		
Opening balance	807	-
Change in net assets	87	807
Closing balance	<b>894</b>	<b>807</b>
(i) Assets/liabilities transferred from the Office of Gas Access Regulation, the Office of the Rail Access Regulator and the Office of Water Regulation		
Cash	-	885
Receivables	-	933
GST Receivable	-	35
Accrued revenue	-	1
Prepayments	-	23
Amounts receivable for services	-	29
Computer hardware	-	65
Plant and Equipment	-	17
Office establishment	-	31
Payables	-	(283)
Treasurer's advance	-	(1,000)
Employee provisions	-	(104)
	<b>-</b>	<b>632</b>

## Notes to the Financial Statements *continued*

for the year ended 30 June 2005

	2004-05 \$'000	2003-04 \$'000
<b>20 Notes to the Statement of Cash Flows</b>		
(a) Reconciliation of cash		
Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:		
Cash assets	1,212	765
	<b>1,212</b>	<b>765</b>
(b) Reconciliation of net cost of services to net cash flows provided by/(used in) operating activities		
<b>Net cost of services</b>	<b>(4,282)</b>	<b>(1,707)</b>
<b>Non-cash items</b>		
Depreciation and amortisation expense	61	37
Resources received free of charge	16	14
<b>(Increase)/decrease in assets:</b>		
Receivables	599	510
Prepayments	(2)	16
Amounts receivable for services	(2)	-
<b>Increase/(decrease) in liabilities:</b>		
Accrued salaries	32	-
Provisions	280	219
Payables	203	(708)
Change in GST in receivables/payable	(324)	(180)
Net GST receipts/(payments)	303	19
<b>Net cash used in operating activities</b>	<b>(3,116)</b>	<b>(1,780)</b>

## 21 Financial instruments

### (a) Interest rate risk exposure

The following table details the Authority's exposure to interest rate risk as at the reporting date:

	Weighted average interest rate %	Variable interest rate \$'000	Non-interest bearing \$'000	Total \$'000
<b>2005</b>				
Financial assets				
Cash resources	4.75	1,212	-	<b>1,212</b>
Accounts receivable		-	823	<b>823</b>
		<b>1,212</b>	<b>823</b>	<b>2,035</b>
<b>Financial liabilities</b>				
Accounts payable		-	606	<b>606</b>
		<b>-</b>	<b>606</b>	<b>606</b>
<b>2004</b>				
Financial assets		765	1,422	<b>2,187</b>
Financial liabilities		-	562	<b>562</b>

### (b) Credit risk

The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the Authority's maximum exposure to credit risk without taking account of any collateral or other security obtained.

### (c) Net fair value of financial instruments

The carrying amount of financial assets and financial liabilities recorded in the financial statements are not materially different from the net fair values, determined in accordance with the accounting policies disclosed in Note 1 to the financial statements.

## Notes to the Financial Statements *continued*

for the year ended 30 June 2005

### 22 Remuneration of Members of the Accountable Authority and Senior Officers

#### Remuneration of Accountable Authority

The number of members of the Accountable Authority whose total of fees, salaries and other benefits received, or due and receivable, for the financial year, who fall within the following bands is:

	2004-05	2003-04
\$60,001 - 70,000	1	1
\$70,001 - 80,000	1	-
\$340,001 - 350,000	1	1
	<b>\$'000</b>	<b>\$'000</b>
Total remuneration of the members of the Accountable Authority is:	487	85

The superannuation included here represents the superannuation expense incurred by the Authority in respect of members.  
No members of the Authority are members of the Pension Scheme.

#### Remuneration of Senior Officers

The number of senior officers other than senior officers reported as members of the Accountable Authority, whose total of fees, salaries, superannuation and other benefits for the financial year, fall within the following bands are:

	2004-05	2003-04
\$40,001 - 50,000	-	1
\$140,001 - 150,000	1	-
	<b>\$'000</b>	<b>\$'000</b>
Total remuneration paid to senior officers is:	146	46

The superannuation included here represents the superannuation expense incurred by the Authority in respect of senior officers other than senior officers reported as members of the Accountable Authority.  
No senior officers are members of the Pension Scheme.



	2004-05 \$'000	2003-04 \$'000
<b>23 Remuneration of the Auditor</b>		
Remuneration to the Auditor General:		
Auditing the accounts, financial statements and performance indicators	15	12
	<b>15</b>	<b>12</b>
<b>24 Commitments for expenditure</b>		
(a) Lease commitments		
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities are payable:		
Within one year	355	69
Later than one year and not later than five years	348	60
	<b>703</b>	<b>129</b>
<b>Representing:</b>		
Cancellable operating leases	53	-
Non-cancellable operating leases	650	-
	<b>703</b>	<b>-</b>
(b) Non-cancellable operating lease commitments		
Commitments for minimum lease payments are payable as follows:		
Within one year	325	-
Later than one year and not later than five years	325	-
	<b>650</b>	<b>-</b>

## Notes to the Financial Statements *continued*

for the year ended 30 June 2005

### 25 Contingent liabilities

The Authority has no contingent liabilities as at 30 June 2005.

### 26 Events occurring after reporting date

The Authority is unaware of any event occurring after reporting date that would materially affect the financial statements.

### 27 Explanatory statements

2004-05 was the first full year of operation of the Authority. Approval was received for an increase in the expenditure limit and supplementary funding of \$1.985 million was provided to the Authority during the year which changed the expenditure limit to \$9.366 million.

- (i) Significant variances between estimates and actual results for the financial year

Details and reasons for significant variations between estimates and actual results are detailed below. Significant variations are considered to be those greater than 10 per cent.

	2004-05 Actual \$'000	2004-05 Estimates \$'000	Variances \$'000
Supplies and services	3,482	2,854	628
depreciation	61	39	22
Accommodation	439	153	286
Capital user charge	103	8	95
User fees and charges	2,269	1,334	935
Interest revenue	69	29	40
Other revenues	44	10	34

## 27 Explanatory statements *continued*

### Supplies and services

The increase was due to greater activity in the gas access area. These costs are funded under the Economic Regulation Authority (*Gas Pipelines Access Funding*) Regulations 2003. The increase in actual against estimate is offset by an increase in User Charges and Fees.

### Depreciation

The variance is due to a revised capital works program to facilitate establishing the infrastructure requirements of the Authority and includes depreciation related to the refurbishment of office accommodation.

### Accommodation

The variance is due to the Authority requiring additional accommodation leading up to and during the refurbishment of its permanent office space. The revised estimate during the year was \$0.405 million.

### Capital User Charge

The original estimate did not take into account additional funding provided by Government to facilitate all functions conferred on the Authority.

### User fees and charges

As the costs of access related functions are recovered from industry and as activity in this area exceeded that originally budgeted (refer to supplies and services above), additional costs were recovered.

### Interest revenue

With the increased activity during the year the Authority held higher levels of cash leading to correspondingly higher interest revenue.

### Other revenues

Additional revenue was generated as a result of an increase in the staff structure associated with the establishment of the Authority.

## Notes to the Financial Statements *continued*

for the year ended 30 June 2005

### 28 Adoption of International Accounting Standards

Australia is adopting Australian equivalents to International Financial Reporting Standards (AIFRS) for reporting periods beginning on or after 1 January 2005. The Economic Regulation Authority will adopt these Standards for the first time for the year ending 30 June 2006.

AASB 1047 'Disclosure of the impacts of Adopting Australian Equivalents to International Financial Reporting Standards' requires disclosure of any known or reliably estimable information about the impacts on the financial statements had they been prepared using AIFRS.

The information provided below discloses the main areas impacted on due to the effects of adopting AIFRS. Management has determined the quantitative impacts using their best estimates available at the time of preparing the 30 June 2005 financial statements. These amounts may change in circumstances where accounting standards and/or interpretations applicable to the first AIFRS financial statements are amended or revised.

	30 June 05 \$'000	1 July 04 \$'000
(a) Reconciliation of total equity as represented under previous AGAAP to that under AIFRS		
Total equity under previous AGAAP	1,526	1,439
Adjustments to accumulated surplus:		
Reduction in annual leave provision (i)	6	-
<b>Total equity under AIFRS</b>	<b>1,532</b>	<b>1,439</b>

The adjustment is explained as follows:

- (i) AASB 119 requires that annual leave that is not expected to be taken within 12 months of the reporting period be recognised at present value using discounted cash flows.

	30 June 05 \$'000	1 July 04 \$'000
<b>28 Adoption of International Accounting Standards</b> <i>continued</i>		
(b) Reconciliation of surplus for the period as presented under previous AGAAP to that under AIFRS:		
Surplus for the period under previous AGAAP	87	807
Reduction in annual leave provisions (ii)	6	-
<b>Surplus for the period under AIFRS</b>	<b>93</b>	<b>807</b>
The adjustments are explained as follows:		
(ii) AASB 119 requires that annual leave that is not expected to be taken within 12 months of the reporting period be recognised at present value using discounted cash flows.		
(c) Statement of Cash Flows		
No material impacts are expected from adopting AIFRS with respect to the Statement of Cash Flows.		

## Glossary of Terms

Below is a glossary of terminology used in this report:

### **Access Arrangement**

An Access Arrangement sets out terms and conditions (including prices) for access by third parties to regulated infrastructure. The Economic Regulation Authority is responsible for the assessment and approval of Access Arrangements under the Gas Pipelines Access (Western Australia) Act 1998 and the Electricity Networks Access Code 2004.

### **Allocation**

Allocation refers to the process by which capacity available in a pipeline is assigned to parties in the event that requests for gas exceed the available capacity.

### **Balancing**

Balancing refers to the process of matching receipts and deliveries of gas by adding or withdrawing gas from a pipeline (i.e. if a pipeline delivers a shortfall of gas, another pipeline supplies the shortfall in order to meet the capacity demand).

### **Covered Electricity Network**

A covered electricity network is a regulated network under the Western Australian Electricity Networks Access Code 2004.

The owner or operator of a covered network is required to submit a proposed Access Arrangement for the covered network to the Authority for review and approval.

### **Covered Gas Pipeline**

A covered gas pipeline is a regulated gas pipeline under the Gas Pipelines Access (Western Australia) Act 1998.

The owner or operator of a covered gas pipeline is required to submit a proposed Access Arrangement for the covered pipeline to the Authority for review and approval.

### **Floor and Ceiling Costs**

The floor costs of a route and associated railway infrastructure are the incremental costs resulting from the combined operations of all operators and other entities on that route and use of that infrastructure.

Incremental costs are the operating costs and, where applicable, capital costs and overheads that the owner would be able to avoid in respect of the 12 months following the proposed access.

The ceiling costs of a route and associated railway infrastructure are the total costs attributable to that route and that infrastructure.

Total costs include the total of all operating and capital costs and overheads attributable to the performance of the access-related functions of the owner or an associate.

### **Gas Full Retail Contestability**

On 31 May 2004, the Minister for Energy introduced market reforms to achieve gas full retail contestability.

This means that all the necessary legal and technical arrangements are in place to enable new companies to sell gas to residential and small business customers. Prior to 31 May 2005, only one company was allowed to sell gas to residential and small business customers in Western Australia.

### **IMO**

See Independent Market Operator

### **Independent Market Operator**

The Independent Market Operator (IMO) is an independent statutory corporation established on 1 December 2004 pursuant to the Electricity Industry (Independent Market Operator) Regulations 2004. The IMO is responsible for the administration and monitoring of the Western Australian wholesale electricity market.



**Reconciliation**

As gas is purchased on long-term contracts, the reconciliation process enables the matching of actual and estimated consumption of gas.

**Retail Energy Market Company**

The Retail Energy Market Company (REMC) is the Retail Market Administrator for the contestable gas markets of Western Australia and South Australia. It began operation in Western Australia on 31 May 2004.

**Retail Market Scheme**

A gas retailer must be a member of an approved Retail Market Scheme (RMS) if it wishes to sell gas to customers through a gas distribution system in Western Australia and there is at least one other company selling gas through that distribution system.

An RMS is a scheme that enables a Retail Market Administrator to manage the gas market. An RMS must cover the process for customer transfers, as well as the balancing, allocation and reconciliation of the gas market.

The Minister for Energy has approved an RMS that covers all of the AlintaGas Networks distribution systems. The Retail Market Administrator for this RMS is the Retail Energy Market Company Limited (REMC).

**Ring Fencing**

Ring Fencing means separating an infrastructure owner/operator's functions and business of providing access to the infrastructure from its other functions and business.

**RMS**

See Retail Market Scheme.

**Sovereign Risk**

The Authority is independent of direction or control by the State or any Minister or officer of the State in the performance of its functions.

Sovereign risk refers to the risk of the Authority's independence being affected.

**Swing Service**

The Swing Service was introduced into the Retail Market Rules as a means to provide for balancing, allocation and reconciliation where two or more pipelines are connected to a gas sub-network and the gas supplied by each pipeline is mixed in the sub-network to be subsequently delivered to customers.

**System Management**

System Management is a ring-fenced unit of Western Power, responsible for the operation of Western Power's grid on the South West Interconnected System, including the dispatch of loads and generators.

**WACC**

See Weighted Average Cost of Capital.

**Weighted Average Cost of Capital**

The Weighted Average Cost of Capital is expressed as a percentage and represents the weighted average of the cost of debt and the cost of equity in relation to a covered gas pipeline, electricity network or railway line.

**Wholesale Electricity Market**

As part of the Western Australian Government's electricity reform program, a new wholesale electricity market will be implemented in the South West Interconnected System from 1 July 2006.

The wholesale market will enable the trade of electricity through bilateral contracts.

A Short-term Energy Market will complement the bilateral contract market by providing for an auction process through which buyers and sellers will be able to adjust their bilateral trading contracts.

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