

Economic Regulation Authority

 Western Australia

# Annual Report 07

Promoting fair prices, quality services and choice





A full copy of this document is available from the Economic Regulation Authority web site at [www.era.wa.gov.au](http://www.era.wa.gov.au).

**For further information contact:**

**Office Address**

Level 6  
Governor Stirling Tower  
197 St Georges Terrace  
Perth WA 6000

**Postal Address**

PO Box 8469  
Perth Business Centre Perth WA 6849

**Contact Details**

Internet: [www.era.wa.gov.au](http://www.era.wa.gov.au)  
Telephone: (08) 9213 1900  
Facsimile: (08) 9213 1999

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# Vision, Mission and Values



## Vision

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

## Mission

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

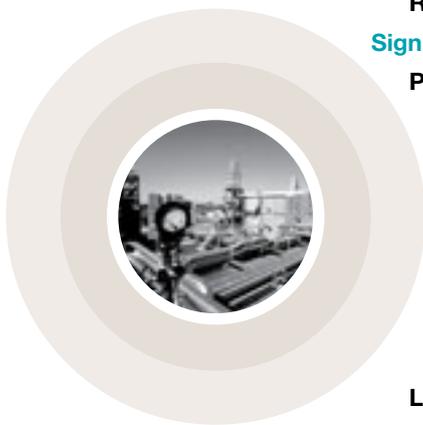
## Values

In undertaking its functions, the Authority embraces the following corporate values:

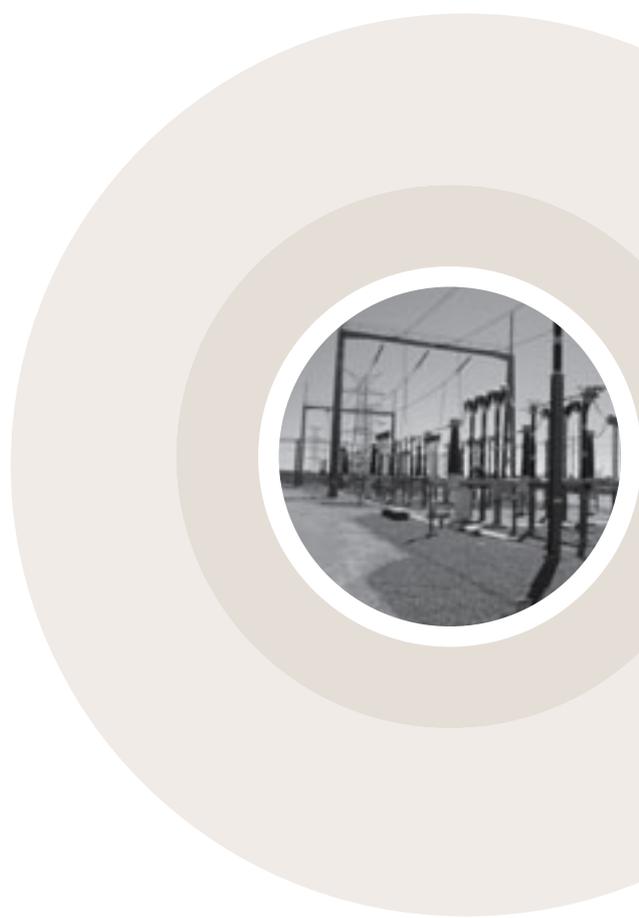
- accountability – being responsible to the Western Australian public and Parliament for its actions;
- independence – being free to make good decisions;
- integrity – practising behaviour that engenders confidence and trust in what the Authority does and says, displaying honesty and equity in all its dealings and treating others fairly and openly with respect to their rights at all times;
- professionalism - being disciplined, rigorous and focused in its work;
- transparency and consultation – undertaking activities in an open manner to enable stakeholders to understand and contribute to the Authority's outcomes; and
- excellence – seeking to continuously improve its work procedures in a co-operative and productive team environment, striving for more effective and innovative processes and improved outcomes.

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# Letter of Transmission to the Treasurer



Western Australia

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

In accordance with section 61 of the *Financial Management Act 2006*, we hereby submit for your information and presentation to Parliament, the Annual Report of the Economic Regulation Authority for the financial year ended 30 June 2007.

The Annual Report has been prepared in accordance with the provisions of the *Financial Management Act 2006*, the *Public Sector Management Act 1994* and Treasurer's Instructions.

A handwritten signature in black ink, appearing to read 'Lyndon Rowe'.

**Mr Lyndon Rowe – Chairman**

25 September 2007

A handwritten signature in black ink, appearing to read 'Steve Edwell'.

**Mr Steve Edwell – Member**

25 September 2007



I am pleased to report that the Authority has succeeded in its objectives of consolidating its role of economic regulation and providing independent advice to Government.

At the end of the third full year of operation of the Economic Regulation Authority (**Authority**), I am pleased to report that the Authority has succeeded in its objectives of consolidating its role of economic regulation and providing independent advice to Government.

There have been substantial achievements this year. September 2006 saw the start of a major new function for the Authority: the monitoring and surveillance of the State's new wholesale electricity market. The first major report on the operations of the market will be provided to the Minister in the first half of the next financial year. The Authority also assumed responsibility for gas and electricity licensing; finalised the first regulated arrangements to enable third parties to access an electricity network in Western Australia; carried out three inquiries on behalf of the Government; and made key contributions to the regulatory debate in Western Australia and nationally.

In economic regulation, the Authority achieved major milestones in completing work approving access arrangements and finalising rail related determinations. The Authority has sought to improve the timeliness of its decisions as well as consistency across jurisdictions and I am pleased with our performance in this regard.

The approval of Western Power's access arrangement in April 2007 will see a new range of functions for the Authority in assessing major network augmentations to ensure that the proposed expenditures are the most effective and efficient methods to meet service requirements. The Authority also has a role in ensuring that investment in new facilities is economic and produces benefits for the community.

The Authority has now completed six inquiries for Government, of which two were completed in this financial year. The Authority has made every effort to stimulate informed debate, through open and transparent review and consultation processes, and to achieve a high standard of independent advice to Government. I am pleased to report that a significant number of the Authority's recommendations in the area of water pricing were taken up by Government in the 2006-07 budget.

A key focus for the Authority this year has been to continue to develop a clear and transparent regulatory framework that is understood by all stakeholders. For example, in the licensing area, the Authority has published papers on regulatory principles and objectives, as well as guidelines to assist licensees meet their regulatory obligations. Further, the licensing framework has been redeveloped to ensure consistency across all areas (electricity, gas and water). Such initiatives serve to reduce uncertainty and the cost of regulatory compliance for stakeholders.

In improving the transparency of its decision-making, the Authority places great emphasis on public consultation. Public input is sought in all areas of the Authority's operations, including regulation, licensing, the development of codes and guidelines, inquiries and through the Authority's Consumer Consultative Committee. This year we aimed to establish clear processes for public consultation and to communicate clearly the issues for debate and the reasoning behind the Authority's decisions. The development of our new web site has greatly assisted the achievement of these objectives.

# From the Chairman



I have been very impressed by the response and quality of submissions we have received this year from stakeholders and the public.

A further element to lowering the costs of regulation and regulatory compliance is the encouragement, wherever possible, of the commercial settlement of disputes between parties, rather than use regulation or the legal system. To promote cooperation between industry players, the Authority held a roundtable for gas industry participants during the year.

At the beginning of the financial year there were three appeals to the Gas Review Board for reviews of Authority decisions. However, one was discontinued and the remaining two reviews are expected to be concluded in the 2007-08 financial year.

Alongside its regulatory and inquiry functions, the Authority made important contributions to debates on economic regulation by providing input into the Government's policy development for water and infrastructure, and at the national level, the development of the new national gas law.

The Authority's staff numbers have increased by 42 per cent this year, in line with our increased regulatory responsibilities and workload. There has also been a considerable turnover

of staff. A major challenge has been the transfer of support services to the new Office of Shared Services. This has involved the development of new administrative systems, which are now well progressed.

The composition of the Authority also changed this year with Mr Chris Field, a part-time member of the Governing Body since March 2004, leaving to take up the role of Western Australian Ombudsman. I would like to congratulate Mr Field on his new appointment and to sincerely thank him, on behalf of the Authority, for his significant contribution. The Authority has greatly benefited from Mr Field's expert knowledge in the areas of competition, regulation and consumer issues.

I am also grateful to current part-time member Mr Steve Edwell for the professionalism, experience and knowledge he continues to bring to the Authority.

Finally, I would like to acknowledge the valuable contribution of the General Manager, Mr Peter Kolf, and the staff of the Authority, and to thank them for their professional expertise, support and efforts throughout the year. I look forward to working with them in the year ahead as we continue to aim to provide best-practice economic regulation in Western Australia.

**Mr Lyndon Rowe – Chairman**

The Authority made important contributions to debates on economic regulation by providing input into the Government's policy development for water and infrastructure, and at the national level, the development of the new national gas law.

## Executive Summary

### Agency Performance

*These are some of the things that we have accomplished*

#### *...in our operations*

- The Authority completed the assessment of the amended proposed access arrangement for Western Power's South West Interconnected Network. This was finalised with the publishing of its Further Final Decision on 26 April 2007 that approved Western Power's amended proposed access arrangement to become effective on 1 July 2007.
- As well as assessing Western Power's amended proposed access arrangement, the Authority also approved and published the Technical Rules, Metrology Procedures and Mandatory Link Criteria for Western Power's South West Interconnected Network.
- The Wholesale Electricity Market began operating in September 2006. As part of its role under the Market Rules, the Authority approved the allowable revenue for the Independent Market Operator and Western Power's System Management for the period 1 July 2007 to 30 June 2010. The Authority also approved the reserve capacity price recommended by the Independent Market Operator for the 2009-2010 period.
- In June 2007, the Authority published a discussion paper on issues that were identified when it canvassed thirty organisations for their views on the effectiveness of



the *National Third Party Access Code for Natural Gas Pipelines Systems*.

- The Authority released its Final Determination in June 2007 on the floor and ceiling costs submitted by WestNet Rail for the Kwinana to Bunbury, Midland to Kalgoorlie, Kalgoorlie to Esperance and Kalgoorlie to Leonora rail lines.
- The Authority adopted a more streamlined approach to its electricity and gas licensing regimes with the development of a new gas licence structure and standard licences for electricity generation, transmission, distribution, retail and integrated regional licences. A standardised audit scope for electricity, gas and water licensing schemes was also developed during the financial year.
- The Authority issued five new licences and approved eighteen amendments to licences.
- Performance data was collected and reviewed and, after auditing, was provided to the National Water Commission. The National Performance Report was released in May 2007.
- Significant progress was made in reviewing the *Gas Marketing Code of Conduct 2004* and the *Code of Conduct for the Supply of Electricity to Small Use Customers*.

- The Authority's inquiry functions were further expanded with the delivery to Government of two Final Reports, one on the Annual Inquiry on the Water Corporation's Tariffs (tabled in Parliament in 9 May 2007), and the other on the Harvey Water Bulk Water Pricing (delivered to the Treasurer on 12 April 2007).
- The Draft Report on the Inquiry on School Bus Operator's Charter Bus Operations was published on the Authority's web site on 2 May 2007.



# Overview of Agency

## Executive Summary

### Agency Performance (continued)

#### ...for our stakeholders

- The Authority launched its new web site in April 2007 as part of its ongoing commitment to improve communication with stakeholders. The web site was designed to be more user friendly and offer significant functional improvements to make it easier to find information.
- Mr Lyndon Rowe, Chairman of the Authority, was appointed chair of the Authority's Consumer Consultative Committee (**ERACCC**) in March 2007 and existing members were reappointed for a further two years. ERACCC was established in 2005 to provide comment to the Authority on consumer issues affecting the Authority's administration of the *Economic Regulation Act 2003*.
- Following the approval of Western Power's access arrangement, the Authority held a Public Information Seminar in June 2007 to explain the arrangement and its practical application and effect to interested parties.

#### ...for our people

- As part of recognising Secretariat staff as being the Authority's most valuable asset, employees were encouraged to undertake both internal and external professional development and training. This was done at a cost of \$83,652 or approximately \$1,959 per staff member.
- Several policy initiatives, such as those on employee assistance, flexible working hours and equal employment opportunity and diversity, were implemented.
- A personnel performance appraisal system was developed in mid 2006, incorporating an induction program for new staff and a leave management plan. A performance management review system for divisional heads also commenced in December 2006.
- The staff fitness program continued for those who wished to participate.
- Staff took part in a retreat day at Point Walter in November 2006. The day was coordinated by a professional outdoor education company and proved to be challenging and enjoyable.

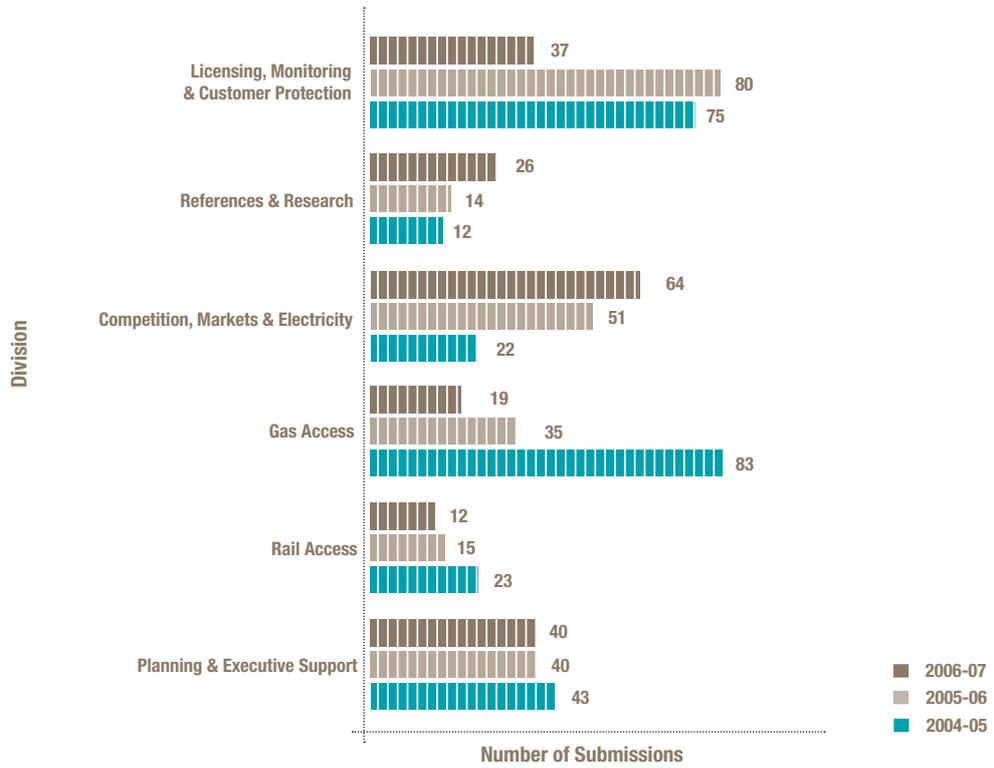
#### ...in our business processes

- Significant progress was made in developing and implementing a new electronic document management system. A system was selected and introduced in June 2007 with staff training to commence soon after.
- A new staff intranet was developed and launched in February 2007 to provide ready access to internal policies and procedures and other relevant information and applications.
- The Authority is developing appropriate management reports to suit its environment following the move of its financial support services from the Department of Treasury and Finance to the Office of Shared Services from December 2006.
- The Authority's commitment to quality communications was recognised when it received Silver in the 2006 W.S. Lonnie Awards in the General Government Sector category (under 100 full-time equivalent employees).

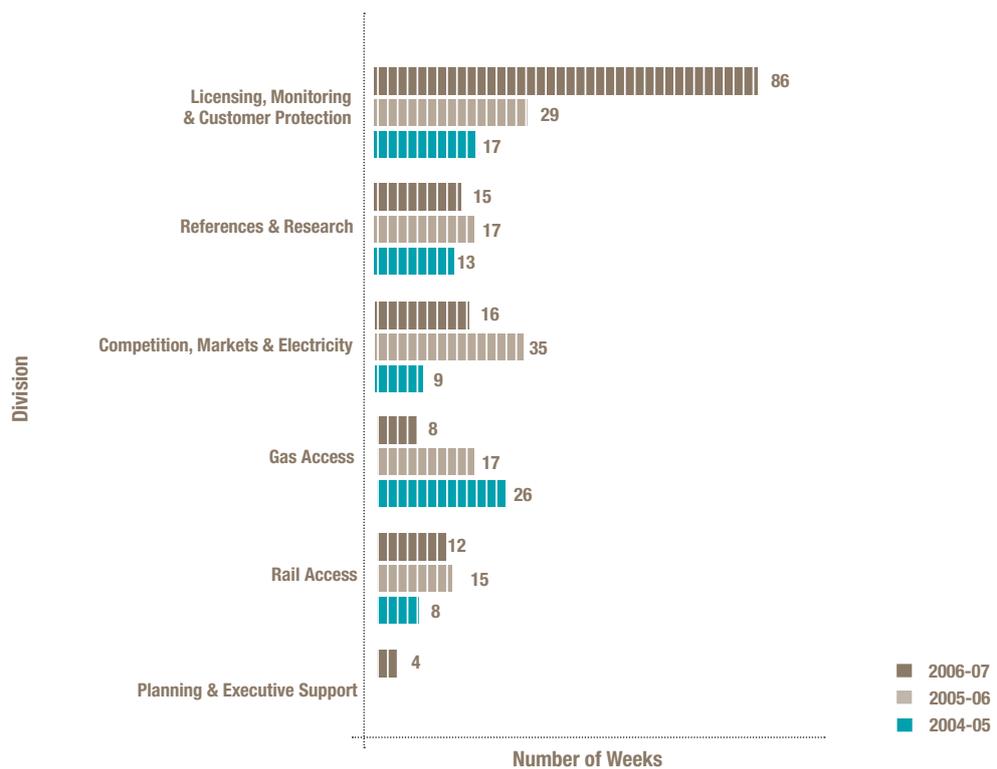


## Highlights

### Items of advice considered by the Authority



### Public Consultation



# Overview of Agency

## Executive Summary

### Financial Summary

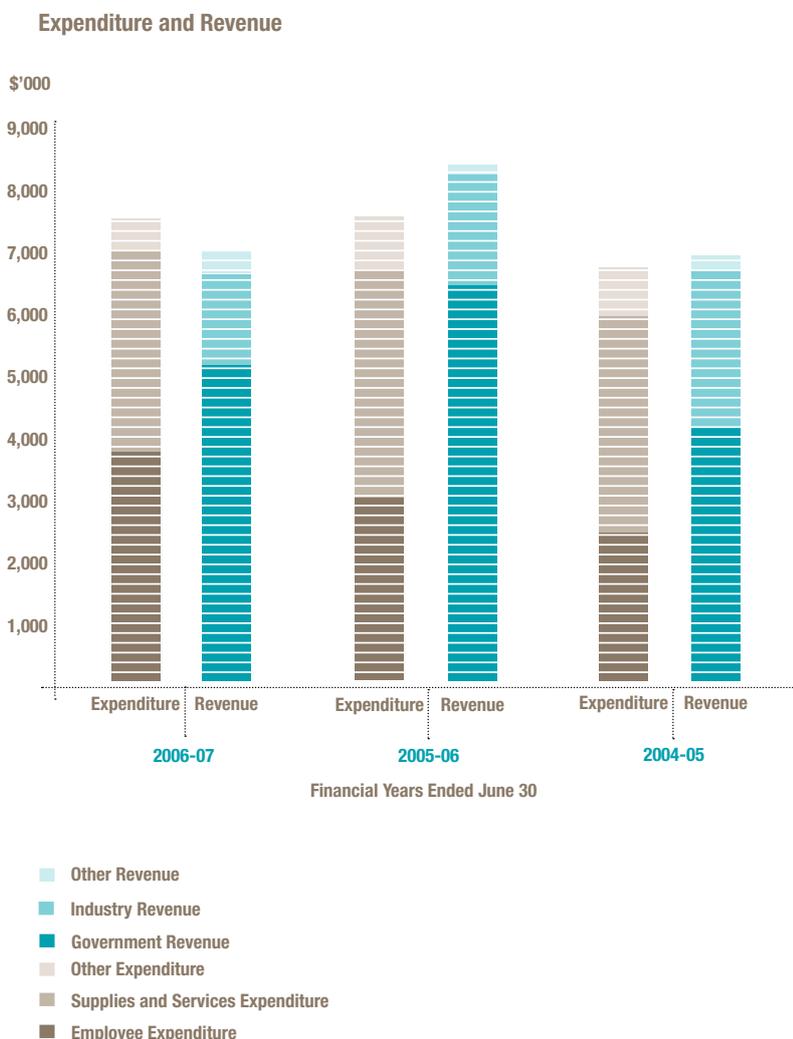
#### Expenditure and Revenue

The Authority's expenditure and revenue for its first three full years of operation, illustrated in the chart below, indicate that expenditure exceeded revenue by \$591,000 in the 2006-07 financial year, compared to a surplus of \$806,000 in the previous year.

The first time assessment of a proposed access arrangement for Western Power's South West Interconnected System that commenced in August 2005, resulted in the Authority committing significant expenditure during the 2005-06 financial year that was not brought to account until 2006-07.

In addition, by the end of 2006-07, the Authority incurred expenditure of \$267,000 on the review of its decision by the Gas Review Board to issue its own access arrangement for the Dampier to Bunbury Natural Gas Pipeline. The majority of this expenditure was internally funded and an application for an appropriation to recover an amount of \$192,000, which has not to date been recovered, will be made once all activities of the Gas Review Board are completed and the final cost is known. While a significant part of the review by the Gas Review Board has been discontinued, the remaining parts are expected to be finalised by June 2008.

Although expenditure has remained approximately the same as that in 2005-06, employee expenditure as a proportion of total expenditure has increased from 40% to 51%. This increase in expenditure reflects increased numbers of staff needed to perform new functions assigned to the Authority. In 2005-06, the Authority was supported by a Secretariat of 30 full time equivalents, which increased to 42.7 full time equivalents in 2006-07.

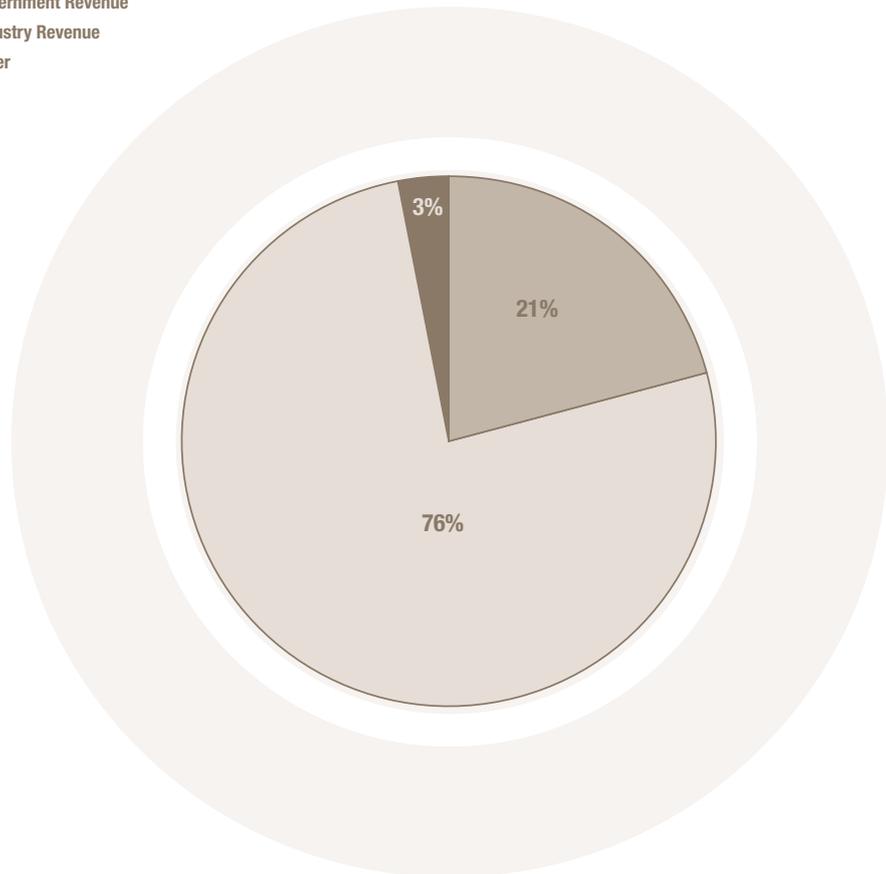


The Authority is mainly funded by Government and industry. In the 2006-07 financial year, funding declined by 16.6%, primarily attributable to reduced funding from Government.

The Authority's main areas of expenditure are employee expenses, supplies and services and accommodation. Included in supplies and services is expenditure on consultants which has steadily decreased from \$2.3 million in 2004-05 to \$1.7 million in 2006-07. This reduction in expenditure on consultants reflects the Authority's policy to build expertise within the Authority and limit the use of consultants to more specialised areas of expertise. Accordingly, expenditure on consultants has declined while employee expenditure has increased.

## Sources of Income 2006-07

- Government Revenue
- Industry Revenue
- Other

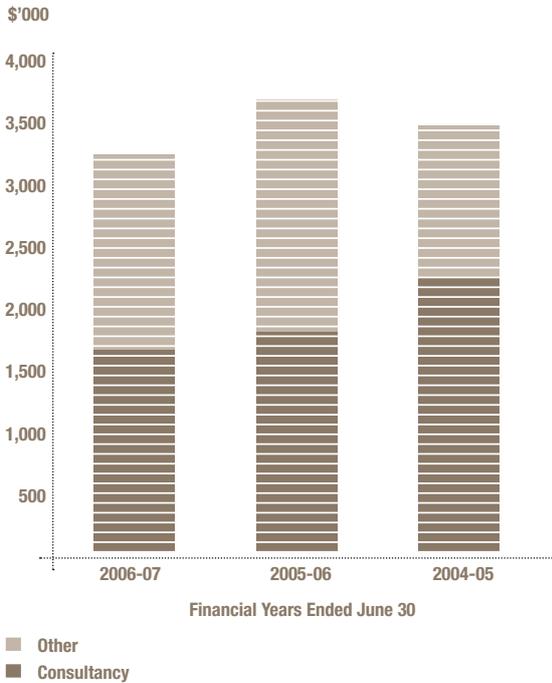


# Overview of Agency

## Executive Summary

### Financial Summary (continued)

#### Cost of Supplies and Services



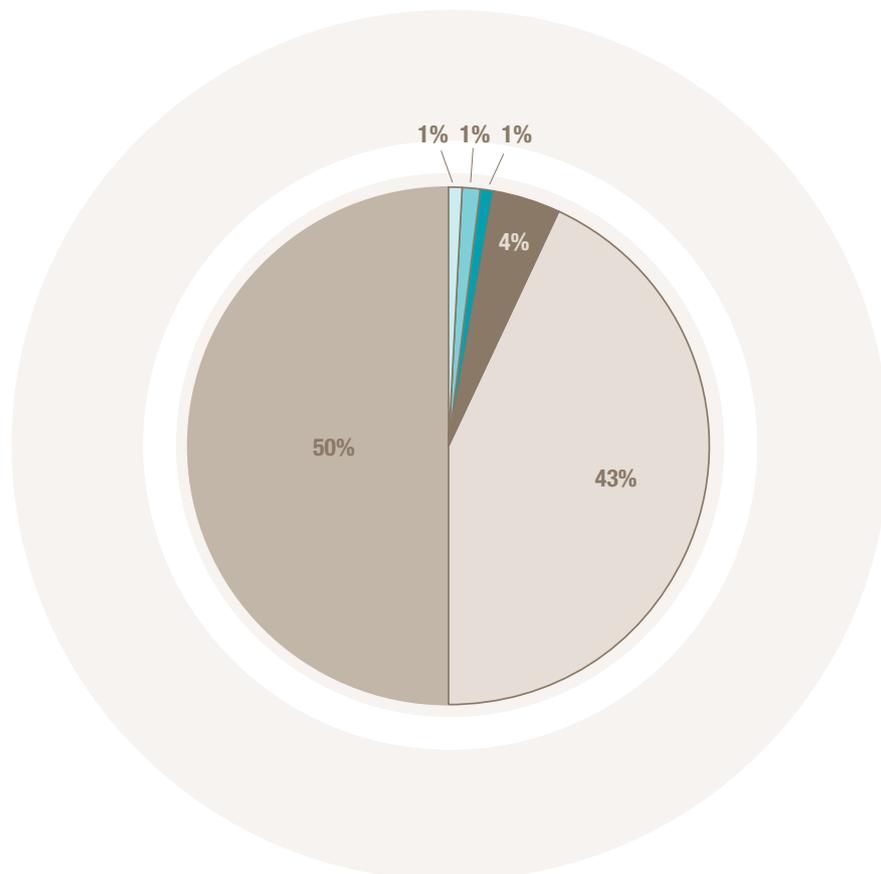
As a result of the excess of expenditure over income amounting to \$591,000 and a change in asset capitalisation policy amounting to \$108,000, the Authority's accumulated surpluses decreased from \$1,706,000 to \$1,007,000 in the financial year. Total equity as at the 30 June 2007 was \$1,780,000.

#### Capital Expenditure

During 2006-07 the Authority revised its asset capitalisation policy from a value of \$1,000 to \$5,000. As the Authority's assets are primarily computer hardware, the change in asset capitalisation policy has reduced the Capital Works Program to replacing office equipment. Purchase of computer hardware is now expensed as part of the annual budget.

#### Expenditure 2006-07

- Supplies and Services
- Employee
- Accommodation
- Depreciation
- Capital User Charge
- Other Expenses



## Operational Structure

### The Role of the Authority

The Economic Regulation Authority is the independent economic regulator for Western Australia.

The Authority regulates monopoly aspects of the gas, electricity and rail industries and licence providers of gas, electricity and water services. The Authority also inquires into matters referred to it by the State Government.

In addition, the Authority has a range of responsibilities in the retailing of gas and surveillance of the wholesale electricity market in Western Australia.

The Authority's functions are designed to benefit the Western Australian community by maintaining a competitive, efficient and fair commercial environment, particularly where businesses operate as natural monopolies.

In making its decisions, the Authority strives to promote fair prices, quality services and choice.



### Organisational Structure

The Authority is a body corporate with perpetual succession. It is an agent of the State and has the status, immunities and privileges of the State.

The Authority has two distinct parts: the Governing Body and the Secretariat.

The Governing Body consists of a full-time Chairman and such other members as the Governor of Western Australia considers necessary for the proper performance of the Authority's functions.

The Governing Body determines the policies, controls the affairs and otherwise performs the functions of the Authority.

The Governing Body is assisted by a Secretariat, which consists of a Chief Employee and public service officers appointed or made available under Part 3 of the *Public Sector Management Act 1994*.

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

The Secretariat comprises six divisions, four operational and two that provide business support. The four operational divisions are Competition, Markets and Electricity; Gas and Rail Access; Licensing, Monitoring and Customer Protection and References and Research. The two business support divisions are Finance and Administration, and Planning and Executive Support.

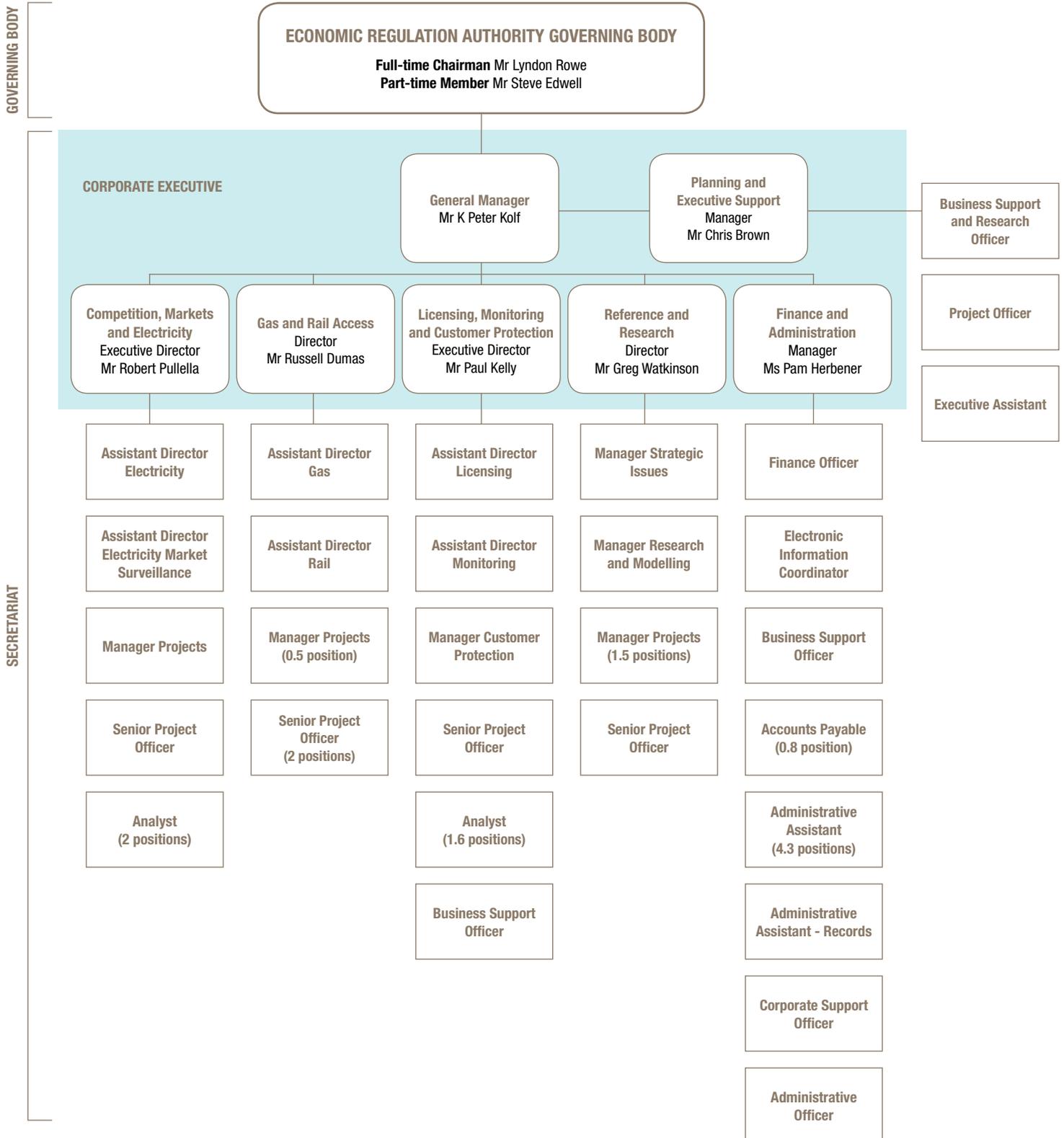
For reasons of efficiency, effectiveness and timeliness, the Authority has adopted distinct regulatory and administrative organisational structures, which provide for operational divisions to report directly to the Governing Body on regulatory matters. The administrative structure is shown overleaf.

# Overview of Agency

## Operational Structure

### Organisational Structure (continued)

ERA ORGANISATIONAL STRUCTURE AS AT JUNE 30 2007



## Our People

### Staff Profile

As at 30 June 2007, 42.7 employees were working on either a full-time or part-time basis for the Authority. The majority were employed as permanent staff, with eight employed on a contract basis. Further temporary contract staff were employed during the financial year to provide short-term support and expertise during periods of staff leave and peak workload.

### The Governing Body

The Chairman is the Head of the Governing Body. Mr Lyndon Rowe was appointed as the full-time Chairman on 8 March 2004 for a period of five years.

The part-time member of the Governing Body is Mr Steve Edwell, who was appointed for a period of five years commencing on 17 January 2006.

Mr Chris Field was also a part time member, from 8 March 2004 until 24 March 2007.

#### Mr Lyndon Rowe, Chairman

Mr Rowe has an honours degree in Economics from the University of Adelaide, South Australia. Before being appointed Chairman, he was Chief Executive of the Chamber of Commerce and Industry of WA, a position held 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, microeconomics, education and training and has published a number of papers dealing with Australia's industrial relations system. He was awarded the 1999 Austin Holmes Award by the Economic Society of Australia (WA), and received 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 Western Australia Senate, and a Director of Perth Airport.

#### Mr Steve Edwell

Mr Edwell has a Commerce and Economics Degree from the University of New South Wales and an MBA from the University of Queensland.

Mr Edwell has more than fifteen years experience in reform of utilities, in particular electricity and water, where he has driven a number of comprehensive reform projects and has worked in both the public and private sectors.

In addition to his role at the Authority, Mr Edwell is the inaugural Chair of the Australian Energy Regulator, a position he has held since mid-2005.

Immediately prior to this appointment, he worked for the Western Australian Government leading the implementation of comprehensive electricity reform.

Mr Edwell was also the CEO of the Queensland Electricity Reform Unit, which implemented a range of electricity reforms that culminated in Queensland joining the National Electricity Market. His other assignments have included being commissioned by the Queensland Government to implement the Council of Australian Governments' water reforms and as head of the Queensland Office of Energy.

#### Mr Chris Field

(Member until 24 March 2007)

In addition to his role at the Authority, Mr Field held the following positions (until March 2007): Professor and Chair in Consumer Law, La Trobe University, Director, Energy and Water Ombudsman Victoria (since 2001); Chairman of the Consumer Utilities Advocacy Centre (since 2005); and Adjunct Professor, University of Western Australia.



Above left to right: Mr Chris Field (Member) and Mr Steve Edwell (Member).  
Below: Mr Lyndon Rowe (Chairman).

He also undertook selected consultancy work, including major research reports on consumer advocacy and alternative dispute resolution for the Victorian Department of Justice.

Previously, Mr Field was the Executive Director of the Consumer Law Centre Victoria, a position he held for seven years and, for four years he held the position of Chairman of the Australian Consumers' Association.

Mr Field holds Arts and Law (Honours) degrees. He publishes regularly on competition, regulatory and consumer issues and is the author of the university textbook *Current Issues in Consumer Law and Policy*, Pearson Australia, 2006 and the "Consumer Dealings" section editor of the *Australian Business Law Review*.

In March 2007, Mr Field resigned as a member of the Authority to begin a five-year term as the Western Australian Ombudsman.



# Overview of Agency



From left to right: Mr Robert Pullella, Mr Paul Kelly, Mr Russell Dumas, Mr Greg Watkinson, Ms Pam Herbener and Mr Chris Brown.

The Corporate Executive is headed by the General Manager, who is responsible for, and has the powers needed to administer the day-to-day operations of the Authority.



## Operational Structure

### Our People (continued)

#### *Corporate Executive*

The Corporate Executive is headed by the General Manager, who is responsible for, and has the powers needed to administer the day-to-day operations of the Authority.

#### **Mr K. Peter Kolf, General Manager**

Mr Peter Kolf was appointed to the position of General Manager (Chief Employee) in July 2004, having acted in the position since 1 January 2004. Mr Kolf is responsible for administering the day-to-day operations of the Authority.

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 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.

In addition to the General Manager, the following divisional heads make up the Corporate Executive:

- Mr Robert Pullella – Executive Director Competition, Markets and Electricity;
- Mr Paul Kelly – Executive Director Licensing, Monitoring and Customer Protection;
- Mr Russell Dumas – Director Gas and Rail Access;
- Mr Greg Watkinson – Director References and Research;
- Ms Pam Herbener – Manager Finance and Administration; and
- Mr Chris Brown – A/Manager Planning and Executive Support (from 21 June 2007). Ms Nerea Ugarte acted in this position until 20 June 2007.

The Corporate Executive meets once each month for planning purposes and to exchange information about the respective operational divisions' workloads. The meetings of the Corporate Executive provide an opportunity for effective communication between the operational divisions of the Authority and monitoring of the Authority's performance and progress against targets.

Mr Peter Kolf, General Manager



## Workplace Culture

### Professional Development

The Authority understands that staff training and professional development is integral to contributing to Goal 5 of the State Government's framework for strategic management "*Better Planning; Better Futures*", which relates to governance and public sector improvement. One of the strategic outcomes of Goal 5 is to promote 'a skilled and capable public sector workforce'. To achieve this outcome, staff participated in various external training courses during 2006-07 to further develop and acquire new skills. These courses varied in subject matter, ranging from ways to improve administrative and computer skills, to accredited training in project management, strategic planning and leadership courses.

The Authority also ran a number of in-house training seminars for staff and external interested parties, including:

- ERA Experimental Economics Session – 22 March 2007;
- Electricity Industry Restructuring and Market Design course – 14 and 15 June 2007;
- Influencing Skills Program – 8 and 10 May 2007; and

- Presentation Skills Program – 19 October and 1 November 2006, 24 October and 2 November 2006 and 9 and 16 November 2006.

Also, staff attended and presented at a number of seminars and conferences, on behalf of the Authority. By attending and participating in presentations, staff were able to increase stakeholder and public awareness of the Authority and contributed to the Authority's mission of 'advancing the debate in economic regulation'.

### Social Committee

In June 2007, the Authority established a social committee, with the aim of developing and sustaining a culture in which staff can communicate with one another on an informal basis. A monthly luncheon program was developed and other social activities and trips are being arranged for the 2007-08 financial year.

A monthly staff meeting is held as an opportunity for staff to inform and be informed of relevant matters, such as staff movements and upcoming events that affect the Authority.

## Responsible Minister

The Authority is independent of direction or control by the State or any Minister or officer of the State in performing its functions. However, under sections 28(2) and 28(3) of the *Economic Regulation Authority Act 2003*, the relevant Minister may give directions in writing to the Authority on administration and financial administration matters.

In this context, the Minister responsible for the Authority is the Hon Eric Ripper BA DipEd MLA, Deputy Premier; Treasurer; Minister for State Development.



# Overview of Agency

## Operational Structure

### Legislation Affecting Activities

#### Enabling Legislation

The Authority was established on 1 January 2004 as a body corporate with perpetual succession under section 4 of the *Economic Regulation Authority Act 2003*. Other relevant legislation includes the *Economic Regulation Authority (Gas Pipelines Access Funding) Regulations 2003* and the *Economic Regulation Authority (Transitional) Regulations 2003*.

#### Legislation Administered

The Authority has a number of powers, responsibilities and obligations derived from certain Acts of Parliament, Regulations that arise from those Acts and other subsidiary legislation such as Codes and Rules.

#### Other Legislation impacting on the Authority

Other legislation that impacts on the Authority in the performance of its functions include the:

- *Corruption and Crime Commission Act 2003*;
- *Disability Services Act 1993*;
- *Equal Opportunity Act 1984*;
- *Financial Management Act 2006*;
- *Freedom of Information Act 1992* (in relation to non-regulatory matters);
- *Industrial Relations Act 1979*;
- *Public Interest Disclosure Act 2003*;
- *Public Sector Management Act 1994*; and
- *State Records Act 2000*.

The following table shows the relevant legislation in relation to the four regulated utilities in which the Authority is involved:

Regulated Utility	Relevant Legislation
Gas	<ul style="list-style-type: none"> <li>• <i>Energy Coordination Act 1994</i></li> <li>• <i>Gas Pipelines Access (Western Australia) Act 1998</i></li> <li>• <i>Energy Coordination Regulations 2004</i></li> <li>• <i>Energy Coordination (Customer Contracts) Regulations 2004</i></li> <li>• <i>Energy Coordination (Last Resort Supply) Regulations 2005</i></li> <li>• <i>Energy Coordination (Licensing Fees) Regulations 2005</i></li> <li>• <i>Energy Coordination (Retail Market Schemes) Regulations 2004</i></li> <li>• <i>Gas Pipelines Access (Western Australia) Regulations 2000</i></li> <li>• <i>Gas Pipelines Access (Western Australia) (Funding) Regulations 1999</i></li> <li>• <i>Gas Marketing Code of Conduct 2004</i> (to be repealed and replaced in accordance with the Authority's Final Decision of March 2007, refer to the Agency Performance section for further information).</li> </ul>
Electricity	<ul style="list-style-type: none"> <li>• <i>Electricity Industry Act 2004</i></li> <li>• <i>Electricity Industry (Code of Conduct) Regulations 2005</i></li> <li>• <i>Electricity Industry (Customer Contracts) Regulations 2005</i></li> <li>• <i>Electricity Industry (Licence Conditions) Regulations 2005</i></li> <li>• <i>Electricity Industry (Access Code Enforcement) Regulations 2005</i></li> <li>• <i>Electricity Industry (Licensing Fees) Regulations 2005</i></li> <li>• <i>Electricity Industry (Obligation To Connect) Regulations 2005</i></li> <li>• <i>Electricity Industry (Wholesale Electricity Market) Regulations 2004</i></li> <li>• <i>Electricity Industry (Network Quality and Reliability of Supply) Code 2005</i></li> <li>• <i>Code of Conduct (For the Supply of Electricity to Small Use Customers)</i></li> <li>• <i>Electricity Industry Customer Transfer Code 2004</i></li> <li>• <i>Electricity Networks Access Code 2004</i></li> <li>• <i>Electricity Industry Metering Code 2005</i></li> </ul>
Water	<ul style="list-style-type: none"> <li>• <i>Water Services Licensing Act 1995</i></li> <li>• <i>Water Services Coordination Regulations 1996</i></li> </ul>
Rail	<ul style="list-style-type: none"> <li>• <i>Railways (Access) Act 1998</i></li> <li>• <i>Railways (Access) Code 2000</i></li> </ul>

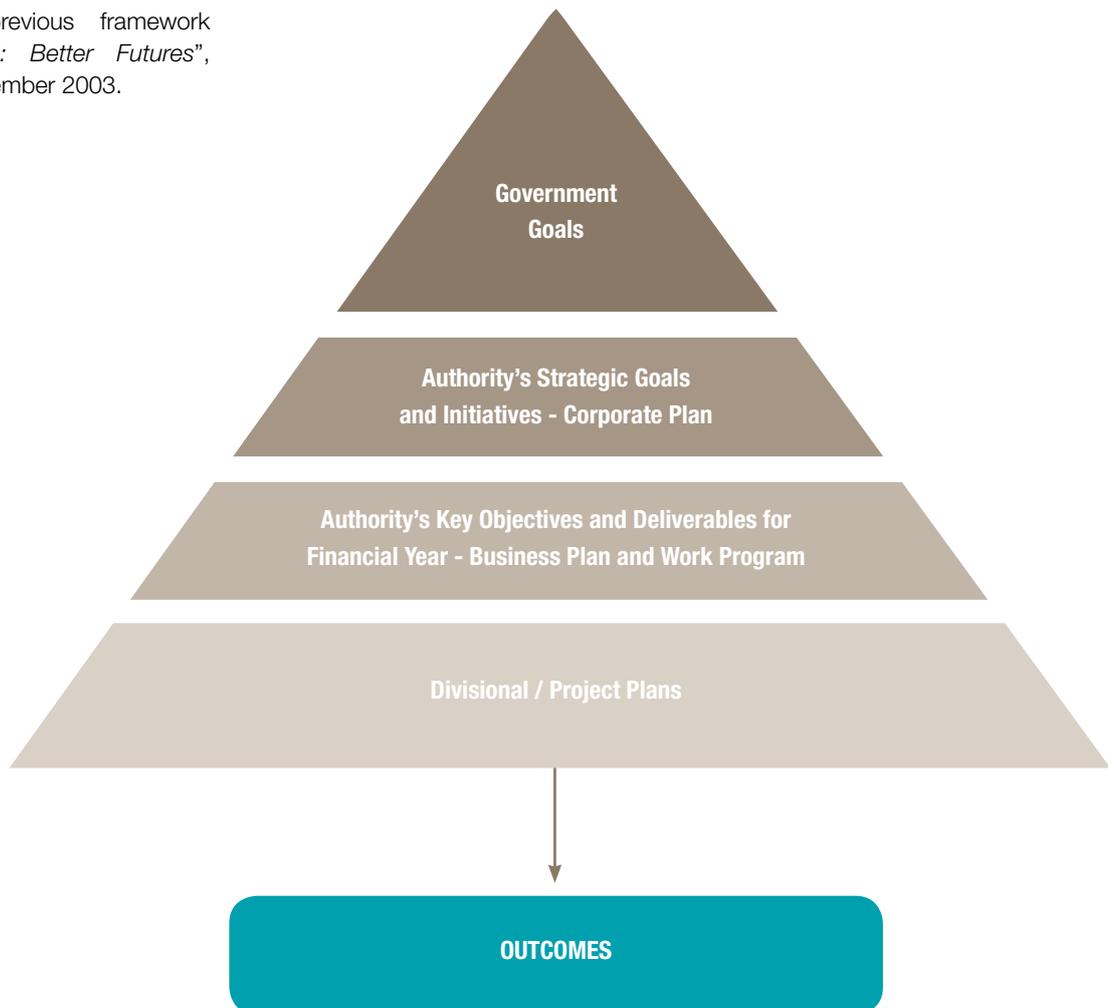
## Performance Management Framework

In September 2006, the State Government released “*Better Planning: Better Futures*”, its new framework for the strategic management of the Western Australian public sector. “*Better Planning: Better Futures*” includes five revised Government strategic goals relating to Better Services, Jobs and Economic Development, Lifestyle and the Environment, Regional Development and Governance and Public Sector Improvement.

“*Better Planning: Better Futures*” replaces the previous framework “*Better Planning: Better Futures*”, published in November 2003.

### **The Authority’s Contribution to “*Better Planning: Better Futures*”**

The Authority ensures that it contributes to the achievement of the Government’s strategic goals, as set out in “*Better Planning: Better Futures*”, through its strategic and business planning within the following integrated planning framework:



# Overview of Agency

## Performance Management Framework

### The Authority's contributions to Better Planning: Better Futures (continued)

The following table outlines the Authority's contribution to fulfilling the objectives of "Better Planning: Better Futures".

GOAL	AUTHORITY'S RESPONSE
<p><b>Goal One:</b> <b>Better Services</b></p> <p>Enhancing the quality of life and wellbeing of all people throughout Western Australia by providing high quality, accessible services.</p>	<p>Section 26 (1) of the <i>Economic Regulation Authority Act 2003</i> states that the Authority, in carrying out its functions, needs to promote regulatory outcomes that are in the (a) <i>public interest</i> and (b) <i>long-term interests of consumers in relation to the price, quality and reliability of goods and services provided in relevant markets</i>. The Authority therefore has regard for the wellbeing of the Western Australian community when undertaking its functions.</p>
<p><b>Goal Two:</b> <b>Jobs and Economic Development</b></p> <p>Creating conditions that foster a strong economy delivering more jobs, opportunities and greater wealth for all Western Australians.</p>	<p>The Authority contributes most directly to Goal Two through the regulation of electricity, gas, rail and water infrastructure in an independent and transparent manner, undertaking public consultation where appropriate.</p> <p>In carrying out its inquiry function, the Authority also encourages economic development in Western Australia. These inquiries, which are referred to the Authority by the Government, can relate to both "regulated" and "non-regulated" matters in areas as diverse as pricing, quality of services, business practices and compliance.</p>
<p><b>Goal Three:</b> <b>Lifestyle and the Environment</b></p> <p>Protecting and enhancing the unique Western Australian lifestyle and ensuring sustainable management of the environment.</p>	<p>In carrying out its functions, the Authority must have regard, amongst other considerations, for the long-term interests of consumers (section 26 <i>Economic Regulation Authority Act 2003</i>). This includes the sustainable management of the environment.</p>
<p><b>Goal Four:</b> <b>Regional Development</b></p> <p>Ensuring that regional Western Australia is strong and vibrant.</p>	<p>The Authority provided a Regional Development Policy Progress Report to the Department of Local Government and Regional Development in July 2006.</p>
<p><b>Goal Five:</b> <b>Governance and Public Sector Improvement</b></p> <p>Developing and maintaining a skilled, diverse and ethical public sector serving the Government with consideration of the public interest.</p>	<p>The staff training undertaken by the Authority in 2006-07 contributed to a "skilled and capable public sector workforce".</p>

The Authority's corporate and business plans are developed using the framework for the strategic management of the Western Australian public sector, as outlined in *"Better Planning: Better Futures"*, and the objectives and key targets for the Authority are set out for each operational division.

In line with the structure of the business plan, the following report on the Authority's performance has been divided into the four operational areas. Each operational division has separate objectives, derived from the various sources of legislation that govern the Authority's powers, and it is from these objectives that the performance targets for each operational division is set.

The Authority set out challenging targets for each operational division to focus on in the 2006-07 financial year. The Authority is pleased to report that most of these planned targets have been met.



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## Objectives

Under the *Electricity Networks Access Code 2004* (**Electricity Code**):

- to regulate third party access to electricity transmission and distribution networks in Western Australia which are subject to regulation under the Electricity Code, namely Western Power's network in the South West Interconnected System.

Under the *Electricity Industry Customer Transfer Code 2004*:

- to approve Communication Rules to govern the transfer of contestable electricity customers between retailers of electricity; and
- to arbitrate disputes that may arise between network operators and retailers in relation to the transfer of contestable electricity customers.

Under the *Electricity Industry Metering Code 2005* (**Metering Code**):

- to approve Model Service Level Agreements, Communication Rules, Metrology Procedures and Mandatory Link Criteria proposed by regulated network operators;
- to arbitrate disputes that may arise between network operators and Metering Code participants; and
- to approve a registration process for meter installation providers.

## Targets and Results

WHAT WE SET OUT TO DO IN THE 2005-06 ANNUAL REPORT	WHAT WE ACHIEVED IN 2006-07 TO ADDRESS THESE PLANNED TARGETS
<p>The finalising of the approval of Western Power's proposed access arrangement and technical rules approximately midway through the next financial year. This approval will mark the commencement of monitoring processes under the Electricity Code and the development of processes for assessing proposed major augmentations to the network.</p>	<p>The final decision on the revised proposed access arrangement for Western Power's South West Interconnected Network was issued in March 2007. The final decision was to not approve the revised proposed access arrangement. Western Power submitted an amended proposed access arrangement in April 2007 as required.</p> <p>The further final decision to approve the amended proposed access arrangement was published on 26 April 2007. The Authority determined that the access arrangement should become effective from 1 July 2007.</p> <p>The Technical Rules for Western Power's South West Interconnected Network were approved and published in April 2007, following a thorough public consultation process. The Technical Rules will apply during the access arrangement period (from 1 July 2007).</p>
<p>The approval of metrology procedures (which deal with the technical characteristics of measuring electricity) and mandatory link criteria (which deal with the types of meters, including specific communication facilities) for Western Power and Horizon Power in the early part of the 2006-07 year.</p>	<p>In September 2006, the criteria proposed by Western Power and Horizon Power for communication links that enable meters to be read at a remote location were approved.</p> <p>In September 2006, the Authority approved Western Power's and Horizon Power's proposed Metrology Procedures, which set out network operators' obligations on meters, metering installations and the provision of energy data.</p>

## Competition, Markets and Electricity

### Electricity Access (continued)

Other key achievements in the area of electricity access during the financial year:

- On 27 June 2007, the Authority held an information session for interested parties on key aspects of the approved access arrangement and the Technical Rules. Approximately ninety people attended to hear presentations from Western Power and the Authority.
- Western Power must submit a proposed price list to the Authority at least forty five business days before the start of each pricing year, excepting the first pricing year. The Authority is obliged to approve a proposed price list if it determines that the proposed price list complies with the price control and pricing methods in the service provider's access arrangement. On 28 May 2007, the Authority approved Western Power's 2007-08 price list for the South West Interconnected Network. The new prices for the transmission and distribution network came into effect on 1 July 2007. The Authority published the 'Determination on the Proposed 2007-08 Price List for the South West Interconnected Network', which set out the reasons for the approval of the list including how the list complies with the price control and pricing methods approved in the access arrangement.
- Three aspects of Western Power's proposed access arrangement – dealing with capacity rights, capital contributions and headworks charges – were reviewed in January 2007. The review, which included public consultation, was to inform the Authority's final decision on Western Power's revised proposed access arrangement.



## Wholesale Electricity Market

### Objectives

Under the *Wholesale Electricity Market Rules*:

- to monitor the effectiveness of the market;
- to determine the allowable revenue for the Independent Market Operator and Western Power's System Management division; and
- to approve price limits for reserve capacity and energy annually.

### Targets and Results

WHAT WE SET OUT TO DO IN THE 2005-06 ANNUAL REPORT	WHAT WE ACHIEVED IN 2006-07 TO ADDRESS THESE PLANNED TARGETS
The development of arrangements to permit early understanding of market behaviour and assess the effectiveness of the market.	<p>The development, in cooperation with the Independent Market Operator and a consultant, of a short run marginal cost model. This model is to be used by the Authority and the Independent Market Operator to monitor the behaviour of market participants under the Market Rules.</p> <p>Development of fortnightly electricity market reports, which enable the Authority to monitor the short term electricity market.</p> <p>Development of a market database for the Authority to monitor behaviour of market participants.</p>
The development of methods to assess the effectiveness of both market rules and market procedure change processes.	Work has commenced to decide how the Authority will assess the effectiveness of the market rules and procedure change processes, which will be finalised for the production of the annual report to the Minister in the first half of 2007-08.
Assessing the effectiveness of the Independent Market Operator and Western Power's System Management in carrying out their functions under the <i>Electricity Industry (Wholesale Electricity Market) Regulations 2004</i> and the Wholesale Electricity Market rules and market procedures.	The Authority consulted market participants to identify issues impacting on the market's effectiveness. Market participants' responses in relation to the functions of the Independent Market Operator and System Management will be included as part of the Authority's assessment. The issues identified will form the basis for a discussion paper and public consultation process that will inform the Authority in preparing its report to the Minister for Energy.
Approval of the Independent Market Operator's and Western Power's System Management's allowable revenue, values for the maximum reserve capacity price and energy price limits applicable under the electricity wholesale market.	<p>In March 2007, the allowable revenue that can be recovered from market participants for the services provided by the Independent Market Operator and for Western Power's System Management was approved for the period 1 July 2007 to 30 June 2010 for the conduct of the Independent Market Operator and System Management services.</p> <p>In January 2007 the maximum reserve capacity price of \$142,200/MW recommended by the Independent Market Operator for 2009-2010 was approved. The Authority was not required to approve energy price limits during the year.</p>

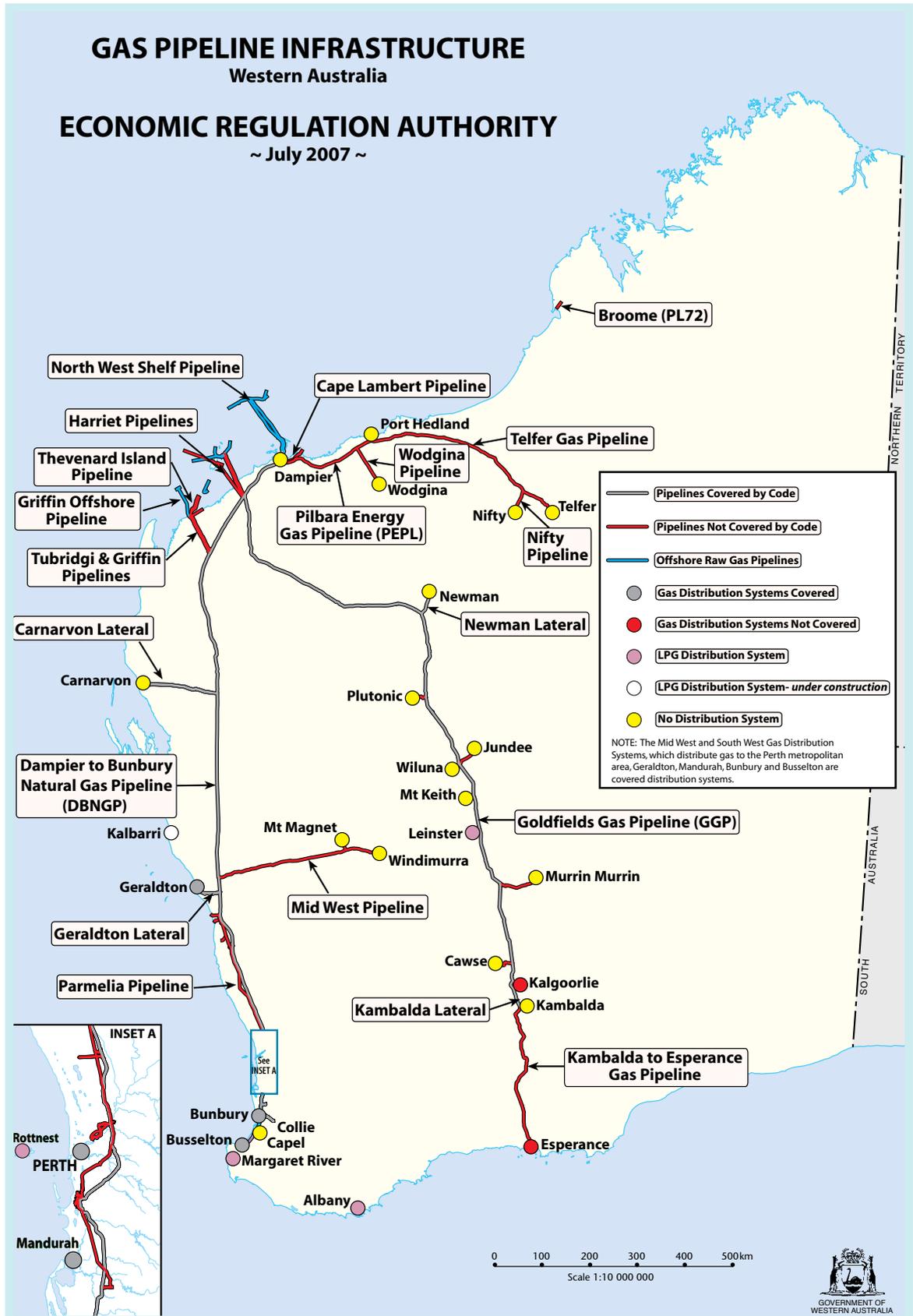
Other key achievements in the area of the wholesale electricity market during the financial year:

- Signed a Memorandum of Understanding and an Operation Protocol document with the Independent Market Operator, which details the nature of the working relationship between the two agencies.
- Gained membership to the Energy Intermarket Surveillance Group (**EISG**) jointly with the Independent Market Operator.

# Agency Performance

## Gas and Rail Access

### Gas Access



## Objectives

Under the *National Third Party Access Code for Natural Gas Pipeline Systems* (**Gas Code**):

- to regulate third party access to gas transmission and distribution pipelines in Western Australia which are subject to regulation under the Gas Code, namely the Dampier to Bunbury Natural Gas Pipeline, the Goldfields Gas Pipeline, the Mid–West and South–West Gas Distribution Systems and the Kalgoorlie to Kambalda Pipeline.

Under the *Energy Coordination Act 1994*:

- to approve and amend gas retail market schemes; and
- to monitor and enforce compliance with the *Gas Marketing Code of Conduct 2004* (**Gas Marketing Code**) until it is repealed and replaced by a gas marketing standard to be incorporated into existing gas trading licences, in accordance with the Authority's final decision of 26 March 2007.

## Targets and Results

### WHAT WE SET OUT TO DO IN THE 2005-06 ANNUAL REPORT

Undertake discussions with key stakeholders to determine their views on the effectiveness of the gas access regime in Western Australia. This was to engage stakeholders and work towards preparing guidelines in crucial areas of the Authority's assessment processes.

### WHAT WE ACHIEVED IN 2006-07 TO ADDRESS THESE PLANNED TARGETS

In June 2007, the Authority published a discussion paper which provided feedback to stakeholders on the issues that were identified when it canvassed thirty organisations for their views on the effectiveness of the Gas Code. The Authority considered that the consultation improved understanding of the gas regulatory regime's effectiveness in Western Australia and provided a better basis for future regulatory decisions.



# Agency Performance

## Gas and Rail Access

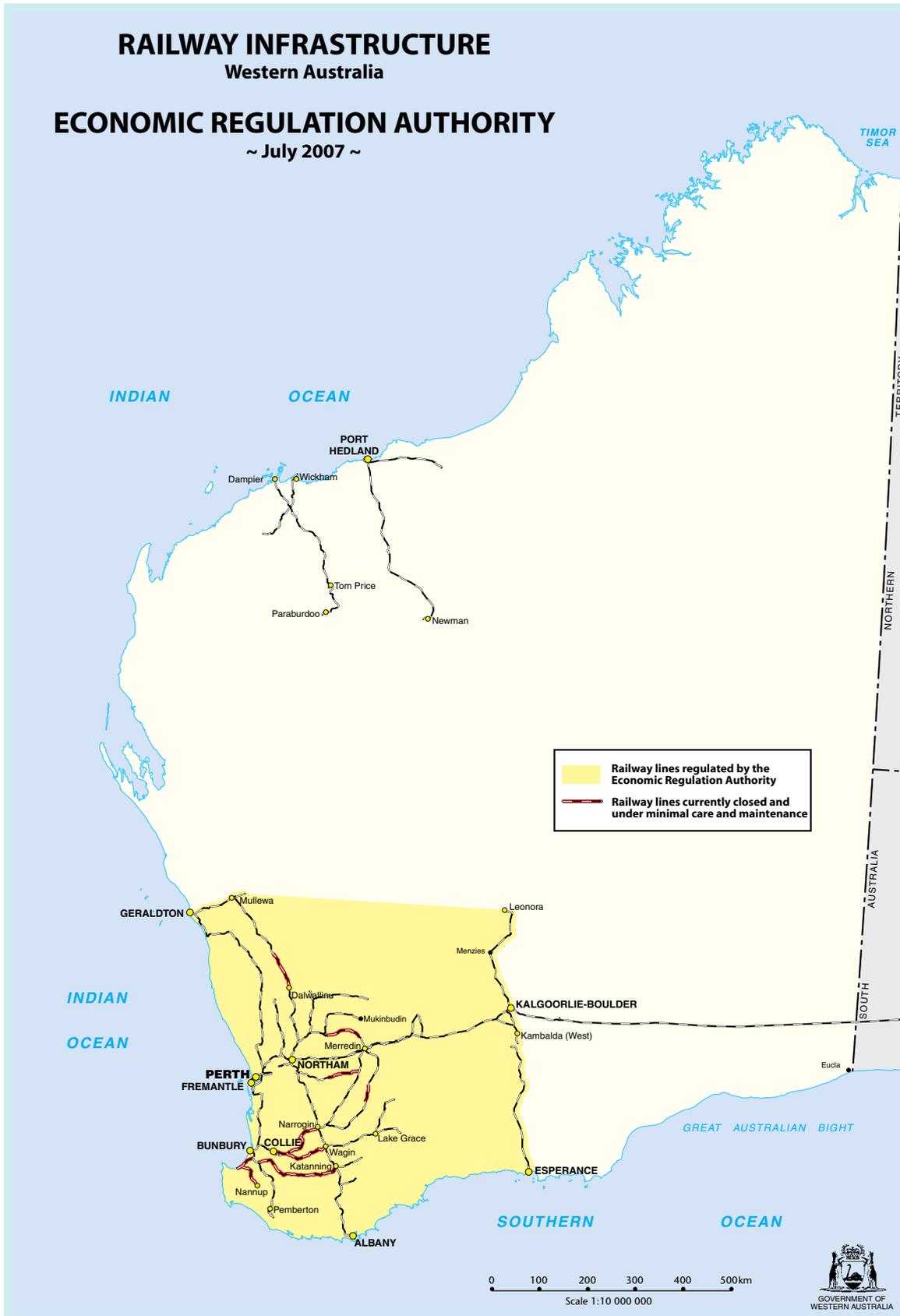
### Gas Access (continued)



Other key achievements in the area of gas access during the financial year:

- In March 2006, the Authority exercised its discretion under the Gas Code to require the owner of the Dampier to Bunbury Natural Gas Pipeline (**DBP**) to provide an annual independent auditor's report on compliance with its ring fencing obligations. The Authority approved the 2006 report submitted by DBP and their next report is due by October 2007.
- The Authority was involved in an eight day Energy (Gas) Review Board hearing in February 2007. The hearing related to an appeal lodged by the Electricity Generation Corporation (**Verve Energy**) into the Authority's decision to approve its own revised access arrangement for the Dampier to Bunbury Natural Gas Pipeline (**DBNGP**). A further appeal lodged by the pipeline owner was discontinued prior to this hearing.
- The Authority made a joint submission, with the Australian Energy Regulator, in late 2006 to the Ministerial Council on Energy on the drafts of the new national gas law and rules. The Authority continues to be involved in this process.
- The Authority reviewed and verified the gas pipeline tariff adjustments proposed by gas pipeline owners for covered pipelines. These tariff adjustments take account of CPI changes, in accordance with the provisions of the access arrangements, and are carried out either annually or quarterly depending on the frequency specified in the access arrangement.
- The Authority amended the DBNGP access arrangement in November 2006 to allow use of a speculative investment fund. This provision enables the pipeline owner to place capital used to expand the pipeline, which cannot be rolled into the pipeline's capital base at the time, to be added to the capital base later when the relevant investment tests under the Gas Code are met.
- The Authority carried out an evaluation in late 2006 of capital invested to expand the capacity of the Goldfields Gas Pipeline and which was not intended by the pipeline owner to be covered under the Gas Code. The Authority determined that the access arrangement did not preclude the pipeline owner from excluding this capacity from coverage under the Gas Code.
- The Authority completed the review of the Gas Marketing Code aided by the advice of the Gas Marketing Code Consultative Committee (**GMCCC**). The GMCCC was first established by the Minister for Energy to assist in developing the Gas Marketing Code and was reconvened by the Authority to advise it on matters relating to the Gas Marketing Code, including its review. The GMCCC provided its final report and recommendations on the review of the Gas Marketing Code to the Authority in March 2007. The Authority released a decision on 26 March 2007 endorsing the recommendations contained in the GMCCC's final report.
- The Authority has approved expenditure for a review of the Retail Energy Market Company (**REMCo**) Gas Retail Market Scheme. The review commenced with the preparation of an issues paper.

## Rail Access



## Gas and Rail Access

### Rail Access (continued)

#### Objectives

Under the Railways (Access) Code 2000 (Rail Code):

- to regulate third party access to railways in Western Australia which are subject to regulation under the Rail Code.

#### Targets and Results

WHAT WE SET OUT TO DO IN THE 2005-06 ANNUAL REPORT	WHAT WE ACHIEVED IN 2006-07 TO ADDRESS THESE PLANNED TARGETS
<p>To review the 2003 determination of floor and ceiling costs for the principal rail lines in the Western Australian rail network including the Kwinana to Bunbury, Midland to Kalgoorlie, Kalgoorlie to Esperance and Kalgoorlie to Leonora rail lines.</p>	<p>In March 2007, the Authority released its Draft Determination on the floor and ceiling costs submitted by WestNet Rail for the Kwinana to Bunbury, Midland to Kalgoorlie, Kalgoorlie to Esperance and Kalgoorlie to Leonora rail lines. Following public consultation, the Draft Determination was not to approve WestNet's proposed costs. The Final Determination was completed in June 2007.</p>
<p>Infrastructure developments in the mid west of Western Australia and the development of new rail lines could see the Authority's activities under the Western Australian rail access regime expanded. It is anticipated that if new iron ore deposits are developed to the north of Geraldton, a new rail line would be required. WestNet Rail recently announced a proposed arrangement which would see its existing rail network utilised as part of any new rail link to the Oakajee port site.</p>	<p>The Authority met with a number of potential rail access seekers in the mid west region during the 2006-07 financial year and is continuing to closely monitor rail transport developments in the mid west.</p>
<p>The Government is seeking to develop a third party haulage regime for the existing BHP Billiton and Rio Tinto rail lines in the Pilbara. Negotiations have commenced between the Government and BHP Billiton</p>	<p>The Authority has participated in discussions on possible haulage arrangements with both Government and industry participants. A haulage agreement between the Government and BHP Billiton has not yet been finalised.</p>

Other key achievements in the area of rail access during the financial year:

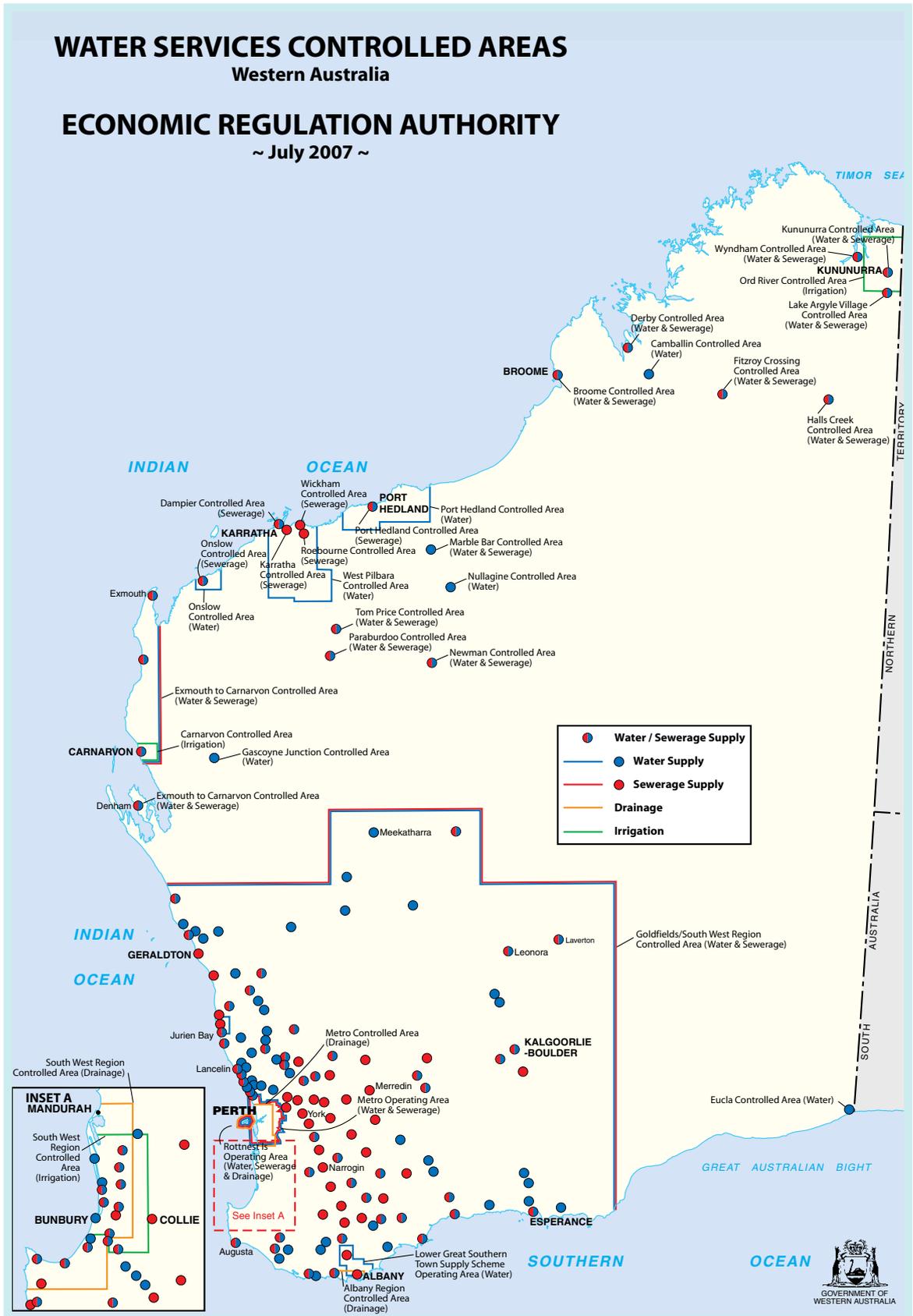
- In February 2007, the 2005-06 annual reports on the key performance indicators for WestNet Rail and the Public Transport Authority were completed and released.
- The Authority determined, in accordance with the Rail Code, the Weighted Average Cost of Capital for the 2007-08 financial year for the urban passenger and freight railway infrastructure. This represents a rate of return that railway owners can earn on the rail infrastructure, which is used to provide rail access.
- Compliance audits were completed for the 2005-06 year for both WestNet Rail and the Public Transport Authority.
- Under the State Agreement with Fortescue Metals Group's subsidiary company, The Pilbara Infrastructure Pty Limited (**TPI**), the Authority will become the regulator of TPI's new rail line currently being constructed in the Pilbara. This rail line is expected to commence operations in mid-2008 and TPI is required to submit the necessary access documentation to the Authority prior to this time, but after construction of the rail line is completed. In early 2007, the Authority met with representatives from the Department for Planning and Infrastructure (administrator of the TPI State Agreement on behalf of the State), Fortescue Metals Group and TPI, to discuss the process for preparation of the rail access documentation. All parties agreed to have further meetings to review progress. The Authority is providing advice as required, with the aim of assisting in the preparation of the rail access documentation.



# Agency Performance

## Licensing, Monitoring and Customer Protection

### Licensing



## Other licensing maps are available on the Authority's web site

Please visit the "Maps" section on the Authority's web site to view the following licensing maps:

- [Gas licensing areas](#)
- [Electricity licensing areas](#)

## Objectives

Under the *Water Services Licensing Act 1995*, the *Energy Coordination Act 1994* and the *Electricity Industry Act 2004*:

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

## Targets and Results

WHAT WE SET OUT TO DO IN THE 2005-06 ANNUAL REPORT	WHAT WE ACHIEVED IN 2006-07 TO ADDRESS THESE PLANNED TARGETS
To establish a more efficient licensing format and to develop guidelines for all three utility industries subject to licensing by the Authority.	Licence application guidelines for the three regulated utility industries were developed and published in January 2007.
To process licence applications received from across the three utility areas of gas, water and electricity.	Five new licence applications were assessed across the gas, water and electricity industries and eighteen licences were assessed for amendment.
To develop an internal control procedures manual to deal with the increased complexity and variability between the legislative frameworks for the licensing of gas, water and electricity.	An internal procedures manual was completed in June 2007.

Other key achievements in the area of licensing during the financial year:

- Standard licences for electricity generation, transmission, distribution, retail and integrated regional licences were developed.
- New templates for gas distribution and gas trading licences were developed.
- The Authority released a report on the performance of licensees in the water industry in Western Australia. The report titled '*Water, Wastewater and Irrigation Performance Report 2005*' was released in October 2006.

# Agency Performance

## Licensing, Monitoring and Customer Protection

### Monitoring

#### Objectives

Under the *Water Services Licensing Act 1995*, the *Energy Coordination Act 1994* and the *Electricity Industry Act 2004*:

- to ensure that water, gas and electricity licensees comply with the requirements of their licences through monitoring.

#### Targets and Results

WHAT WE SET OUT TO DO IN THE 2005-06 ANNUAL REPORT	WHAT WE ACHIEVED IN 2006-07 TO ADDRESS THESE PLANNED TARGETS
<p>To collect performance data from water licensees in Western Australia and co-ordinate the data audit process for the National Water Initiative Urban Performance Framework. The audited information will be used by the National Water Commission to compile a National Report comparing performance by water service providers around Australia.</p>	<p>Performance data was collected and reviewed and, after auditing, was provided to the National Water Commission. The National Performance Report was released in May 2007.</p>
<p>To review the overall performance reporting of licensees in order to streamline the reporting process and to make the collection and analysis of data by the Authority more efficient.</p>	<p>The reporting processes for all three licensed utilities became more streamlined with the completion of several projects. A new gas licence structure was implemented before the end of the financial year following a review of gas trading and distribution licences. A performance reporting manual was developed for the electricity industry and a standardised audit scope for electricity, gas and water licensing schemes was established.</p>



Other key achievements in the area of monitoring during the financial year:

- Ten licence audit and asset management reviews were undertaken. Under the audit process defined in the Audit Guidelines, the Authority is required to approve the auditor, the audit plan and the final audit report (including the post-audit implementation plan) for all licensees.
- A performance reporting manual for the electricity industry was developed and published to assist licensees to understand their compliance obligations under the regulatory framework. Since electricity licensing commenced in 2005, the Authority has granted a total of forty one licences covering generation, transmission, distribution, retail and integrated regional services.
- Financial guidelines for asset management plans were developed and published. The financial guidelines provide information to licensees about financial planning for the assets they use to provide services.
- A new Audit Scope was developed which standardises the auditing process and guidelines for all licensees across the regulated utility industries. Also included in the new process was the development of post audit implementation plans which identify areas for process improvement for the licensee.



# Agency Performance

## Licensing, Monitoring and Customer Protection

### Customer Protection

#### Objectives

Under the *Water Services Licensing Act 1995*, the *Energy Coordination Act 1994* and the *Electricity Industry Act 2004*:

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

Under the *Energy Coordination Act 1994* and the *Electricity Industry Act 2004*:

- to approve energy ombudsman schemes.

#### Targets and Results

WHAT WE SET OUT TO DO IN THE 2005-06 ANNUAL REPORT	WHAT WE ACHIEVED IN 2006-07 TO ADDRESS THESE PLANNED TARGETS
<p>To establish and support opportunities for regulatory managers within licensed entities to meet, share information, hear from key experts and participate in activities to foster improvements in compliance and efficiency.</p>	<p>A forum was held for electricity and gas regulatory managers in March 2007.</p>
<p>To host a one day, roundtable-style workshop for industry and other key stakeholders to examine contemporary consumer issues relevant to the electricity, gas and water industries. The workshop will be hosted by the Economic Regulation Authority Consumer Consultative Committee (<b>ERACCC</b>) in cooperation with the Energy Ombudsman and the Department of Consumer and Employment Protection.</p>	<p>The ERACCC's one day workshop is scheduled for November 2007 and will focus on Customer Complaints and Dispute Resolution.</p>
<p>To undertake a review of customer charters for all three utility industries subject to licensing by the Authority.</p>	<p>A guideline for the review of customer charters for the three licensed industries was developed and published. The guidelines outline the assessment criteria for reviewing electricity charters and approving water charters. The Authority does not have a role in reviewing or approving gas charters.</p>
<p>To establish a consultative committee to review the <i>Code of Conduct (For the Supply of Electricity to Small Use Customers)</i> (<b>Small Use Code of Conduct</b>).</p>	<p>The Authority, as required under the <i>Electricity Industry Act 2004</i>, established the independent Electricity Code Consultative Committee (<b>ECCC</b>) in August 2006 to review the Small Use Code of Conduct. The ECCC released its draft review report in February 2007 and its final review report in May 2007.</p>



Other key achievements in the area of customer protection during the financial year:

- Eleven water customer service charters were approved and one gas standard form contract was assessed and approved during the financial year. Also, the Authority approved minor amendments to two water customer service charters and two gas standard form contracts.
- Significant progress was made on the review of the Small Use Code of Conduct. Following the establishment of the ECCC in August 2006, the Small Use Code of Conduct was reviewed and a Draft Review Report was released by the ECCC in February 2007. The Final Review Report was considered by the Authority in May 2007. The Authority agreed to most of the ECCC recommendations. The new Small Use Code of Conduct will be gazetted in the second half of 2007.
- A workshop on asset management was conducted for licensees operating small water services. The workshop covered the broad spectrum of asset management processes and provided attendees with an asset management tool kit, including software.

## References and Research

### Objectives

Under the *Economic Regulation Authority Act 2003*:

- to undertake inquiries referred to the Authority by the State Government on matters related to regulated and non-regulated industries.

In addition to providing efficient and effective independent regulation and independent advice to Government, the Authority's mission includes promoting economically efficient outcomes in Western Australia through advancing the debate in economic regulation.

### Targets and Results

WHAT WE SET OUT TO DO IN THE 2005-06 ANNUAL REPORT	WHAT WE ACHIEVED IN 2006-07 TO ADDRESS THESE PLANNED TARGETS
To provide technical support to the other divisions of the Authority to assist them in meeting their planned achievements.	The References and Research Division provided ongoing financial modelling and economic research services to other divisions of the Authority.
To provide support to the Authority in its objective to further the national debate in economic regulation.	<p>A submission to the State Government on 31 January 2007 commented on the State Government's Framework for the State Infrastructure Strategy. The Authority concluded that it has seen little evidence that economic regulation had stifled efficient investment in Western Australia's infrastructure. The Authority also noted that infrastructure regulation need not preclude the commercial development of markets which trade rights, including for example, rights to access electricity and gas networks. The development of these markets would assist market efficiency.</p> <p>A submission to the State Government on 2 February 2007 commented on its Draft State Water Plan. The Authority noted that an enhanced water trading regime could improve the efficiency of use of existing water allocations and potentially free up further water resources. The Authority also noted that there should be greater opportunities for private sector involvement in developing water resources, recycling and water trading.</p> <p>The division also provided economic guidance to the Authority in its role as a member of the Utility Regulators Forum, and provided additional guidance in respect of speeches and media articles.</p>
To develop and retain a capacity to effectively undertake inquiries in a diverse range of areas.	Three staff with extensive experience in economic research were recruited to the References and Research Division. The new staff, along with training of current staff, contributed significantly to developing the Authority's capacity to effectively undertake inquiries.

## WHAT WE SET OUT TO DO IN THE 2005-06 ANNUAL REPORT

## WHAT WE ACHIEVED IN 2006-07 TO ADDRESS THESE PLANNED TARGETS

To undertake inquiries referred by Government.

Three inquiries were undertaken during the financial year:

On 21 February 2007, the Treasurer of Western Australia gave written notice to the Authority to undertake an annual inquiry and make recommendations on the most appropriate level of tariffs for the Water Corporation's customers. The Draft Report on the inquiry was delivered to the Treasurer on 1 March 2007. The Final Report was delivered to the State Government on 7 May 2007 and the State Government tabled the report in Parliament on 9 May 2007.

On 5 October 2006, the State Government of Western Australia gave written notice to the Authority to conduct an inquiry, with direct input from the public, into the Water Corporation's water storage charges to the South West Irrigation Cooperative (Harvey Water). The Authority published a Draft Report on the inquiry on 14 December 2006. The Final Report was delivered to the State Government on 12 April 2007 and the State Government tabled the report in Parliament on 9 May 2007.

On 22 January 2007, the Treasurer of Western Australia gave written notice to the Authority, to undertake an inquiry into school bus operators' charter bus operations. The Authority published its Draft Report on the inquiry on 2 May 2007 and has made substantial progress towards finalising its Final Report. In its Final Report, the Authority will outline the impact that the participation by school bus contractors in the commercial bus charter industry has on the competition, prices and pricing policy, investment and business practices, and service quality and reliability in the industry. The Final Report is due to be delivered to Government by 17 July 2007.

Other key achievements in the area of references and research during the financial year:

- The Authority published a principles and objectives paper on Best Practice Utility Licensing on 23 January 2007. The Authority undertook public consultation on the content of this paper and incorporated the feedback in the final document. The paper was published as part of the review of licences being undertaken by the Licensing, Monitoring and Customer Protection Division.
- The Authority identified a need to better understand the concept of short run marginal cost, particularly as it is to be interpreted by the Authority in monitoring the behaviour of participants in the wholesale electricity market. The References and Research Division assisted in the preparation of a paper on this matter.

# Significant Issues and Trends

## Planned Achievements

The Authority publishes a detailed work program each year, outlining its planned activities for the upcoming financial period. The work program is available on the Authority's web site.

The following information provides an overview of the planned achievements of each of the Authority's divisions for the 2007-08 financial year.

### Across all Operational Divisions

Several major initiatives are planned for 2007-08 that will affect the Authority across all operational divisions. These planned achievements can be grouped into the following areas:

- the development of guidelines;
- the Authority's monitoring role;
- providing advice to other agencies and to industry; and
- the impact of new legislation on the Authority's activities and functions.

### The Development of Guidelines

One of the Authority's ongoing activities is to develop guidelines, both for internal and external publication, to assist the Secretariat and the regulated industries in fulfilling their legislative and regulatory requirements. One example is the planned completion by March 2008 of guidelines to assist Western Power for the review of its access arrangement in October 2008.

Guidelines in the form of performance reporting manuals are also planned for publication for the gas and water industries in 2007-08. These manuals will be consistent with the performance reporting manual that was produced for the electricity industry in 2006-07.

Also, the Authority plans to develop regulatory test and new facilities investment test guidelines, which are required under the *Electricity Networks Access Code 2004 (Electricity Code)*. The regulatory test requires a service provider to consider whether an alternative energy solution might be more efficient and economic than

the augmentation of the network, and the new facilities investment test prescribes the circumstances in which new facilities investment by a service provider may be added to the capital base for tariff setting purposes.

The development of guidelines, particularly those for external publication, will involve extensive public consultation.

The Authority also intends to develop several internal operational procedure manuals to assist staff training and provide a comprehensive overview of the role and obligations of each division.

### The Authority's Monitoring Role

As part of its monitoring role in 2007-08, the Authority will:

- develop a regime to monitor Western Power's service standards to provide transparency for all users and allow Western Power's performance to be benchmarked against other network operators;
- conduct a comprehensive review of the monitoring arrangements currently in place under the rail access regime by mid 2008;
- develop a post audit compliance monitoring program on the proposed actions of licensees following audits and asset management reviews; and
- develop an incident reporting monitoring program in order to standardise incident reporting across the utilities sector.

## *Providing Advice to Other Agencies and to Industry*

The Authority provides advice on regulatory matters to other Government agencies and stakeholders. The advice may be informal through meetings, or may be through a formal submission, such as to the Ministerial Council on Energy on issues relating to the implementation of the new national gas legislation.

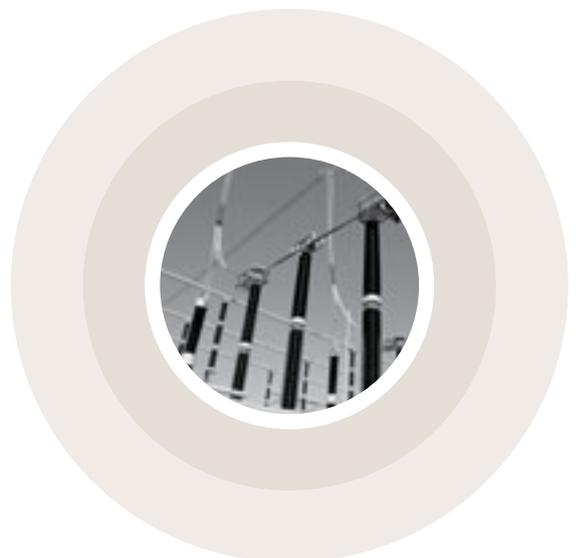
In 2007-08, it is expected that the Authority will continue advising the Department for Planning and Infrastructure and the Department of Treasury and Finance on issues such as the Council of Australian Government's proposal for developing a national rail access regime, the proposal for a rail haulage agreement for BHP Billiton's Pilbara rail line and the proposal to rationalise grain lines within the WestNet Rail network. The provision of advice is ongoing as a timeframe for the development and implementation of a national regime has not been agreed at this stage.

The Authority anticipates providing further advice to The Pilbara Infrastructure Pty Limited (a subsidiary company of Fortescue Metals Group Limited) to assist it in preparing third party access documentation for its Pilbara rail line. This documentation would be considered by the Authority after the rail line is completed in mid-2008. The State's rail access regime, administered by the Authority, is expected to be the access regime applying to this rail line under the *Railway and Port (The Pilbara Infrastructure Pty Limited) Agreement Act 2004*.

## *The Impact of New Legislation on the Authority's Activities and Functions*

Various changes to national legislation and codes will affect the functions of the Authority. In particular, the introduction of the new national gas law in early 2008 will result in the Authority undertaking a detailed evaluation of the new requirements and obligations to ensure that it is fully informed on how gas pipeline access arrangements are to be assessed in the future. The Authority will consult with stakeholders and the Australian Energy Regulator in implementing the new national gas legislation.

Another planned initiative arising from the introduction of the new gas access legislation is consultation with gas pipeline owners regarding the imposition of mandatory time limits on assessing access arrangements. This consultation will seek to clarify the Authority's information requirements and identify the key issues for assessing a proposed access arrangement. It is expected the consultation process will be finalised by early 2008.



# Significant Issues and Trends

## Planned Achievements

### Competition, Markets and Electricity

The approval of Western Power's access arrangement has seen the Authority acquire several new functions.

One is to determine whether major augmentation proposals (any transmission projects exceeding \$15 million or distribution projects exceeding \$5 million) submitted by Western Power meets the regulatory test principles set out in the *Electricity Networks Access Code 2004 (Electricity Code)*. The Authority is required to assess submissions for major augmentation proposals within twenty five business days if no additional public consultation is required and forty five days if it is. Western Power is expected to lodge approximately twelve regulatory test submissions in 2007-08.

The Authority is also required to assess whether proposed augmentations to the transmission and distribution network satisfy the new facilities investment test, as laid out in the Electricity Code. An augmentation, in the context of a covered network, means an increase in the capability of the covered network to provide covered services, including by the development, construction, acquisition or commissioning of new network assets. The Authority anticipates being requested by Western Power to assess a number of applications for pre-approval of new facilities investment.

Another new annual activity of the Authority will be to approve the schedule of reference tariffs (price list) proposed by Western Power under the requirements of the access arrangement. The 2008-09 price list is to be submitted to the Authority forty five business days before the start of the 2008-09 financial year.

The Authority is required to develop arbitration processes for disputes that may arise between electricity network operators and retailers under the *Electricity Industry Metering Code 2005* and the *Electricity Industry Customer Transfer Code 2004*. Under these codes, disputes can be referred to the Authority for resolution. It is expected that the processes for both codes will be finalised early in the new financial year.

One major planned initiative of the Authority is to prepare a report to the Minister for Energy regarding the effectiveness of the wholesale electricity market. The Market Rules require the Authority to provide the Minister for Energy with a report at least annually on how effective the wholesale electricity market is in meeting its objectives. The report is scheduled to be delivered to the Minister for Energy in September 2007.

In preparing the wholesale electricity market report, the Authority will meet with market participants and seek submissions from all stakeholders to develop recommendations to increase the market's effectiveness in meeting the wholesale electricity market objectives.

The Authority also expects the electricity Independent Market Operator to propose the 2010-11 maximum reserve capacity price for approval. Under the electricity market rules, the Authority must approve the maximum reserve capacity price by 31 January 2008.

Similarly, the Authority expects the Independent Market Operator to propose energy price limits for the electricity market. The assessment and approval of energy price limits is a new annual activity of the Authority and requires an assessment of the Maximum Short Term Energy Market (**STEM**) Price; the Alternative Maximum STEM Price; the Minimum STEM Price and the Maximum Shut Down Price. The Authority is required to undertake public consultation during this assessment process. The Authority has agreed with the Independent Market Operator that the approval of energy price limits should be completed by 1 October 2007.

## Gas and Rail Access

In the gas access area, the Authority expects to complete a discussion paper on the new facilities investment test as provided for under section 8.16(a) of the *National Third Party Access Code for the Natural Gas Pipeline Systems (Gas Code)*. This discussion paper, which is being prepared jointly with the Australian Energy Regulator, is to inform stakeholders and other interested parties on the operation of the new facilities investment test under the Gas Code.

The Authority plans to commence a review of the retail market scheme administered by Retail Energy Market Company (**REMCo**) as required under the *Energy Coordination Act 1994*. This Act requires a review to be undertaken for the Western Australian and South Australian gas retail markets three years after the commencement of the scheme. It is proposed that the review of REMCo will begin in the second half of 2007.

Subject to the new national gas law, the Authority will review the associate contract between AlintaGas Networks Pty Limited with Alinta Retail Pty Limited. The Gas Code requires the Authority to approve contracts between service providers and associated companies that take up services provided by the pipeline.

In the rail access area, the Authority is required to undertake a review of the methodology and parameters used to calculate the Weighted Average Cost of Capital. *The Railways (Access) Code 2000 (Rail Code)* requires that such a review be undertaken every five years. This review, which was last completed in 2003, will involve public consultation.

Other reviews to be carried out in 2007-08 are those for the floor and ceiling cost reviews for WestNet Rail's Mullewa to Geraldton rail line and the Public Transport Authority's urban passenger rail network.

## Licensing, Monitoring and Customer Protection

The 2007-08 financial year will see the Authority process licence applications and licence amendments in the electricity, gas and water areas, conducting public interest assessments as necessary. The further development of a licensing database to manage all licences in the utilities sector will aid this licence application assessment process.

A review of the current water licences is also planned for late 2007. The review will be similar to that recently conducted for gas licences and is expected to follow the format adopted in electricity that provides greater flexibility.

The Authority will also continue its rolling program of licence operational audits and asset management reviews, as prescribed in the *Electricity Industry Act 2004*, the *Energy Coordination Act 1994* and the *Water Services Licensing Act 1995*, ensuring these are completed in a timely manner.

A compliance policy will be drafted on the enforcement procedures to be used when licensees fail to comply with licence requirements. This policy will be aligned with the best practice licensing principle that licensees and stakeholders are assisted in knowing, in advance, the approach likely to be taken by the Authority in incidences of non-compliance.

The review of the *Code of Conduct (For the Supply of Electricity to Small Use Customers) (Small Use Code of Conduct)* will be completed by late 2007, following the release of the Electricity Code Consultative Committee's final review report in May 2007.

Once the review of the Small Use Code of Conduct has been completed, the Authority will review the Guide to the *Code of Conduct (For the Supply of Electricity to Small Use Customers) (Guide)* first developed by the Office of Energy. The responsibility for updating and publishing a revised Guide has been transferred to the Authority along with responsibility for administering the Small Use Code of Conduct.

With the revision of the Small Use Code of Conduct, it is anticipated that the Authority will develop a similar Customer Code for the gas industry. This aims to deliver consistency between the gas and electricity codes. It is planned that, ultimately, there will be a single energy code.

To increase consumer accessibility and usage of the Authority's web site, it is planned that a consumer portal will be created on the web site. The portal will provide access to documents and links that will be relevant to both small and larger customers. This will enable further consumer education on relevant issues, which will be complemented with the development of consumer education print material.



## Planned Achievements

### References and Research

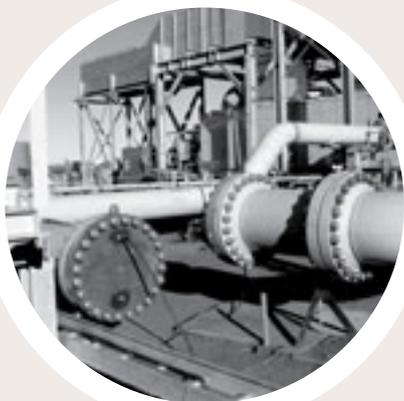
The Authority will continue to undertake inquiries in accordance with the forward work program that has been approved by the Treasurer. Three significant inquiries will be carried out during the 2007-08 financial year:

- The Authority received the Terms of Reference for an Inquiry into Competition in the Water and Wastewater Services Sector on 6 July 2007. The Authority is to report to the Treasurer by 31 March 2008 on possible competitive enhancements to the delivery of water and wastewater services in Western Australia. A key focus will be the potential for enhancing the efficiency of future water source procurement (and other significant capital investment) processes through greater private sector participation. The Authority published an issues paper on the inquiry to explain the nature of the issues under review and to facilitate public comment and debate on 20 July 2007.

- The Authority expects to receive the Terms of Reference for an Inquiry into the Water Corporation's Developer Contributions in September 2007. The Authority is to report to the Treasurer by 31 May 2008 on the most appropriate charging mechanisms and level of charges for the infrastructure costs, such as headworks costs, imposed on the Water Corporation as a result of land development. The Authority has also been asked to report on the principles that should underpin the recovery of infrastructure costs associated with land development for Government businesses in general.
- Early in 2008, the Authority will undertake its annual inquiry into the Water Corporation's tariffs, which is a standing reference to review the Water Corporation's tariff proposals for the next financial year and provide advice to the Treasurer.

The Authority also plans to prepare a research paper on best practice economic regulation to ensure that the Authority's statutory functions are implemented in a way that reflects best practice. The paper will provide a discussion on principles of best practice regulation and will aim to advance the debate on economic regulation and to promote public understanding of the Authority's regulatory decisions.

One of the roles of the References and Research Division is to undertake any necessary research that will assist other divisions meet their planned achievements. In the 2007-08 financial year, it is anticipated that a series of research papers will be prepared to support the Authority's functions, particularly in the operational areas of wholesale electricity market monitoring and in rail access.



## Planning and Executive Support

The Planning and Executive Support Division undertakes annual and cyclical activities during each financial year, such as preparing the Annual Report for the Authority and Gas Disputes Arbitrator, developing and publishing the Authority's work program and business plan, and ensuring that executive support is provided to the Governing Body.

Policies that have been developed by the division, such as the Disability Action and Inclusion Plan, and the Communications and Media policy, will be evaluated and updated on an ongoing basis to ensure their relevance and accuracy.

In 2007-08, the division also plans to undertake a review of the corporate governance systems, which will include an assessment of the Corporate Governance manual, the Delegations manual and the Corporate Plan. This review is to ensure compliance with all current State Government frameworks for strategic management. During the review, a new Corporate Plan for the 2008-10 period will be developed.

Another major initiative for the 2007-08 financial year will be a review of the Authority's key performance indicators. While legislation limits the Authority's requirements in preparing key performance indicators for its management functions, the review will look at alternative and more meaningful ways to measure the effectiveness and efficiency of the Authority in performing its functions as a whole. The review of the key performance indicators is in accordance with the Authority's commitment to good corporate governance, accountability and transparency.

## Finance and Administration

A major initiative for the 2007-08 financial year will be to develop and implement accounting processes for full cost recovery, to the extent that it is achievable.

The finance and administration area of the Authority intends to undertake several significant reviews in 2007-08; including one of the Authority's panel contract arrangement requirements and the Authority's risk register.

The completion of a new electronic document management system will result in a need for staff training so that it is fully utilised and understood.

It is anticipated that an external quality assurance assessment will be carried out on the human resources, financial and administrative policies and procedures that have been developed by the Secretariat. Several policies and procedures already developed in previous years will also be due for re-evaluation in November 2007.



# Significant Issues and Trends

## Looking into the Future

### Overview

The challenge for the future is to increasingly identify and define boundaries within which companies, organisations and individuals operate, pursuing their own objectives commercially without the need for intrusive, detailed and centralised systems of planning and control. This has the potential to see a change in regulation from information intensive and administratively costly approaches to decentralised decision-making through market based approaches.

It is well known that markets do not work in many areas of commercial endeavour. Increasingly, however, it is being demonstrated that artificial markets including secondary markets can be made to work. As such markets tend not to develop organically, there may be a role for Government to inspire their development. These markets, which include derivatives, provide opportunities for market participants to hedge against future uncertainties. Further development of market approaches in areas including gas and electricity networks have the potential to decentralise decision-making, inspire innovation and increase efficiency.

Western Australia has made a bold move toward the establishment of a wholesale electricity market, which includes a capacity market, a bilateral market, a short term energy market and a balancing market. The State Government now has the opportunity to learn from this experience and further develop the approaches used, particularly to reduce the administrative aspects of the mechanisms involved, with a view to expanding the application of such approaches to other areas, including gas supply and other network services.

The challenge for the future is to increasingly identify and define boundaries within which companies, organisations and individuals operate, pursuing their own objectives commercially without the need for intrusive, detailed and centralised systems of planning and control.

## Review of the Economic Regulation Authority Act 2003

On 16 August 2007, the Government moved a motion in the Legislative Assembly for the Joint Committee on Audit to undertake a review of the *Economic Regulation Authority Act 2003*. This review, by a Joint Standing Committee of both Houses of Parliament, is required under section 64 of the Act. The review of the *Economic Regulation Authority Act 2003* will examine the operation and effectiveness of the Act and the Joint Standing Committee must consider and have regard to:

- a. the effectiveness of the operations of the Authority;
- b. the need for the continuation of the functions of the Authority; and
- c. any other matters that appear to the Joint Standing Committee to be relevant to the operation and effectiveness of this Act.

The Joint Standing Committee must prepare a report based on the review and, as soon as is practicable after the report is prepared, must cause it to be laid before each House of Parliament. The review will offer an opportunity to amend the legislation to improve its effectiveness and align it with developments since the legislation was passed in 2003.

## Review of Objectives, Goals and Strategies

As the Authority is now approaching four years of operation, it considers that a major review of its objectives, goals and strategies would also be appropriate. Such a review would be timely in light of the review by the Joint Standing Committee on Audit of the *Economic Regulation Authority Act 2003*.

To date, the Authority has focused its attention on meeting its regulatory obligations and developing processes and guidelines needed to achieve regulatory and licensing obligations required under legislation. Currently, all of the major arrangements for access to regulated infrastructure have been completed and significant progress has been made toward the introduction of consistent licensing arrangements across gas, rail and water. The Authority has also made significant progress toward implementing its functions in the surveillance of the wholesale electricity market.

The Authority considers that its future work in regulation can be directed toward improving the efficiency with which it performs these functions so that future periodic review of regulatory arrangements and monitoring functions are carried out to the highest possible standard.

The other main role that the Authority performs is in undertaking inquiries on behalf of Government. In this role, the Authority is not a decision maker but provides independent advice to Government based on public and transparent processes. To date, the Authority has successfully completed six inquiries and is currently scheduled to complete three further inquiries in the coming financial year. The undertaking of inquiries has been an increasing and challenging part of the Authority's activities and there is potential for this type of work to be expanded with positive outcomes for Western Australia in the future.



# Significant Issues and Trends

## Looking into the Future

### New National Energy Market Reforms

As part of the Ministerial Council on Energy's (MCE) work on the reform of the energy market, the legal framework for economic regulation in both electricity and gas is being modified. National gas and electricity regulatory arrangements are being developed and established under the Australian Energy Market Agreement (AEMA), via the MCE.

At this stage, Western Australia has only undertaken to join the national regulatory arrangements regarding access to natural gas pipelines. Due to its isolated electricity networks and its quite different electricity wholesale market design, Western Australia has not signed on to the national electricity arrangements. However, it has committed to 'harmonise' its regime with the national arrangements where this is practical and beneficial.

In relation to gas matters, Western Australia is developing the *National Gas Access (Western Australia) Bill 2007 (the Bill)*. When the new legislation is passed, it will replace the *Gas Pipelines Access (Western Australia) Act 1998*.

South Australia is developing the lead legislation; and the Commonwealth, States and Territories are expected to pass their Application Acts. The Bill is the Application Act for Western Australia. The common collective legislative framework is referred to as the National Gas Law.

In 2006, the MCE endorsed a national gas framework which allows for the transfer of gas access appeal functions from the Gas Review Board to the Australian Competition Tribunal. In May 2006, the Western Australian Minister for Energy approved the transfer of gas access appeal functions, with the transfer envisaged to be undertaken as part of the introduction of the National Gas Law.

The role of the Gas Disputes Arbitrator will remain unchanged in relation to both gas and electricity, with the Arbitrator's functions for gas access continuing under the National Gas Law.

The Australian Energy Regulator will regulate gas access matters in the rest of Australia while the Authority will continue to regulate access to covered Western Australian gas pipelines. The Authority will also continue to regulate covered electricity networks in Western Australia under the *Electricity Networks Access Code 2004*.

When the new gas access related arrangements are fully implemented, only electricity related appeals will be heard by the Energy Review Board. The Board has functions in the following areas:

- access;
- licensing; and
- determinations on breaches of the *Wholesale Electricity Market Rules*.

In light of the energy market reform processes taking place, it is understood that a review of the Board's functions will be undertaken in 2007-08 by the Office of Energy. The review will encompass necessary legislative amendments to reflect the changing regulatory environment. It is also understood that a report will be provided by late 2007 to the Minister for Energy for his consideration.

### Developments in Rail, Ports and Export-Related Infrastructure

In a communique dated 10 February 2006, the Council of Australian Governments (COAG) agreed to progress a competition and infrastructure reform agreement to provide a simple and consistent national system of economic regulation for nationally significant infrastructure including ports, railways and other export-related infrastructure.

The agreement includes the development of a system of rail access regulation for agreed nationally significant railways. This is likely to affect the main railway lines between jurisdictions and regional railway lines of national significance.

As a consequence of COAG's regulatory reform process, a committee of State representatives has been formed to consider the development of a national rail access code. The Authority assists representatives from the Department of Treasury and Finance, the Department for Planning and Infrastructure and the Department of the Premier and Cabinet in the development of Western Australia's position on a national rail access regime. The outcomes of this review could result in changes to the Western Australian rail access regime and impact upon the Authority's economic regulatory responsibilities for rail infrastructure.

The possible development of new iron ore mines in the mid west of Western Australia in the next few years is also likely to impact on the rail access regime administered by the Authority. Such developments may require the construction of dedicated rail lines to transport large tonnages of iron ore, with such lines likely to be open access lines regulated by the Authority.

The Fortescue Metals Group has applied to the National Competition Council under Part IIIA of the *Trade Practices Act 1974* for declaration of a service provided through part of the BHP Billiton Iron Ore owned railway line in the Pilbara. If the application is successful, the BHP railway line would be open to third party access. The case has already been considered by the National Competition Council, the Australian Competition Tribunal, and the Federal Court and is to go before the Full Federal Court.

In addition, the Western Australian Government is assessing the prospect of having the BHP Billiton and Rio Tinto rail lines in the Pilbara covered under a third party haulage regime to enable other mining companies iron ore to be transported on the rail lines. If this proceeds, the Authority may become responsible for regulating the third party haulage regime.

The Fortescue Metals Group is also progressing a new rail line in the Pilbara through its subsidiary company The Pilbara Infrastructure Pty Limited as part of its overall iron ore mine development project. Under an existing State Agreement, this will be an open access rail line to be regulated by the Authority.

## Review of Water Legislation and the National Water Initiative

The Department of Water is currently undertaking a review of water legislation within Western Australia. This review covers legislation relating to the management of water resources and water services.

The *Water Resources Management Bill* will give legal effect to the operation of Government commitments under the National Water Initiative, the Government's response to a blueprint on water reform in Western Australia and the draft State Water Plan. The Bill will consolidate and modernise existing water resource legislation. The preparation of drafting instructions has commenced and the Department of Water is currently liaising with key agencies as drafting instructions progress.

The National Benchmarking Framework for Urban and Rural Water Utilities requires signatory Governments to report independently publicly and on an annual basis on pricing and service quality for urban and rural water delivery agencies. The Authority is the data coordinator for Western Australia under the framework, collecting and reporting annual performance data. The Authority will have a role in ensuring this framework adequately reports the key performance indicators relevant to water resources management.

## Funding

In accordance with Government policy, the Authority is progressing a review of regulations to achieve a higher level of industry funding. It is anticipated that increases in industry funding will be introduced progressively over a number of years.

# Significant Issues and Trends

## Improving Systems and Processes

Although the Authority met most of its 2006-07 targets and obligations, both financial and non-financial, it can always improve. The Authority is focused on continuous improvement and innovation, in order to benefit its stakeholders and staff and so that it is able to deal effectively with any changes to the operating environment.

Below are several initiatives that have improved the Authority's systems and processes in 2006-07 and some goals for ongoing improvements.

### Improvements achieved in 2006-07

#### Web site

As part of the Authority's ongoing commitment to improve communications with stakeholders, a new web site was developed and implemented in 2006-07. The old web site was an amalgamation of three previous agencies' web sites: the Office of Gas Access Regulation, the Office of the Rail Access Regulator and the licensing part of the Office of Water Regulation. The new web site required a uniform look and feel in order to improve the Authority's web presence and to better reflect the new functions for which the Authority is now responsible.

The new web site is an improvement in terms of web presence and accessibility that aims to benefit all the Authority's web site users.

#### Performance Ratings

All submissions forwarded to the Governing Body are subject to performance ratings, for their quality and timeliness, which are noted by Members at each meeting. These performance ratings contribute to the Authority's key performance indicators as reported in each year's Annual Report.

The ratings are based on timeliness of submissions received by the Governing Body and the quality of the submissions. In 2006-07, there had been a decline in the timeliness of submissions which resulted in an increasingly pressurised workload for the Governing Body. To improve this situation, a process was introduced whereby submissions were required to be circulated to the Governing Body five working days before a monthly meeting. Late submissions would only be accepted if they were urgent.

Since the introduction of the five day rule in February 2007, timeliness improved significantly.



## Goals for ongoing improvement

### Streamlining of budget and business planning processes

The Authority is now three years old and is continuing to improve its business planning processes. Following the transition to the Office of Shared Services (OSS) financial system in December 2006, the Authority has worked with OSS finance staff to better utilise the Oracle system and the whole of Government chart of accounts. The next year will see all project management staff having access to the OSS Oracle finance system, which will provide detailed and up to date project specific financial reports on demand.

### Staff recruitment and retention

In 2006-07, the Authority experienced significant staff turnover, which increased the workload of remaining staff. The reason for the increased turnover appears to be related to the high level of economic activity in Western Australia offering good opportunities for those skilled in the areas of the Authority's responsibilities. It was also evident that salary levels at the Authority had lagged behind, particularly compared to organisations such as the newly established Government business undertakings in electricity and other organisations that competed for staff in the same fields as the Authority.

To address the staffing issue, a number of initiatives were introduced to enhance the Authority's position as an employer of choice including a staff wellness program, offering greater flexibility in working hours and working from home arrangements. The Authority also made application for and succeeded in obtaining, retention and attraction allowances for some senior positions. It is expected that these initiatives will improve staff retention and provide for a productive environment.



# Disclosures and Legal Compliance

## Auditor General – Independent Audit Opinion

### To the Parliament of Western Australia

ECONOMIC REGULATION AUTHORITY  
FINANCIAL STATEMENTS AND KEY PERFORMANCE INDICATORS  
FOR THE YEAR ENDED 30 JUNE 2007

I have audited the accounts, financial statements, controls and key performance indicators of the Economic Regulation Authority.

The financial statements comprise the Balance Sheet as at 30 June 2007, and the Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year then ended, a summary of significant accounting policies and other explanatory Notes.

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

### Authority's Responsibility for the Financial Statements and Key Performance Indicators

The Authority is responsible for keeping proper accounts, and the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Treasurer's Instructions, and the key performance indicators. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements and key performance indicators that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; making accounting estimates that are reasonable in the circumstances; and complying with the Financial Management Act 2006 and other relevant written law.

### Summary of my Role

As required by the Auditor General Act 2006, my responsibility is to express an opinion on the financial statements, controls and key performance indicators based on my audit. This was done by testing selected samples of the audit evidence. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion. Further information on my audit approach is provided in my audit practice statement. Refer "<http://www.audit.wa.gov.au/pubs/Audit-Practice-Statement.pdf>".

An audit does not guarantee that every amount and disclosure in the financial statements and key performance indicators 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 and key performance indicators.

### Audit Opinion

In my opinion,

- (i) the financial statements are based on proper accounts and present fairly the financial position of the Economic Regulation Authority at 30 June 2007 and its financial performance and cash flows for the year ended on that date. They are in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Treasurer's Instructions;
- (ii) the controls exercised by the Authority provide reasonable assurance that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions; and
- (iii) the key performance indicators of the 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 2007.



**COLIN MURPHY**  
**AUDITOR GENERAL**

6 September 2007



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

## Financial Statements

### **Certification of Financial Statements for the year ended 30 June 2007**

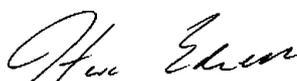
The accompanying financial statements of the Economic Regulation Authority have been prepared in compliance with the provisions of the *Financial Management Act 2006* from proper accounts and records to fairly present the financial transactions for the financial year ended 30 June 2007 and the financial position as at 30 June 2007.

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.



**Mr Lyndon Rowe – Chairman**

31 August 2007



**Mr Steve Edwell – Member**

31 August 2007



**Mr John Hull – Chief Finance Officer**

31 August 2007



# Disclosures and Legal Compliance

## Financial Statements for 2006-07

### Income Statement

for the year ended 30 June 2007

	Note	2007 \$'000	2006 \$'000
<b>COST OF SERVICES</b>			
<b>Expenses</b>			
Employee benefits expense	4	3,835	3,041
Supplies and services	5	3,232	3,789
Depreciation expense	6	87	130
Accommodation expenses	7	286	366
Capital user charge	8	51	148
Other expenses	9	68	72
<b>Total cost of services</b>		<b>7,559</b>	<b>7,546</b>
<b>Income</b>			
User charges and fees	10	1,493	1,532
Interest revenue	11	126	60
Other revenue	12	98	26
<b>Total income other than income from State Government</b>		<b>1,717</b>	<b>1,618</b>
<b>NET COST OF SERVICES</b>		<b>5,842</b>	<b>5,928</b>
<b>INCOME FROM STATE GOVERNMENT</b>			
Service appropriation	13	5,249	6,733
Liabilities assumed by the Treasurer		2	-
Resources received free of charge		-	1
<b>Total income from State Government</b>		<b>5,251</b>	<b>6,734</b>
<b>SURPLUS/(DEFICIT) FOR THE PERIOD</b>		<b>(591)</b>	<b>806</b>

The Income Statement should be read in conjunction with the accompanying notes.

# Disclosures and Legal Compliance

## Financial Statements for 2006-07

### Balance Sheet

for the year ended 30 June 2007

	Note	2007 \$'000	2006 \$'000
<b>ASSETS</b>			
Current Assets			
Cash and Cash Equivalents	14	1,907	2,072
Receivables	16	492	478
Amounts receivable for services	17	59	18
Other assets	18	14	19
<b>Total Current Assets</b>		<b>2,472</b>	<b>2,587</b>
Non-Current Assets			
Restricted cash and cash equivalents	15	22	11
Amounts receivable for services	17	108	84
Plant and equipment	19	494	662
Intangible Assets	20	10	-
<b>Total Non-Current Assets</b>		<b>634</b>	<b>757</b>
<b>TOTAL ASSETS</b>		<b>3,106</b>	<b>3,344</b>
<b>LIABILITIES</b>			
Current Liabilities			
Payables	22	161	72
Provisions	23	670	572
Other liabilities	24	300	69
<b>Total Current Liabilities</b>		<b>1,131</b>	<b>713</b>
<b>Non-Current Liabilities</b>			
Provisions	23	195	152
<b>Total Non-Current Liabilities</b>		<b>195</b>	<b>152</b>
<b>Total Liabilities</b>		<b>1,326</b>	<b>865</b>
<b>NET ASSETS</b>		<b>1,780</b>	<b>2,479</b>
<b>EQUITY</b>			
Contributed equity	25	773	773
Accumulated surplus		1,007	1,706
<b>TOTAL EQUITY</b>		<b>1,780</b>	<b>2,479</b>

The Balance Sheet should be read in conjunction with the accompanying notes.

# Disclosures and Legal Compliance

## Financial Statements for 2006-07

### Statement of Changes in Equity

for the year ended 30 June 2007

	Note	2007 \$'000	2006 \$'000
<b>Balance of equity at start of period</b>	25	2,479	1,532
<b>CONTRIBUTED EQUITY</b>			
Balance at start of period		773	632
Capital contribution		-	141
<b>Balance at end of period</b>		<b>773</b>	<b>773</b>
<b>ACCUMULATED SURPLUS</b>			
Balance at start of period		1,706	900
Change in Asset Capitalisation Policy		(108)	-
Surplus/(deficit) for the period		(591)	806
<b>Balance at end of period</b>		<b>1,007</b>	<b>1,706</b>
<b>Balance of equity at end of period</b>		<b>1,780</b>	<b>2,479</b>
<b>Total income and expense for the period <sup>(a)</sup></b>		<b>(591)</b>	<b>806</b>

(a) The aggregate net amount attributable to each category of equity is: deficit \$591,000 (2006: surplus \$806,000).

The Statement of Changes in Equity should be read in conjunction with the accompanying notes.

# Disclosures and Legal Compliance

## Financial Statements for 2006-07

### Cash Flow Statement

for the year ended 30 June 2007

	Note	2007 \$'000	2006 \$'000
<b>CASH FLOWS FROM STATE GOVERNMENT</b>			
Service appropriation		5,156	6,643
Capital contributions		-	141
Holding account drawdowns		28	19
<b>Net cash provided by State Government</b>		<b>5,184</b>	<b>6,803</b>
Utilised as follows:			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Payments			
Employee benefits		(3,681)	(2,893)
Supplies and services		(2,739)	(4,311)
Capital User Charge		(51)	(148)
Accommodation		(325)	(366)
GST payments on purchases		(327)	(422)
GST payments to taxation authority		(15)	(31)
Other payments		(239)	(72)
Receipts			
User charges and fees		1,435	1,772
GST receipts on sales		11	56
GST receipts from taxation authority		376	527
Other receipts		243	86
<b>Net cash used in operating activities</b>	26(b)	<b>(5,312)</b>	<b>(5,802)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of non-current physical assets		(26)	(130)
<b>Net cash used in investing activities</b>		<b>(26)</b>	<b>(130)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(154)</b>	<b>871</b>
Cash and cash equivalents at the beginning of period		2,083	1,212
<b>CASH AND CASH EQUIVALENTS AT THE END OF PERIOD</b>	26(a)	<b>1,929</b>	<b>2,083</b>

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

### Notes to the Financial Statements

for the year ended 30 June 2007

#### 1. Australian equivalents to International Financial Reporting Standards

##### a) General

The Authority's financial statements for the year ended 30 June 2007 have been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), which comprise a Framework for the Preparation and Presentation of Financial Statements (the Framework) and Australian Accounting Standards (including the Australian Accounting Interpretations).

In preparing these financial statements the Authority has adopted, where relevant to its operations, new and revised Standards and Interpretations from their operative dates as issued by the AASB and formerly the Urgent Issues Group (UIG).

##### b) Early adoption of standards

The Authority cannot early adopt an Australian Accounting Standard or Australian Accounting Interpretation unless specifically permitted by TI 1101 'Application of Australian Accounting Standards and Other Pronouncements'. No Standards and Interpretations that have been issued or amended but are not yet effective have been early adopted by the Authority for the annual reporting period ended 30 June 2007.

#### 2. Summary of significant accounting policies

##### a) General Statement

The financial statements constitute a general purpose financial report which has been prepared in accordance with the Australian Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board as applied by the Treasurer's Instructions. Several of these are modified by the Treasurer's Instructions to vary application, disclosure, format and wording.

The *Financial Management Act* and the Treasurer's Instructions are legislative provisions governing the preparation of financial statements and take precedence over the Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board.

Where modification is required and has a material or significant financial effect upon the reported results, details of that modification and the resulting financial effect are disclosed in the notes to the financial statements.

##### b) Basis of Preparation

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

The accounting policies adopted in the preparation of the financial statements have been consistently applied throughout all periods presented unless otherwise stated.

The financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000).

##### c) Reporting Entity

The reporting entity comprises the Economic Regulation Authority.

### Notes to the Financial Statements

for the year ended 30 June 2007

#### **d) Contributed Equity**

UIG Interpretation 1038 'Contributions by Owners Made to Wholly-Owned Public Sector Entities' requires transfers in the nature of equity contributions to be designated by the Government (the owner) as contributions by owners (at the time of, or prior to transfer) before such transfers can be recognised as equity contributions. Capital contributions (appropriations) have been designated as contributions by owners by Treasurer's Instruction TI 955 'Contributions by Owners made to Wholly Owned Public Sector Entities' and have been credited directly to Contributed Equity.

Transfer of net assets to/from other agencies are designated as contributions by owners where the transfers are non-discretionary and non-reciprocal.

#### **e) Income**

##### Revenue Recognition

Revenue is measured at the fair value of consideration received or receivable. Revenue is recognised for the major business activities as follows.

##### User Charges and Fees

Revenue for Standing Charges and Service Charges is recognised at the time the charge is raised on a client.

Revenue from licence fees are, where possible, recognised at the time the fee is levied on the licensee. In some instances however, the revenue is not measurable until the cash is received.

##### Sale of goods

Revenue is recognised from the sale of goods and disposal of other assets when the significant risks and rewards of ownership control transfer to the purchaser and can be measured reliably.

##### Rendering of services

Revenue is recognised on delivery of the service to the client or by reference to the stage of completion of the transaction.

##### Interest

Revenue is recognised as the interest accrues.

##### Service Appropriations

Service Appropriations are recognised as revenues at nominal value in the period in which the Authority gains control of the appropriated funds. The Authority gains control of appropriated funds at the time those funds are deposited to the bank account or credited to the holding account held at Treasury.

##### Gains

Gains may be realised or unrealised and are usually recognised on a net basis. These include gains arising on the disposal of non-current assets and some revaluations of non-current assets.

#### **f) Plant and Equipment**

##### Capitalisation/Expensing of assets

Items of plant and equipment costing \$5,000 or more are recognised as assets and the cost of utilising assets is expensed (depreciated) over their useful lives. Items of plant and equipment costing less than \$5,000 are immediately expensed direct to the Income Statement (other than where they form part of a group of similar items which are significant in total).

### Notes to the Financial Statements

for the year ended 30 June 2007

#### Initial recognition and measurement

All items of plant and equipment are initially recognised at cost.

For items of property, plant and equipment acquired at no cost or for nominal cost, the cost is their fair value at the date of acquisition.

#### Subsequent measurement

After recognition as an asset, the cost model is used for property, plant and equipment. Items of plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

#### Depreciation

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

Depreciation is calculated using the straight-line method, using rates which are reviewed annually. Estimated useful lives for each class of depreciable asset are:

Office equipment	5 years
Computer equipment	3 to 5 years
Furniture and fittings	10 years

#### g) Intangible Assets

##### Capitalisation/Expensing of assets

Acquisition of intangible assets costing \$5,000 or more and internally generated intangible assets costing \$50,000 or more are capitalised. The cost of utilising the asset is expensed (amortised) over their useful life. Costs incurred below these thresholds are immediately expensed directly to the Income Statement.

All acquired and internally developed intangible assets are initially recognised at cost. For assets acquired at no cost or for nominal cost, the cost is their fair value at the date of acquisition.

The cost model is applied for subsequent measurement requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is calculated for the period of the expected benefit (estimated useful life) on the straight line basis using rates which are reviewed annually. All intangible assets controlled by the Authority have a finite useful life and zero residual value. The expected life for each class of intangible asset are:

Software <sup>(a)</sup>	3 to 5 years
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(a) Software that is not integral to the operation of any related hardware.

##### Computer Software

Software that is an integral part of the related hardware is treated as property, plant and equipment. Software that is not an integral part of the related hardware is treated as an intangible asset. Software costing less than \$5,000 is expensed in the year of acquisition.

#### h) Impairment of Assets

Plant, equipment and intangible assets are tested for any indication of impairment at each balance sheet date. Where there is an indication of impairment, the recoverable amount is estimated. Where the recoverable

### Notes to the Financial Statements

for the year ended 30 June 2007

amount is less than the carrying amount, the asset is considered impaired and is written down to the recoverable amount and an impairment loss is recognised. As the Authority is a not-for-profit entity, unless an asset has been identified as a surplus asset, the recoverable amount is the higher of an asset's fair value less costs to sell and depreciated replacement cost.

The risk of impairment is generally limited to circumstances where an asset's depreciation is materially understated, where the replacement cost is falling or where there is a significant change in useful life. Each relevant class of assets is reviewed annually to verify that the accumulated depreciation/amortisation reflects the level of consumption or expiration of each asset's future economic benefits and to evaluate any impairment risk from falling replacement costs.

Intangible assets with an indefinite useful life and intangible assets not yet available for use are tested for impairment at each balance sheet date irrespective of whether there is any indication of impairment.

The recoverable amount of assets identified as surplus assets is the higher of fair value less costs to sell and the present value of future cash flows expected to be derived from the asset. Surplus assets carried at fair value have no risk of material impairment where fair value is determined by reference to market-based evidence. Where fair value is determined by reference to depreciated replacement cost, surplus assets are at risk of impairment and the recoverable amount is measured. Surplus assets at cost are tested for indications of impairment at each balance sheet date.

#### **i) Leases**

The Authority holds operating leases for its head office and vehicle fleet. Lease payments are expensed on a straight-line basis over the lease term as this represents the pattern of benefits derived from the leased properties.

#### **j) Financial Instruments**

The Authority has two categories of financial instrument:

1. Receivables (cash and cash equivalents, receivables); and
2. Non-trading financial liabilities (payables).

Initial recognition and measurement of financial instruments is at fair value which normally equates to the transaction cost or the face value. Subsequent measurement is at amortised cost using the effective interest method.

The fair value of short-term receivables and payables is the transaction cost or the face value because there is no interest rate applicable and subsequent measurement is not required as the effect of discounting is not material.

#### **k) Cash and Cash Equivalents**

For the purpose of the Cash Flow Statement, cash and cash equivalent (and restricted cash and cash equivalent) assets comprise cash on hand and short-term deposits with original maturities of three months or less that are readily convertible to a known amount of cash and which are subject to insignificant risk of changes in value.

#### **l) Accrued Salaries**

The accrued salaries suspense account consists of amounts paid annually into a suspense account over a period of 10 financial years to largely meet the additional cash outflow in each eleventh year when 27 pay days occur in that year instead of the normal 26. No interest is received on this account.

### Notes to the Financial Statements

for the year ended 30 June 2007

Accrued salaries represent the amount due to staff but unpaid at the end of the financial year, as the pay date for the last pay period for that financial year does not coincide with the end of the financial year. Accrued salaries are settled within a fortnight of the financial year end. The Authority considers the carrying amount of accrued salaries to be equivalent to its net fair value.

#### **m) Amounts Receivable for Services (Holding Account)**

The Authority receives funding on an accrual basis that recognises the full annual cash and non-cash cost of services. The appropriations are paid partly in cash and partly as an asset (Holding Account receivable) that is accessible on the emergence of the cash funding requirement to cover items such as leave entitlements and asset replacement.

#### **n) Receivables**

Receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts (i.e. impairment). The collectability of receivables is reviewed on an ongoing basis and any receivables identified as uncollectible are written off. The allowance for uncollectible amounts (doubtful debts) is raised when there is objective evidence that the Authority will not be able to collect the debts. The carrying amount is equivalent to fair value as it is due for settlement within 30 days.

#### **o) Payables**

Payables are recognised at the amounts payable when the Authority becomes obliged to make future payments as a result of a purchase of assets or services. The carrying amount is equivalent to fair value, as they are generally settled within 30 days.

#### **p) Provisions**

Provisions are liabilities of uncertain timing or amount and are recognised where there is a present legal or constructive obligation as a result of a past event and when the outflow of resources embodying economic benefits is probable and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date.

##### **1. Provisions – Employee Benefits**

###### **Annual Leave and Long Service Leave**

The liability for annual and long service leave expected to be settled within 12 months after the end of the balance sheet date is recognised and measured at the undiscounted amounts expected to be paid when the liabilities are settled. Annual and long service leave expected to be settled more than 12 months after the end of the balance sheet date is measured at the present value of amounts expected to be paid when the liabilities are settled. Leave liabilities are in respect of services provided by employees up to the balance sheet date.

When assessing expected future payments consideration is given to expected future wage and salary levels including non-salary components such as employer superannuation contributions. In addition, the long service leave liability also considers the experience of employee departures and periods of service.

The expected future payments are discounted using market yields at the balance sheet date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

All annual leave and unconditional long service leave provisions are classified as current liabilities as the Authority does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### Notes to the Financial Statements

for the year ended 30 June 2007

#### Superannuation

The Government Employees Superannuation Board (GESB) administers the following superannuation schemes.

Employees may contribute to the Pension Scheme, a defined benefit pension scheme now closed to new members or the Gold State Superannuation Scheme (GSS), a defined benefit lump sum scheme also closed to new members.

The Authority has no liabilities under the Pension or the GSS Schemes. The liabilities for the unfunded Pension Scheme and the unfunded GSS Scheme transfer benefits due to members who transferred from the Pension Scheme, are assumed by the Treasurer. All other GSS Scheme obligations are funded by concurrent contributions made by the Authority to the GESB. The concurrently funded part of the GSS Scheme is a defined contribution scheme as these contributions extinguish all liabilities in respect of the concurrently funded GSS Scheme obligations.

Employees commencing employment prior to 16 April 2007 who are not members of either the Pension or the GSS Schemes became non-contributory members of the West State Superannuation Scheme (WSS). Employees commencing employment on or after 16 April 2007 became members of the GESB Super Scheme (GESBS). Both of these schemes are accumulation schemes. The Authority makes concurrent contributions to GESB on behalf of employees in compliance with the Commonwealth Government's Superannuation Guarantee (Administration) Act 1992. These contributions extinguish the liability for superannuation charges in respect of the WSS and GESBS Schemes.

The GESB makes all benefit payments in respect of the Pension and GSS Schemes, and is recouped by the Treasurer for the employer's share.

#### 2. Provisions – Other

##### Employment On-Costs

Employment on-costs, including workers' compensation insurance, are not employee benefits and are recognised separately as liabilities and expenses when the employment to which they relate has occurred. Employment on-costs are included as part of 'Other expenses' and are not included as part of the Authority's 'Employee benefits expense'. The related liability is included in 'Employment on-costs provision'.

#### q) Superannuation Expense

The following elements are included in calculating the superannuation expense in the Income Statement:

1. *Defined benefit plans* – Change in the unfunded employer's liability (i.e. current service cost and, actuarial gains and losses) assumed by the Treasurer 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 (GSS); and
2. *Defined contribution plans* – Employer contributions paid to the GSS, the West State Superannuation Scheme (WSS) and GESB Super Scheme (GESBS).

# Disclosures and Legal Compliance

Financial Statements for 2006-07

## Notes to the Financial Statements

for the year ended 30 June 2007

Defined benefit plans – in order to reflect the true cost of services, the movements (i.e. current service cost and, actuarial gains and losses) in the liabilities in respect of the Pension Scheme and the GSS transfer benefits are recognised as expenses. As these liabilities are assumed by the Treasurer, a revenue titled 'Liabilities assumed by the Treasurer' equivalent to the expense is recognised under Income from State Government in the Income Statement.

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

The GSS Scheme is a defined benefit scheme for the purposes of employees and whole-of-government reporting. However, apart from the transfer benefit, it is a defined contribution plan for agency purposes because the concurrent contributions (defined contributions) made by the agency to GESB extinguishes the agency's obligations to the related superannuation liability.

### **r) Resources Received Free of Charge or for Nominal Cost**

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

### **s) Comparative Figures**

Comparative figures are, where appropriate, reclassified to be comparable with the figures presented in the current financial year.

### Notes to the Financial Statements

for the year ended 30 June 2007

#### 3. Disclosure of changes in accounting policy and estimates

##### a) Initial application of an Australian Accounting Standard

The Authority has applied the following Australian Accounting Standards and Australian Accounting Interpretations effective for annual reporting periods beginning on or after 1 July 2006:

1. AASB 2005-9 'Amendments to Australian Accounting Standards [AASB 4, AASB 1023, AASB 139 and AASB 132]' (Financial guarantee contracts). The amendment deals with the treatment of financial guarantee contracts, credit insurance contracts, letters of credit or credit derivative default contracts as either an "insurance contract" under AASB 4 'Insurance Contracts' or as a "financial guarantee contract" under AASB 139 'Financial Instruments: Recognition and Measurement'. The Authority does not currently undertake these types of transactions, resulting in no financial impact in applying the Standard.
2. UIG Interpretation 4 'Determining whether an Arrangement Contains a Lease' as issued in June 2005. This Interpretation deals with arrangements that comprise a transaction or a series of linked transactions that may not involve a legal form of a lease but by their nature are deemed to be leases for the purposes of applying AASB 117 'Leases'. At balance sheet date, the Authority has not entered into any arrangements as specified in the Interpretation, resulting in no impact in applying the Interpretation.
3. UIG Interpretation 9 'Reassessment of Embedded Derivatives'. This Interpretation requires an embedded derivative that has been combined with a non-derivative to be separated from the host contract and accounted for as a derivative in certain circumstances. At balance sheet date, the Authority has not entered into any contracts as specified in the Interpretation, resulting in no impact in applying the Interpretation.

The following Australian Accounting Standards and Interpretations are not applicable to the Authority as they have no impact or do not apply to not-for-profit entities:

##### AASB Standards and Interpretations

2005-1	'Amendments to Australian Accounting Standard' (AASB 139 - Cash flow hedge accounting of forecast intragroup transactions)
2005-5	'Amendments to Australian Accounting Standards [AASB 1 and AASB 139]'
2006-1	'Amendments to Australian Accounting Standards' [AASB 121]'
2006-3	'Amendments to Australian Accounting Standards' [AASB 1045]'
2006-4	'Amendments to Australian Accounting Standards' [AASB 134]'
2007-2	"Amendments to Australian Accounting Standards arising from AASB Interpretation 12 [AASB 1, AASB 117, AASB 118, AASB 120, AASB 121, AASB 127, AASB 131 & AASB 139]' – paragraph 9
UIG 5	'Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds'
UIG 6	'Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment'
UIG 7	'Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies'
UIG 8	'Scope of AASB 2'

### Notes to the Financial Statements

for the year ended 30 June 2007

#### **b) Voluntary changes in Accounting Policy**

This year the Authority has changed its asset capitalisation policy from \$1,000 to \$5,000. The change in accounting policy is aimed at providing a standardised approach and more consistent accounting treatment across whole of government for those agencies utilising the shared corporate services solution.

This has resulted in a \$108,000 adjustment to retained earnings to account for assets previously capitalised in prior years, now being expensed. Refer to note 25 and 19 (b).

#### **c) Future impact of Australian Accounting Standards not yet operative**

The Authority cannot early adopt an Australian Accounting Standard or Australian Accounting Interpretation unless specifically permitted by TI 1101 'Application of Australian Accounting Standards and Other Pronouncements'. Consequently, the Authority has not applied the following Australian Accounting Standards and Australian Accounting Interpretations that have been issued but are not yet effective. These will be applied from their application date:

1. AASB 7 'Financial Instruments: Disclosures' (including consequential amendments in AASB 2005-10 'Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB1, AASB 4, AASB 1023 & AASB 1038]'). This Standard requires new disclosures in relation to financial instruments. The Standard is considered to result in increased disclosures, both quantitative and qualitative of the Authority's exposure to risks, enhance disclosure regarding components of the Authority's financial position and performance, and possible changes to the way of presenting certain items in the financial statements. The Authority does not expect any financial impact when the Standard is first applied. The Standard is required to be applied to annual reporting periods beginning on or after 1 January 2007.
2. AASB 2005-10 'Amendments to Australian Accounting Standards (AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038)'. The amendments are as a result of the issue of AASB 7 'Financial Instruments: Disclosures', which amends the financial instrument disclosure requirements in these standards. The Authority does not expect any financial impact when the Standard is first applied. The Standard is required to be applied to annual reporting periods beginning on or after 1 January 2007.
3. AASB 101 'Presentation of Financial Statements'. This Standard was revised and issued in October 2006 so that AASB 101 has the same requirements as IAS 1 'Presentation of Financial Statements' (as issued by the IASB) in respect of for-profit entities. The Authority is a not-for-profit entity and consequently does not expect any financial impact when the Standard is first applied. The Standard is required to be applied to annual reporting periods beginning on or after 1 January 2007.
4. AASB 2007-4 'Amendments to Australian Accounting Standards arising from ED 151 and Other Announcements (AASB 1, 2, 3, 4, 5, 6, 7, 102, 107, 108, 110, 112, 114, 116, 117, 118, 119, 120, 121, 127, 128, 129, 130, 131, 132, 133, 134 136, 137, 138, 139, 141, 1023 & 1038)'. This Standard introduces policy options and modifies disclosures. These amendments arise as a result of the AASB decision that, in principle, all options that currently exist under IFRSs should be included in the Australian equivalents to IFRSs and additional Australian disclosures should be eliminated, other than those now considered particularly relevant in the Australian reporting environment.

### Notes to the Financial Statements

for the year ended 30 June 2007

The Department of Treasury and Finance has indicated that it will mandate to remove the policy options added by this amending Standard. This will result in no impact as a consequence of application of the Standard. The Standard is required to be applied to annual reporting periods beginning on or after 1 July 2007.

5. AASB 2007-5 'Amendment to Australian Accounting Standard – Inventories Held for Distribution by Not-for-Profit Entities (AASB 102)'. This amendment changes AASB 102 'Inventories' so that inventories held for distribution by not-for-profit entities are measured at cost, adjusted when applicable for any loss of service potential. The Authority does not have any inventories held for distribution so does not expect any financial impact when the Standard is first applied. The Standard is required to be applied to annual reporting periods beginning on or after 1 July 2007.
6. AASB Interpretation 4 'Determining whether an Arrangement Contains a Lease [revised]'. This Interpretation was revised and issued in February 2007 to specify that if a public-to-private service concession arrangement meets the scope requirements of AASB Interpretation 12 'Service Concession Arrangements' as issued in February 2007, it would not be within the scope of Interpretation 4. At balance sheet date, the Authority has not entered into any arrangements as specified in the Interpretation or within the scope of Interpretation 12, resulting in no impact when the Interpretation is first applied. The Interpretation is required to be applied to annual reporting periods beginning on or after 1 January 2008.
7. AASB Interpretation 12 'Service Concession Arrangements'. This Interpretation was issued in February 2007 and gives guidance on the accounting by operators (usually a private sector entity) for public-to-private service concession arrangements. It does not address the accounting by grantors (usually a public sector entity). It is currently unclear as to the application of the Interpretation to the Authority if and when public-to-private service concession arrangements are entered into in the future. At balance sheet date, the Authority has not entered into any public-to-private service concession arrangements resulting in no impact when the Interpretation is first applied. The Interpretation is required to be applied to annual reporting periods beginning on or after 1 January 2008.
8. AASB Interpretation 129 'Service Concession Arrangements: Disclosures [revised]'. This Interpretation was revised and issued in February 2007 to be consistent with the requirements in AASB Interpretation 12 'Service Concession Arrangements' as issued in February 2007. Specific disclosures about service concession arrangements entered into are required in the notes accompanying the financial statements, whether as a grantor or an operator. At balance sheet date, the Authority has not entered into any public-to-private service concession arrangements resulting in no impact when the Interpretation is first applied. The Interpretation is required to be applied to annual reporting periods beginning on or after 1 January 2008.
9. AASB 2007-6 'Amendments to Australian Accounting Standards arising from AASB 123'. The amendments principally remove references to expensing borrowing costs on qualifying assets, as AASB 123 was revised to require such borrowing costs to be capitalised. The Authority does not have any qualifying assets or associated borrowing costs.

# Disclosures and Legal Compliance

## Financial Statements for 2006-07

### Notes to the Financial Statements

for the year ended 30 June 2007

The following Australian Accounting Standards and Interpretations are not applicable to the Authority as they will have no impact or do not apply to not-for-profit entities:

#### AASB Standards and Interpretations

AASB 8	'Operating Segments'
AASB 1049	'Financial Reporting of General Government Sectors by Governments'
AASB 2007-1	'Amendments to Australian Accounting Standards arising from AASB Interpretation 11 [AASB 2]'
AASB 2007-2	'Amendments to Australian Accounting Standards arising from AASB Interpretation 12 [AASB 1, AASB 117, AASB 118, AASB 120, AASB121, AASB 127, AASB 131 & AASB 139]' – paragraphs 1 to 8
AASB 2007-3	'Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]'
AASB 2007-7	Amendments to Australian Accounting Standards [AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128]
Interpretation 10	'Interim Financial Reporting and Impairment'
Interpretation 11	'AASB 2 – Group and Treasury Share Transactions'

#### d) Changes in Accounting Estimates

There were no changes in accounting estimates that will have an effect on the current reporting period.

#### 4. Employee benefits expense

	2007 \$'000	2006 \$'000
Wages and salaries <sup>(a)</sup>	3,067	2,624
Superannuation – defined contribution plans <sup>(b)</sup>	216	245
Superannuation – defined benefit plans <sup>(d)</sup>	85	–
Long service leave <sup>(c)</sup>	58	60
Annual Leave <sup>(c)</sup>	245	(3)
Other related expenses	164	115
	<b>3,835</b>	<b>3,041</b>

(a) Includes the value of the fringe benefit to the employee plus the fringe benefits tax component.

(b) Defined contribution plans include West State and Gold State (contributions paid).

(c) Includes a superannuation contribution component.

(d) An equivalent notional income is also recognised (see note 13 'Income from State Government').

Employment on-costs such as workers' compensation insurance are included at note 9 'Other Expenses'. The employment on-costs liability is included at note 23 'Provisions'.

# Disclosures and Legal Compliance

## Financial Statements for 2006-07

### Notes to the Financial Statements

for the year ended 30 June 2007

	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>5. Supplies and services</b>		
Communications	56	49
Consultants and contractors	1,937	3,028
Consumables	82	82
Insurance	31	61
Legal costs	486	56
Motor vehicles	199	85
Travel	182	154
Repairs and maintenance	21	3
Other	238	271
	<b>3,232</b>	<b>3,789</b>
<b>6. Depreciation and amortisation expense</b>		
<b>Depreciation</b>		
Computer equipment	16	57
Furniture and fittings	53	53
Office equipment	15	20
<b>Total Depreciation</b>	<b>84</b>	<b>130</b>
<b>Amortisation</b>		
Intangible Assets	3	-
<b>Total depreciation and amortisation</b>	<b>87</b>	<b>130</b>
<b>7. Accommodation expenses</b>		
Office accommodation rental	265	271
Other accommodation expenses	5	78
Cleaning	16	17
	<b>286</b>	<b>366</b>
<b>8. Capital User Charge</b>		
Capital user charge	51	148
	<b>51</b>	<b>148</b>

The charge was a levy applied by Government for the use of its capital. In 2006-2007, the final year in which the charge was levied, a single payment was made equal to the appropriation for 2006-07 less any adjustment relating to 2005-06.

# Disclosures and Legal Compliance

## Financial Statements for 2006-07

### Notes to the Financial Statements

for the year ended 30 June 2007

	2007 \$'000	2006 \$'000
<b>9. Other expenses</b>		
Employment on-costs <sup>(a)</sup> (See note 4 'Employee benefits expense')	68	72
	<b>68</b>	<b>72</b>
<p>(a) Includes workers' compensation insurance and other employment on-costs. The on-costs liability associated with the recognition of annual and long service leave liability is included at note 23 'Provisions'. Superannuation contributions accrued as part of the provision for leave are employee benefits and are not included in employment on-costs.</p>		
<b>10. User charges and fees</b>		
Standing charges	516	671
Service charges	77	548
Licence fees and charges	514	313
Regulator Fees	386	-
	<b>1,493</b>	<b>1,532</b>
<b>11. Interest revenue</b>		
Interest	126	60
	<b>126</b>	<b>60</b>
<b>12. Other revenue</b>		
Other	98	26
	<b>98</b>	<b>26</b>
<b>13. Income from State Government</b>		
<b>Appropriation received during the year:</b>		
Service appropriation: <sup>(a)</sup>	5,249	6,733
<p>The following liabilities have been assumed by the Treasurer during the financial year:</p>		
Superannuation <sup>(b)</sup>	2	-
<b>Total liabilities assumed by the Treasurer</b>	<b>2</b>	<b>-</b>
<p>Resources received free of charge<sup>(c)</sup></p> <p>Determined on the basis of the following estimates provided by agencies:</p>		
State Solicitor's Office – legal service charges	-	1
	<b>5,251</b>	<b>6,734</b>

(a) Service appropriations are accrual amounts reflecting the net cost of services delivered. 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.

# Disclosures and Legal Compliance

Financial Statements for 2006-07

## Notes to the Financial Statements

for the year ended 30 June 2007

- (b) The assumption of the superannuation liability by the Treasurer is a notional income to match the notional superannuation expense reported in respect of current employees who are members of the Pension Scheme and current employees who have a transfer benefit entitlement under the Gold State Superannuation Scheme
- (c) Where assets or services have been received free of charge or for nominal cost, the Authority recognises revenues (except where the contributions of assets or services are in the nature of contributions by owners in which case the Authority shall make a direct adjustment to equity) equivalent to the fair value of the assets and/or the fair value of those services that can be reliably determined and which would have been purchased if not donated, and those fair values shall be recognised as assets or expenses, as applicable.

	2007 \$'000	2006 \$'000
<b>14. Cash and cash equivalents</b>		
Current		
Cash at bank	1,907	2,072
	<b>1,907</b>	<b>2,072</b>
<b>15. Restricted cash and cash equivalents</b>		
Non-current		
Accrued salaries suspense account	22	11
	<b>22</b>	<b>11</b>
<b>16. Receivables</b>		
Current		
Accounts receivable	188	342
Accrued revenue	250	5
GST receivable	55	131
	<b>492</b>	<b>478</b>
<b>17. Amounts receivable for services</b>		
Current	59	18
Non-current	108	84
	<b>167</b>	<b>102</b>
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>18. Other assets</b>		
Current		
Pre-paid expenses	14	19
	<b>14</b>	<b>19</b>

# Disclosures and Legal Compliance

## Financial Statements for 2006-07

### Notes to the Financial Statements

for the year ended 30 June 2007

	2007 \$'000	2006 \$'000
<b>19. Property, plant and equipment</b>		
<b>(a) Carrying amounts</b>		
Office equipment		
At cost	74	94
Accumulated depreciation	(33)	(25)
	<b>41</b>	<b>69</b>
Furniture and fittings		
At cost	526	527
Accumulated depreciation	(109)	(58)
	<b>417</b>	<b>469</b>
Computer equipment		
At cost	71	245
Accumulated depreciation	(35)	(121)
	<b>36</b>	<b>124</b>
Total		
At cost	671	866
Accumulated depreciation	(177)	(204)
	<b>494</b>	<b>662</b>

#### (b) Reconciliation of carrying amounts

	Office Equipment \$000	Furniture and fittings \$000	Computer equipment \$000	Leasehold improvements \$000	Work in progress \$000	Total \$000
<b>2007</b>						
Carrying amount at start of year	69	–	124	469	–	662
Additions	–	–	23	–	–	23
Depreciation	(15)	(52)	(16)	–	–	(83)
Change in Accounting Policy <sup>(a)</sup>	(13)	–	(95)	–	–	(108)
Transfer	–	469	–	(469)	–	–
<b>Carrying amount at end of year</b>	<b>41</b>	<b>417</b>	<b>36</b>	<b>–</b>	<b>–</b>	<b>494</b>
<b>2006</b>						
Carrying amount at start of year	24	–	64	522	50	660
Additions	65	–	117	–	–	182
Disposals	–	–	–	–	–	–
Depreciation	(20)	–	(57)	(53)	–	(130)
Transfer to assets	–	–	–	–	(50)	(50)
<b>Carrying amount at end of year</b>	<b>69</b>	<b>–</b>	<b>124</b>	<b>469</b>	<b>–</b>	<b>662</b>

(a) The Authority changed its asset capitalisation policy from \$1000 to \$5000, resulting in assets previously capitalised, now being expensed. Refer note 3.

# Disclosures and Legal Compliance

## Financial Statements for 2006-07

### Notes to the Financial Statements

for the year ended 30 June 2007

	2007 \$'000	2006 \$'000
<b>20. Intangible assets</b>		
Computer Software		
At cost	13	-
Accumulated amortisation	(3)	-
	<b>10</b>	-
<b>Reconciliations:</b>		
Computer software		
Carrying amount at start of year	-	-
Additions	13	-
Amortisation expense	(3)	-
<b>Carrying amount at end of year</b>	<b>10</b>	-

### 21. Impairment of assets

There were no indications of impairment to plant and equipment and intangible assets at 30 June 2007.

The Department held no goodwill or intangible assets with an indefinite useful life during the reporting period and at balance sheet date there were no intangible assets not yet available for use.

# Disclosures and Legal Compliance

## Financial Statements for 2006-07

### Notes to the Financial Statements

for the year ended 30 June 2007

	2007 \$'000	2006 \$'000
<b>22. Payables</b>		
Current		
Trade payables	135	58
Other payables	26	14
	<b>161</b>	<b>72</b>
<b>23. Provisions</b>		
<b>Current</b>		
Employee benefits provision		
Annual leave <sup>(a)</sup>	299	277
Long service leave <sup>(b)</sup>	258	229
	<b>557</b>	<b>506</b>
Other provisions		
Employment on-costs <sup>(c)</sup>	113	66
	<b>113</b>	<b>66</b>
	<b>670</b>	<b>572</b>
<b>Non-current</b>		
Employee benefits provision		
Long service leave <sup>(b)</sup>	180	141
	<b>180</b>	<b>141</b>
Other provisions		
Employment on-costs <sup>(c)</sup>	15	11
	15	11
	<b>195</b>	<b>152</b>
	<b>865</b>	<b>724</b>
(a) <b>Annual leave</b> liabilities have been classified as current as there is no unconditional right to defer settlement for at least 12 months after balance sheet date. Assessments indicate that actual settlement of the liabilities will occur as follows:		
- Within 12 months of balance date	170	158
- More than 12 months from the balance sheet date	129	119
	<b>299</b>	<b>277</b>
(b) <b>Long service leave</b> liabilities have been classified as current where there is no unconditional right to defer settlement for at least 12 months after reporting date. Assessments indicate that actual settlement of the liabilities will occur as follows:		
- Within 12 months of balance sheet date	184	170
- More than 12 months from the balance sheet date	254	200
	<b>438</b>	<b>370</b>

### Notes to the Financial Statements

for the year ended 30 June 2007

	2007 \$'000	2006 \$'000
(c) The settlement of annual and long service leave liabilities gives rise to the payment of <b>employment on-costs</b> including workers' compensation insurance. The provision is the present value of expected future payments. The associated expense, apart from the unwinding of the discount (finance cost), is disclosed in note 9 'Other expenses'.		
<b>Movement in other provisions</b>		
Movements in each class of provisions during the financial year, other than employee benefits, are set out below:		
Employment on-cost provision		
Carrying amount at start of year	77	6
Additional provisions recognised	44	71
Carrying amount at end of year	<b>121</b>	<b>77</b>
<b>24. Other liabilities</b>		
Current		
Accrued expenses	292	15
Accrued salaries	8	54
<b>Total current</b>	<b>300</b>	<b>69</b>
<b>25. 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.		
Contributed equity		
Balance at start of year	773	632
Capital contribution <sup>(a)</sup>	-	141
<b>Balance at end of year</b>	<b>773</b>	<b>773</b>

(a) Capital Contributions (appropriations) and non-discretionary (non-reciprocal) transfers of net assets from other State government agencies have been designated as contributions by owners in Treasurer's Instruction 955 'Contributions by Owners Made to Wholly Owned Public Sector Entities' and are credited directly to equity.

# Disclosures and Legal Compliance

## Financial Statements for 2006-07

### Notes to the Financial Statements

for the year ended 30 June 2007

	2007 \$'000	2006 \$'000
Accumulated surplus/(deficit)		
Balance at start of year	1,706	900
Result for the period	(591)	806
Income and expense recognised directly to equity <sup>(a)</sup>	(108)	–
<b>Balance at end of year</b>	<b>1,007</b>	<b>1,706</b>

(a) Refer to Voluntary change in Accounting Policy - Note 3 and Note 19.

#### 26. Notes to the Cash Flow Statement

(a) Reconciliation of cash

Cash at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows:

Cash and cash equivalents	1,907	2,072
Restricted cash and cash equivalents	22	11
	<b>1,929</b>	<b>2,083</b>

(b) Reconciliation of net cost of services to net cash flows provided by/(used in) operating activities

Net cost of services	(5,842)	(5,928)
Non-cash items:		
Depreciation and amortisation expense	87	130
Resources received free of charge	-	1
(Increase)/decrease in assets:		
Current receivables	(91)	311
Other current assets	5	(10)
Amounts receivable for services	(41)	(71)
Increase/(decrease) in liabilities:		
Payables	78	45
Provisions	141	127
Other liabilities	231	(535)
Net GST receipts/(payments)	45	496
Change in GST in receivables/payables	75	(366)
<b>Net cash provided by/(used in) operating activities</b>	<b>(5,312)</b>	<b>(5,802)</b>

### Notes to the Financial Statements

for the year ended 30 June 2007

	2007 \$'000	2006 \$'000
<b>27. Commitments</b>		
(a) Lease commitments		
Commitments in relation to leases contracted for at the reporting date but not recognised in the financial statements are payable as follows:		
Within one year	313	257
Later than one year and not later than five years	21	71
	<b>334</b>	<b>328</b>
Representing:		
Cancellable operating leases	71	144
Non-cancellable operating leases	263	184
	<b>334</b>	<b>328</b>
(b) Non-cancellable operating lease commitments		
Commitments for minimum lease payments are payable as follows:		
Within one year	263	184
Later than one year and not later than five years	–	–
	<b>263</b>	<b>184</b>

### 28. Remuneration of members of the Accountable Authority and Senior Officers

#### Remuneration of Members of the Accountable Authority

The number of members of the Accountable Authority, whose total of fees, salaries, superannuation, non-monetary benefits and other benefits for the financial year, fall within the following bands are:

\$	2007	2006
0 – 10,000	1	1
70,001 – 80,000	–	1
130,001 – 140,000	1	1
140,001 – 150,000	–	–
340,001 – 350,000	–	1
430,001 – 440,000	1	–
	<b>\$'000</b>	<b>\$'000</b>
The total remuneration of members of the Accountable Authority is:	570	561



### Notes to the Financial Statements

for the year ended 30 June 2007

#### 32. Contingent liabilities and contingent assets

The Authority has no contingent liabilities or contingent assets as at 30 June 2007.

#### 33. Events occurring after the balance sheet date

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

#### 34. Explanatory statement

Significant variations between estimates and actual results for income and expense are shown below. Significant variations are considered to be those greater than 10 per cent and \$100,000.

##### (a) Significant variances between estimated and actual result for 2007

	2007 Actual \$'000	2007 Estimate \$'000	Variance \$'000
<b>Expenses</b>			
Employee benefits	3,835	4,059	(224)
Supplies and services	3,202	1,786	1,416

##### Employee benefit expense

Despite significant recruitment activity during the year, 5 positions remained vacant at the end of the year. This has been offset by expenditure of \$117,000 on temporary staff, refer below.

##### Supplies and Services

The 2006-07 actual supplies and services figure includes \$508,000 previously classified under accommodation and other expenses. Expenditure of \$270,000 occurred in relation to Appeals before the Energy Review Board which was not budgeted for. The assessment of Western Power's access arrangement was delayed due to an amendment to the Electricity Access Code. There was a need to undertake public consultation in relation to matters including the headworks charge proposed in the access arrangement documentation which resulted in expenditure which had not been anticipated. A number of positions were filled by temporary staff which resulted in expenditure of \$117,000 which was offset by a saving in employee benefit expenditure.

##### (b) Significant variances between actual revenues and expenditures for the financial year and revenues and expenditures for the immediately preceding financial year

	2007 Actual \$'000	2006 Actual \$'000	Variance \$'000
<b>Expenses</b>			
Employee benefits expense	3,834	3,041	793
Supplies and services	3,202	3,789	(587)

### Notes to the Financial Statements

for the year ended 30 June 2007

#### Employee benefit expense

The Authority acquired additional functions necessitating additional staff from 30 to 42 FTE's.

#### Supplies and Services

Activity in relation to electricity access in assessing Western Power's access arrangement was an additional workload on the Authority in 2005-06.

### **35. Financial instruments**

#### **(a) Financial Risk Management Objectives and Policies**

Financial instruments held by the Authority are cash and cash equivalents, receivables and payables. The Authority has limited exposure to financial risks. The Authority's overall risk management program focuses on managing the risks identified below.

#### Credit risk

The Authority trades only with recognised, creditworthy third parties. The Authority has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. In addition, receivable balances are monitored on an ongoing basis with the result that the Authority's exposure to bad debts is minimal. There are no significant concentrations of credit risk.

#### Liquidity risk

The Authority has appropriate procedures to manage cash flows including drawdowns of appropriations by monitoring forecast cash flows to ensure that sufficient funds are available to meet its commitments.

#### Cash flow interest rate risk

The Authority has no significant exposure to movements in interest rates. The Authority has no borrowings.

# Disclosures and Legal Compliance

Financial Statements for 2006-07

## Notes to the Financial Statements

for the year ended 30 June 2007

### (b) Financial Instrument disclosures

Interest Rate Risk Exposure

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

	Weighted Average Effective Interest Rate %	Fixed Interest Rate Maturity		Total \$'000
		Variable Interest Rate \$'000	Non- Interest Bearing \$'000	
<b>2007</b>				
Financial Assets				
Cash and cash equivalents	6.08	1,907	–	1,907
Restricted cash and cash equivalents		–	22	22
Receivables		–	492	492
Amounts receivable for services		–	167	167
		<b>1,907</b>	<b>681</b>	<b>2,588</b>
Financial Liabilities				
Payables		–	461	461
		–	<b>461</b>	<b>461</b>
<b>2006</b>				
Financial Assets				
Cash and cash equivalents	5.50	2,072	–	2,072
Restricted cash and cash equivalents		–	11	11
Receivables		–	478	478
Amounts receivable for services		–	102	102
		<b>2,072</b>	<b>591</b>	<b>2,663</b>
Financial Liabilities				
Payables		–	141	141
		–	<b>141</b>	<b>141</b>

# Disclosures and Legal Compliance

## Financial Statements for 2006-07

### Notes to the Financial Statements

for the year ended 30 June 2007

#### **Fair Values**

The carrying amount of financial assets and financial liabilities recorded in the financial statements are not materially different from their net fair value.

#### **36. Indian Ocean Territories**

The Agreement between the Treasurer and the Accountable Authority provides for the retention of moneys received by the Authority from the Commonwealth in respect of the Indian Ocean Territories. Revenue retained pursuant to this agreement is to be applied to the Authority's Services. Moneys received by the Authority in respect of the services provided shall be credited to the Authority's operating account.

	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>
Opening balance	(7)	-
Plus: Gross revenues	56	-
Less Gross expenditures	26	-
Closing balances	23	(7)

# Disclosures and Legal Compliance

## Detailed Key Performance Indicators Information

### **Performance Indicators – Statement of Certification**

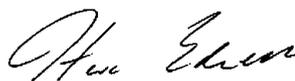
We hereby certify that the accompanying performance indicators are based on proper records and are relevant and appropriate for assisting users to assess the performance of the Economic Regulation Authority.

These performance indicators fairly represent the performance of the Authority for the financial year ended 30 June 2007.



**Mr Lyndon Rowe – Chairman**

31 August 2007



**Mr Steve Edwell – Member**

31 August 2007

# Disclosures and Legal Compliance

## Performance Indicators for 2006-07

### Formulating 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 that are impacted upon.

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 78 of the Financial Management Act 2006) 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 its decision-making.

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

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

### Effectiveness

The Authority's 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

- 1) Number (percentage) of submissions provided by the required deadline.
- 2) Rating by the Authority's Governing Body as to its perception of the timeliness of the submissions.

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.

# Disclosures and Legal Compliance

## Performance Indicators for 2006-07

### 2006-07 Performance - Effectiveness

#### Submissions

The Authority's Governing Body met 50 times during the year 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 as there was a larger than anticipated workload.

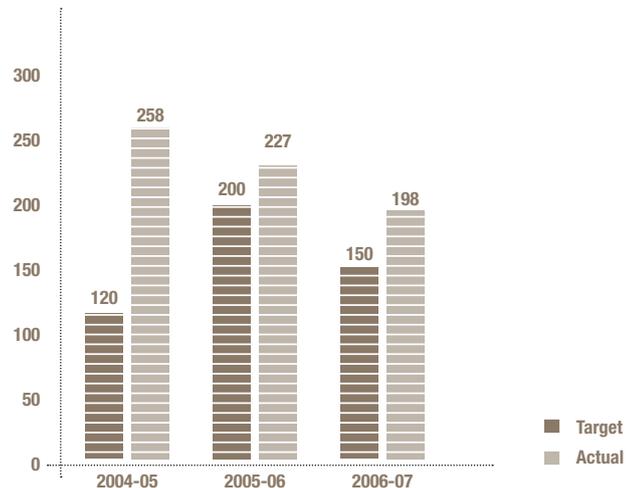
A key outcome during 2006-07 was the finalisation of the assessment of the Western Power Access Arrangement in April 2007 and was the cause of significant activity during the year. It is noted that the overall number of submissions continued a declining trend because the Authority's assessment of access arrangements for the regulated gas pipelines were completed in previous years and are not again due for review until 2009-10. However, the number of submissions exceeded the target due to the protracted assessment period which was associated with changes to the *Electricity Networks Access Code 2004* that were required to finalise the Western Power electricity access arrangement assessment. There were also an increased number of submissions relating to investigations received from Government that were considered by the Authority.

#### Quality

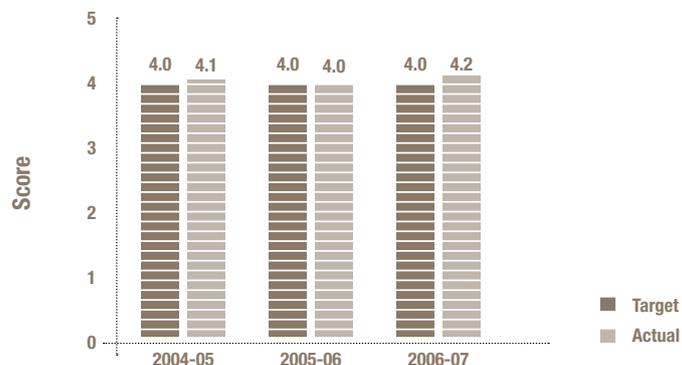
The members of Authority's Governing Body rated the submissions they reviewed each month for quality and timeliness. Ratings were assigned on a range of one to five, where one was "well below expectations", three was "expected level of performance" and five was "well above expectations". Ratings are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

Quality was rated above the expected level of performance, with the average rating for the year being 4.2. This was an improvement on the last two years performance.

Number of Submissions

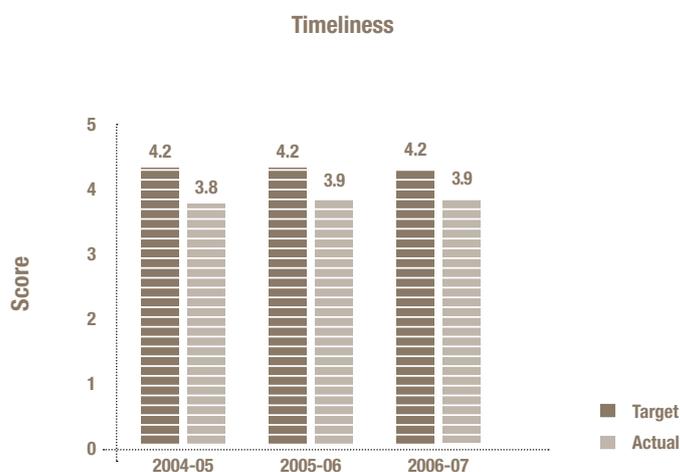


Quality



# Disclosures and Legal Compliance

## Performance Indicators for 2006-07



### Timeliness Deadlines Achieved

Of the 198 submissions reviewed during the year, 17 related to functions that had time limits. This was a significant decrease on the previous year, during which 49 submissions related to functions with time limits.

The time limits involved were either firm deadlines or timelines within which the Authority, taking all reasonable steps, was to complete its assessments.

Of the 17 submissions with deadlines, 13 were completed on or before expiry of the prescribed time limit. This equated to 76.5 per cent of submissions meeting the criteria. While this was below the 85 per cent target, the circumstances where time limits were exceeded mainly related to functions where the legislation provided some flexibility in exceeding the time limit.

An assessment of the time limits that were not met indicated that two related to electricity licence approvals, one to the reporting of an operational audit and asset management review, and one to the terms of reference of an inquiry. The delays in approving licence applications were mainly due to the need for subsequent follow-up, as the applications lodged were incomplete.

### Timeliness (Governing Body perception)

In addition to measuring the number of submissions meeting their deadline, members of the Authority's governing body were also surveyed following each meeting of the Authority to indicate their perception of the Secretariat's timeliness in preparing submissions.

Similar to the Secretariat's performance in 2005-06 the performance in 2006-07 was a slight improvement in this measure over 2004-05, and members' perception of the Secretariat's timeliness in preparing submissions remained below target.

# Disclosures and Legal Compliance

## Performance Indicators for 2006-07

### Efficiency

The Authority's key efficiency indicator is:

#### Cost

Average cost per submission.

This cost is calculated to include the costs of all personnel and other resources involved in preparing submissions.

#### 2006-07 Performance - Efficiency

##### Average Cost

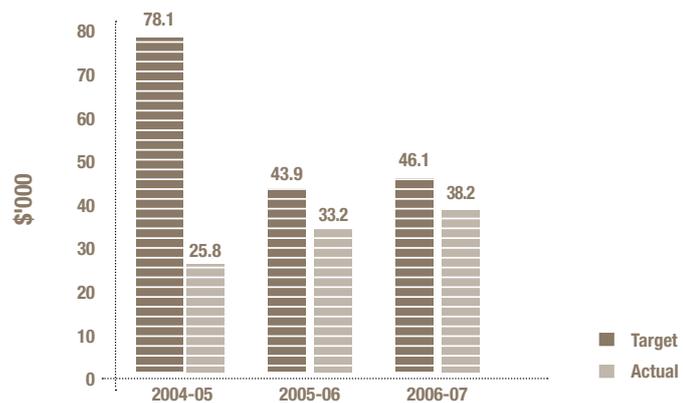
The total cost of the Authority's operations for the 12 months under review was \$7.559 million, compared to an expenditure limit of \$6.913 million. There were 198 submissions compared to the target of 150.

The average cost per submission of \$38,200 was well below the expected average of \$46,100.

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

Compared to the previous financial year, the average cost per submission has increased due to an increase in the cost of operations of \$13,000 and there were 30 fewer submissions.

Average Cost - \$'000



# Disclosures and Legal Compliance

## Other Financial Disclosures

### Funding and Pricing

The activities of the Authority were 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. The pipeline operators that are liable for Standing Charges and the percentage allocation 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 by the Authority for the functions listed in Schedule 2 of the Regulations.

The Standing Charges and Service Charges paid by pipeline operators in the year ended 30 June 2007 are listed in the table below.

#### Charges paid by pipeline operators for the year ended 30 June 2007

SERVICE PROVIDER	STANDING CHARGES (\$)	SERVICE CHARGES (\$)
AlintaGas Networks Pty Limited	90,668	9,690
Goldfields Gas Transmission	72,865	21,912
BHP Petroleum (Ashmore Operations) Pty Limited	1,144	0
Southern Cross Pipelines Pty Limited	9,743	0
DBNGP (WA) Transmission Pty Limited	178,088	52,806
<b>Total</b>	<b>352,508</b>	<b>84,408</b>

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 for:

- 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 Gas Code; and
- interest on any outstanding amounts.

Document fees received in 2006-07 amounted to \$50.



## Governance Disclosures

### Corporate Support

The Planning and Executive Support Division of the Authority is a small team that provides executive and operational support to the Governing Body. The responsibilities of the Planning and Executive Support Division include preparation of the Authority's annual report, business and corporate plans and work program.

Other corporate services, such as those relating to human resources and financial support services, are managed by the Finance and Administration Division.

Most corporate support work is internally resourced, although some work relating to human resources is outsourced through a service level agreement with the Western Australian Department of Treasury and Finance. Accounting services were provided by the Western Australian Department of Treasury and Finance until December 2006, after which this responsibility was transferred to the Office of Shared Services.

The Authority believes that high standards of corporate governance are good management practice for maintaining credibility among stakeholders and the wider community.

To ensure that the Authority continues to perform to a high standard of corporate governance, a comprehensive review of its Corporate Governance Manual, which was adopted in July 2005, will be undertaken at the same time as the review of its Corporate Plan in the second half of 2007.

### Stakeholder and Public Communication

Section 26 of the *Economic Regulation Act 2003* requires that the Authority have regard to, amongst other considerations, the need to promote regulatory outcomes that are in the public interest and the need to promote transparent decision-making processes. The Authority considers that public consultation promotes transparent decision-making and instills confidence in regulatory processes critical to achieving successful regulatory outcomes.

The Authority has adopted various approaches to public consultation including:

- inviting public submissions from interested parties;
- public forums or hearings; and
- seeking advice from consultative committees such as the Economic Regulation Authority Consumer Consultative Committee, Electricity Code Consultative Committee, Gas Marketing Code Consultative Committee and the Electricity Technical Rules Committee.

The Authority's new web site, which came into operation in April 2007, facilitates public and stakeholder communication by providing easily accessible information on matters that seek public comment. The web site contains a public consultation page where stakeholders and other interested parties have access to current calls for public submissions. The page also presents details of upcoming events such as forums, hearings and seminars.

### Complaints Handling

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

Handling of complaints relating to the administration of the Secretariat and employment-related matters are dealt with under the Authority's Code of Conduct. This is available in either hard copy form at reception or on the Authority's web site.

The Authority's Code of Conduct advises that anyone having a concern about the actions of any member of the Authority's staff 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 Authority's Code of Conduct that sets out relevant policies in some detail, including the handling of complaints on administrative and employment-related matters.

No complaints were lodged during the year relating to the Authority's administrative or employment related functions and none were outstanding from a previous period.

# Disclosures and Legal Compliance

A variety of circumstances may give rise to complaints in the performance of the Authority's regulatory 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 web site.

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* and the *Electricity Industry Act 2004*, such as to impose an access arrangement, may be referred to the Western Australian Energy (Gas) Review Board.

No new appeals under the National Gas Access Code were lodged with the Western Australian Gas Review Board during the 2006-07 financial year. One appeal by Dampier Bunbury Pipeline lodged in December 2005 (Appeal Number 2 of 2005) was withdrawn. Two appeals by Verve Energy lodged in December 2005 and December 2003 (Appeal Number 1 of 2005 and Appeal Number 3 of 2004) continue. These two ongoing appeals are expected to be concluded in the 2007-08 financial year.

Under the *Electricity Networks Access Code 2004*, on receiving a request to refer an access dispute to arbitration, the Authority must:

- a. attempt to settle the dispute by conciliation (if the parties agree); or
- b. if the parties do not agree or if conciliation fails, refer the dispute to the Western Australian Gas Disputes Arbitrator.

Under the *Gas Pipelines Access (Western Australia) Act 1998*, if the Authority receives notification of an access dispute, the Authority must appoint the Western Australian Gas Disputes Arbitrator to conduct the arbitration.

No disputes were lodged during the financial year and none were outstanding.

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

No disputes were lodged during the financial year and none were outstanding.

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

No disputes were lodged during the financial year and none were outstanding.

## Memoranda of Understanding

In the 2006-07 financial year, the Authority signed Memoranda of Understanding with the following organisations:

### *Office of Energy*

The Authority signed a Memorandum of Understanding with the Office of Energy on 5 February 2007. The Memorandum of Understanding sets out the arrangements between the Authority and the Office of Energy to promote effective cooperation, communication and coordination between the two agencies in performance of their different but complementary roles in Western Australia's energy market.

# Disclosures and Legal Compliance

## *Independent Market Operator*

The Authority signed a Memorandum of Understanding with the Independent Market Operator on 9 January 2007. The purpose of the Memorandum of Understanding is to establish an agreed framework for mutual cooperation between the Independent Market Operator and the Authority in relation to functions relevant to both agencies. In the Memorandum of Understanding, the Authority and the Independent Market Operator agreed to mutually assist each other in relation to the exchange of information, expert advice, appropriate referral of matters and cooperation more generally, consistent with legislation. The Memorandum of Understanding does not deal with operational issues, these are dealt with separately in an Operation Protocol.

## *Department of Water*

The Authority signed a Memorandum of Understanding with the Department of Water on 12 December 2006. Previously, the Authority had signed a Memorandum of Understanding with the Office of Water Policy, although this Office was absorbed into the Department of Water following its establishment on 1 January 2006.

The purpose of the Memorandum of Understanding with the Department of Water is to ensure efficient and effective decision-making and advisory processes of both agencies in relation to the water service industry; and to promote the adoption of a best practice approach to regulation and monitoring of compliance by a licensee to the Water Services Licensing Act 1995 and other relevant legislation.

## *Department of Consumer and Employment Protection (DOCEP) – Directorate of Energy Safety*

The Authority signed a Memorandum of Understanding with the Directorate of Energy Safety division of DOCEP on 23 May 2006. The purpose of the Memorandum of Understanding is to promote cooperation between the Directorate of Energy Safety and the Authority in relation to the regulation of electricity and gas industries in Western Australia. Both agencies recognise that the framework of mutual cooperation as established by the Memorandum of Understanding can contribute significantly to the ability of the agencies to effectively and efficiently discharge their respective functions.

## *Energy Ombudsman Western Australia*

The Authority signed a Memorandum of Understanding with the Energy Ombudsman in September 2005. The purpose of the Memorandum of Understanding is to provide for consultation between the two parties and the coordination of their regular activities in relation to the regulation of the electricity and gas industries.

# Disclosures and Legal Compliance

## Boards and Committees

From time to time the Authority appoints committees to assist it in the performance of its functions. During the 2006-07 financial period, the Authority was responsible for a number of committees. Details of these committees, and the independently constituted committees in which the Authority was involved, are outlined below.

### Authority 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.

The ERACCC was established by the Authority for the purposes of:

- providing comment to the Authority on issues affecting consumers that fall within the scope of the Authority's administration of the *Economic Regulation Act 2003* (**the Act**); and
- providing tangible outcomes for consumers through work that members undertake in partnership with other members and the Authority.

The membership of the ERACCC, as at 30 June 2007, comprises the following representatives:

- Ms Lisa Baker – WA Council of Social Service (Inc);
- Mr Peter Bligh – WA Farmers Federation;
- Mr Slade Brockman – Pastoralists and Graziers Association of WA (Inc);
- Ms Irina Cattalini – WA Council of Social Service (Inc) – Consumer Utilities Project;
- Mr Chris Field – State Ombudsman (Observer);
- Mr Greg Golinski – Chamber of Minerals and Energy of WA (Inc);
- Mrs Genette Keating – Consumers Association of Western Australia;
- Mr Gary Newcombe – Department of Consumer and Employment Protection (Observer);
- Ms Pauline O'Connor – WA Local Government Association;
- Ms Alison Pidgeon – Consumer Credit Legal service (WA) Inc;
- Mr Lyndon Rowe – Economic Regulation Authority (Chair);
- Ms Jessica Shaw – Chamber of Commerce and Industry of WA;
- Mr Damian Stone – Property Council of Australia; and
- A representative from Country Women's Association of WA (Inc) was also a member of the ERACCC until March 2007.

In the 2006-07 financial year, the ERACCC received briefings from the Authority staff regarding key activities such as the review of the *Code of Conduct (For the Supply of Electricity to Small Use Customers)* and the Bulk Water Inquiry. In addition, the ERACCC heard from guest speakers, including the Department of Water and the Australian Energy Regulator. The ERACCC is working with the Energy Ombudsman and the Department of Consumer and Employment Protection to host the Utility Consumer Disputes Resolution Seminar later in 2007.

# Disclosures and Legal Compliance

## **Gas Marketing Code Consultative Committee**

The Gas Marketing Code Consultative Committee (**GMCCC**) was established to advise the Authority on matters relating to the *Gas Marketing Code of Conduct 2004* (**Gas Marketing Code**), including its review.

The GMCCC completed its Final Report on the review of the Gas Marketing Code on 2 March 2007. This report was subsequently endorsed by the Authority and released on the Authority's web site on 2 March 2007. The report makes a number of recommendations, including that the Gas Marketing Code be repealed and replaced with a gas marketing standard to be incorporated into the existing gas trading licences.

The membership of the GMCCC comprises representatives from the following organisations:

- Economic Regulation Authority (two representatives);
- Department of Consumer and Employment Protection;
- Chamber of Commerce and Industry of WA;
- WA Council of Social Service (Inc);
- Alinta Sales Pty Limited;
- Wesfarmers Kleenheat Gas Pty Limited; and
- WorleyParsons Asset Management Pty Limited.

## *Committees Observed*

### **Electricity Code Consultative Committee**

The Authority established the Electricity Code Consultative Committee (**ECCC**), as required under section 81 of the *Electricity Industry Act 2004*, to review the *Code of Conduct (For the Supply of Electricity to Small Use Customers)* (**Small Use Code of Conduct**) and to provide advice to the Authority.

The membership of the ECCC includes three consumer organisation representatives, three industry representatives, two government agency representatives and a Chairperson appointed by the Authority.

In 2006-07, the ECCC completed its review of the Small Use Code of Conduct, releasing its draft review report in February 2007 and its final review report in May 2007. For further information relating to the review of the Small Use Code of Conduct, please refer to the "Agency Performance" section of the report for the Licensing, Monitoring and Customer Protection Division.

# Disclosures and Legal Compliance

## Publications

The following 69 publications were issued during 2006-07, all of which can be found on the Authority's web site:

7 July 2006

[Draft Customer Service Charter Guidelines](#)

25 July 2006

[A Guide for Preparing Financial Information Component of an Asset Management Plan](#)

26 July 2006

[Draft Electricity Compliance Reporting Manual](#)

28 July 2006

[Public Consultation Guidelines for Electricity, Gas and Water Licences and Electricity and Gas Standard Form Contracts](#)

9 August 2006

[Economic Regulation Authority's Newsletter - Edition 3 of "e news"](#)

11 August 2006

[Draft Report on the Review of the Gas Marketing Code of Conduct 2004 \(Gas Marketing Code Consultative Committee publication\)](#)

14 August 2006

[Decision on Retail Licence Application for Griffin Power Pty Ltd](#)

28 August 2006

[WestNet Rail's Part 5 Instruments Review - Final Determination and Approval of the Proposed Costing Principles](#)

28 August 2006

[WestNet Rail's Part 5 Instruments Review - Final Determination and Approval of the Proposed Over-payment Rules](#)

31 August 2006

[Customer Service Charter Guidelines](#)

5 September 2006

[Audit Guidelines for Electricity, Gas and Water Licensing](#)

22 September 2006

[Final Decision on Water Corporation Licence Amendment for Nilgin Operating Area](#)

28 September 2006

[Economic Regulation Authority Annual Report 2005/2006](#)

28 September 2006

[Gas Disputes Arbitrator Annual Report 2005/2006 \(Gas Disputes Arbitrator publication\)](#)

13 October 2006

[Issues Paper on Harvey Water Bulk Water Pricing Inquiry](#)

23 October 2006

[Water, Wastewater and Irrigation Performance Report 2005](#)

24 October 2006

[Best Practice Utility Licensing \(Draft\)](#)

# Disclosures and Legal Compliance

25 October 2006

[Water Pricing: Concepts and principles. Presentation to the IIR Water Pricing Conference, Sydney, 25 October 2006](#)

26 October 2006

[Recommendation Report on Review of Gas Trading and Distribution Licences](#)

1 November 2006

[Authority Approval on Ord River Irrigation Cooperative Charter](#)

1 November 2006

[Authority Approval on Gascoyne Water Cooperative Ltd Charter](#)

15 November 2006

[Economic Regulation Authority's Newsletter - Edition 4 of "e news"](#)

21 November 2006

[Decision on Revisions to the Revised Access Arrangement for the Dampier to Bunbury Natural Gas Pipeline to include a Speculative Investment Fund](#)

22 November 2006

[Approval of Shire of Lake Grace Customer Service Charter](#)

27 November 2006

[Addendum - Water, Wastewater and Irrigation Performance Report 2005](#)

14 December 2006

[Draft Report on the Harvey Water Bulk Water Pricing Inquiry](#)

19 December 2006

[Joint AER/ERA \(WA\) Submission on the Ministerial Council on Energy official's Exposure Draft of the New National Gas Law](#)

21 December 2006

[Joint AER/ERA \(WA\) Submission on the Ministerial Council on Energy officials' Exposure Draft of the New National Gas Rules](#)

22 January 2007

[Electricity, Gas and Water Licences: Application Guideline and Forms](#)

24 January 2007

[Electricity Compliance Reporting Manual for Western Australian Electricity Licensees - Summary of Changes to Licence Obligation Classifications](#)

24 January 2007

[Electricity Compliance Reporting Manual](#)

24 January 2007

[Best Practice Utility Licensing](#)

30 January 2007

[Issues Paper on the School Bus Operators' Charter Bus Operations Inquiry](#)

30 January 2007

[Decision on the Maximum Reserve Capacity Price Proposal for 2009-10](#)

# Disclosures and Legal Compliance

22 February 2007

[Draft Report on the Review of the Code of Conduct \(For the Supply of Electricity to Small Use Customers\) \(Electricity Code Consultative Committee publication\)](#)

26 February 2007

[Economic Regulation Authority's Newsletter - Edition 5 of "e news"](#)

2 March 2007

[Final Decision on Western Power's Revised Proposed Access Arrangement](#)

2 March 2007

[Final Report on the Review of the Gas Marketing Code of Conduct 2004 \(Gas Marketing Code Consultative Committee publication\)](#)

6 March 2007

[Economic Regulation Authority's Submission on the Review of Western Australia's Water Service Legislation: Draft Report](#)

9 March 2007

[Decision on Generation Licence Application for Eneabba Energy Pty Ltd](#)

12 March 2007

[Final Decision on the Amendment of Clause 9.6\(b\) of the Code of Conduct \(For The Supply Of Electricity To Small Use Customers\)](#)

20 March 2007

[WestNet Rail's Floor and Ceiling Costs Review - Draft Determination on the Proposed Floor and Ceiling Costs for Certain Rail Lines](#)

26 March 2007

[Final Decision on the Acceptance of the Gas Marketing Code Consultative Committee's Final Report Recommendations](#)

30 March 2007

[Allowable Revenue Determination - Independent Market Operator](#)

30 March 2007

[Allowable Revenue Determination - System Management](#)

4 April 2007

[Electricity Industry Network Quality and Reliability Performance Report 2005/06](#)

11 April 2007

[Approval of Water Corporation Customer Service Charter](#)

11 April 2007

[Approval of Synergy Gas Standard Form Contract](#)

12 April 2007

[Final Report on the Harvey Water Bulk Water Pricing Inquiry](#)

24 April 2007

[2005/06 Annual Report for the Code of Conduct \(For the Supply of Electricity to Small Use Customers\)](#)

26 April 2007

[Decision on the Final Technical Rules for Western Power's South West Interconnected Network](#)

# Disclosures and Legal Compliance

26 April 2007

[Further Final Decision on the Proposed Access Arrangement for the South West Interconnected Network](#)

2 May 2007

[Draft Report on the School Bus Operators' Charter Bus Operations Inquiry](#)

7 May 2007

[Final Report on the Inquiry on Water Corporation's Tariffs](#)

11 May 2007

[2005/06 Annual Report for the Code of Conduct \(For the Supply of Electricity to Small Use Customers\) Corrigenda](#)

25 May 2007

[Electricity Compliance Reporting Manual](#)

25 May 2007

[Electricity Compliance Reporting Manual - Data Input Sheets](#)

28 May 2007

[Determination on the Proposed 2007/08 Price List for the South West Interconnected Network](#)

29 May 2007

[Decision on Amendment to Water Corporation's Operating Licence No. 32](#)

30 May 2007

[Economic Regulation Authority's Newsletter - Edition 6 of "e news"](#)

30 May 2007

[Final Report on the Review of the Code of Conduct \(For the Supply of Electricity to Small Use Customers\) \(Electricity Code Consultative Committee publication\)](#)

31 May 2007

[Approval of Aqwest \(Bunbury Water Board\) Customer Service Charter](#)

6 June 2007

[Draft Disability Access and Inclusion Plan 2007-2011](#)

13 June 2007

[Gas Issues in Western Australia - Presentation to the Australian Institute of Energy](#)

13 June 2007

[Gas Issues in Western Australia Discussion Paper](#)

19 June 2007

[Decision on Distribution Licence Application for Central Norseman Gold Corporation Limited](#)

20 June 2007

[Code of Conduct \(For the Supply of Electricity to Small Use Customers\) - Response to the Electricity Code Consultative Committee \(ECCC\) Final Review Report \(May 2007\)](#)

20 June 2007

[Decision on Generation Licence Application for Griffin Power 2 Pty Ltd](#)

26 June 2007

[WestNet Rail's Floor and Ceiling Costs Review - Final Determination on the Proposed Floor and Ceiling Costs for Certain Rail Lines](#)

# Disclosures and Legal Compliance

## Other Legal Requirements

### **Compliance with *Public Sector Management Act Section 31(1)***

1. 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.
2. I have put in place procedures designed to ensure such compliance and conducted appropriate internal assessments to satisfy myself that the statement made in 1 is correct.
3. The applications made for breach of standards review and the corresponding outcomes for the reporting period are:

Number lodged:	Nil
Number of breaches found, including details of multiple breaches per application:	Nil
Number still under review:	Nil



**Mr K Peter Kolf – General Manager**

25 September 2007

# Disclosures and Legal Compliance

## Advertising

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 the period 1 July 2006 – 30 June 2007 was \$66,457.15.

Advertising Agencies	\$66,457.15
Market Research Organisations	Nil
Polling Organisations	Nil
Direct Mail Organisations	Nil
Media Advertising Organisations	Nil
<b>Total</b>	<b>\$66,457.15</b>

*Note: Amount shown includes GST.*

## Disability Access and Inclusion Plan Outcomes

In compliance with section 29 of the *Disability Services Act 1993*, the Authority is required to develop and implement a Disability Access and Inclusion Plan (**DAIP**).

On 6 June 2007, the Authority released its draft DAIP for public comment on its web site. The draft DAIP was available in a number of different formats including audio and large print versions. Following the four week public consultation process, the Authority published its DAIP on 31 July 2007 and commenced the implementation process.

In implementing the DAIP, the Authority will:

- Make the DAIP available to staff on the Authority's intranet as well as on the Authority's web site.
- Advise, through the web site, that copies of the DAIP are available to the community upon request and that, if required and where possible, the DAIP will be made available in alternative formats, including hard copy in standard and large print, electronic format and audio format.
- Review and amend the DAIP when necessary. Staff and the community will then be advised of the availability of updates to plans using the above methods.

In the 2006-07 financial period, the Authority has made significant progress in ensuring that the six desired outcomes are met:

1) *People with disabilities have the same opportunities as other people to access the services of, and any events organised by, a public authority.*

The Authority established a DAIP working group in June 2006 to guide the implementation of DAIP activities and has ensured that people with disabilities are provided with the opportunity to comment on access to services and public events organised by the Authority.

2) *People with disabilities have the same opportunities as other people to access the buildings and other facilities of a public authority.*

The Authority ensures that all facilities on its premises are physically accessible to people with disabilities.

3) *People with disabilities receive information from a public authority in a format that will enable them to access the information as readily as other people are able to access it.*

The Authority intends that from August 2007, following the finalisation of the DAIP, it will take measures to improve Secretariat and stakeholder awareness that Authority information is accessible in alternative formats upon request. The Authority shall be undertaking investigations into the use of interpreters and other equipment to improve the availability of public meetings to people with disabilities.

# Disclosures and Legal Compliance

4) *People with disabilities receive the same level and quality of service from the staff of a public authority as other people receive.*

The Authority intends to educate the Secretariat of disability access and issues, through the forum of informal staff meetings.

5) *People with disabilities have the same opportunities as other people to make complaints to a public authority.*

The Authority shall ensure that current grievance mechanisms are available in formats that are accessible for people with disabilities.

6) *People with disabilities have the same opportunities as other people to participate in any public consultation by a public authority.*

The Secretariat aims to continue to promote community awareness about the consultation process in place via the web site, for all stakeholders including those with disabilities.

## **Equal Employment Opportunity Outcomes**

The Authority continues to advocate equal employment opportunities and diversity through its workforce.

In December 2006, the Authority published its Equal Employment Opportunity Management Plan (**the Plan**) on the intranet. The Plan endorses the Authority's commitment to promote Equal Employment Opportunities and diversity awareness amongst staff.

The Authority also conducted a Diversity questionnaire in January 2007 to ascertain the different diverse groups represented in its workforce. The results were as follows:

- of the 46 staff members surveyed 54% (25) were women;
- two members of staff indicated as having an ongoing disability; although neither required adjustments in their workplace to carry out their daily tasks; and
- 43% (20) members of staff were born outside Australia and of those, eight spoke a language other than English in their homes.

# Disclosures and Legal Compliance

## Compliance with Public Sector Standards and Ethical Codes

The Authority has adopted the Western Australian Code of Ethics and has its own Code of Conduct published on its web site and intranet. The Authority's Code of Conduct elaborates upon the Public Sector Code of Ethics and provides for more specific interpretation of the broad principles and ethical values in relation to the Authority's working environment.

All executive staff, employees and consultants providing services to the Authority are bound by the Public Sector Code of Ethics and the Authority's Code of Conduct and all human resource policies and ethical codes are available to staff via the Authority's intranet for their information.

Under section 31 of the *Public Sector Management Act 1994*, the Authority reports the following:

COMPLIANCE ISSUES	SIGNIFICANT ACTION TAKEN TO MONITOR AND ENSURE COMPLIANCE
<p><b>Public Sector Standards (PSS)</b></p> <p>There were no claims of breach of the Public Sector Standards (<b>Standards</b>) during the reporting period.</p>	<ul style="list-style-type: none"> <li>• Information about Standards accessible via the intranet and as a part of induction materials.</li> <li>• Ongoing training provided to grievance officers and persons on recruitment panels to ensure compliance with relevant Standards.</li> <li>• Transactions audited internally as a quality assurance process.</li> <li>• Specific reference on other information is included in all relevant policies.</li> </ul>
<p><b>WA Code of Ethics</b></p> <p>There were no reports of non-compliance with the WA Code of Ethics during the reporting period.</p>	<ul style="list-style-type: none"> <li>• WA Code of Ethics material is accessible via the intranet. Hard copies are also made available to staff as a part of induction materials and signed off via staff declaration at this time.</li> <li>• WA Code of Ethics a standing topic for all Corporate Executive and staff meetings.</li> </ul>
<p><b>Authority's Code of Conduct</b></p> <p>There were no reports of non-compliance with the Authority's Code of Conduct during the reporting period.</p>	<ul style="list-style-type: none"> <li>• Authority's Code of Conduct last revised in January 2007 and distributed to all staff electronically.</li> <li>• Authority's Code of Conduct accessible via the Authority's web site and intranet. Hard copies are also made available to staff as a part of induction materials and signed off via staff declaration at this time.</li> <li>• Awareness raised on revised Authority's Code of Conduct during staff meetings and information seminars held in the first quarter of 2007.</li> <li>• Authority's Code of Conduct last revised in January 2007 and distributed to all staff electronically.</li> <li>• Authority's Code of Conduct accessible via the Authority's web site and intranet. Hard copies are also made available to staff as a part of induction materials and signed off via staff declaration at this time.</li> <li>• Awareness raised on revised Authority's Code of Conduct during staff meetings and information seminars held in the first quarter of 2007.</li> <li>• Consultants working for the Authority are provided with a copy of the Authority's Code of Conduct.</li> </ul>

# Disclosures and Legal Compliance

## Records Management

During the 2006-2007 financial year, several significant milestones regarding records management were achieved:

- The Business Classification Scheme was fully completed, endorsed by senior management and implemented within the organisation. This was an important first step in establishing structure and control over combined records from those agencies that regulated the areas of gas, rail and water prior to the establishment of the Authority in 2004 (i.e. the Office of Gas Access Regulation, Office of the Rail Access Regulator and Office of Water Regulation) before implementing an Electronic Document/Records Management System.
- The Retention and Disposal Schedule was also completed and formally approved by the State Records Commission in March 2007. The Retention and Disposal Schedule combined the schedules from predecessor agencies into one document, reflecting a schedule that is now the endorsed Retention and Disposal schedule for the Authority.
- With release of the Common Use Arrangement, the Authority was able to proceed with the selection process for an Electronic Document/Records Management System, enabling the organisation to move from a paper based system to a fully integrated electronic system. A system has now been selected and the implementation and training phases for staff has also commenced.
- Records Management training has been provided during the year to those staff directly involved with managing the Authority's records. It is intended that comprehensive records management training programs for all staff will be further developed and delivered during 2007, as the Electronic Document/Records Management System is progressively rolled out to the organisation.

## Government Policy Requirements

### Corruption Prevention

The Authority is committed to carrying out its functions with a high level of integrity and transparency and expects that the behaviour of all persons employed or contracted to the organisation will comply with the Authority's Code of Conduct.

The Authority's Code of Conduct, available to staff via the Authority's web site and intranet, details the measures taken by the Authority to prevent corruption and misconduct and outlines employees' responsibilities in relation to:

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

The Authority's Code of Conduct makes it clear to staff that any instances of suspected corruption should be reported to the General Manager, the Governing Body or the Western Australian Gas Disputes Arbitrator as appropriate. Alternatively, employees are also encouraged to seek advice from the Corruption and Crime Commission.

The security and confidentiality of information is also a high priority for the Authority, and it must comply with its obligations under section 57 of the *Economic Regulation Authority Act 2003* whereby a person who is, or was, a Member of the Governing Body or staff member of the Authority "must not, directly or indirectly, record, disclose or make use of any information obtained in the course of duty" except under the prescribed circumstances. A breach of such obligations may attract a penalty of \$10,000 or imprisonment for 12 months.

The Authority also has specific and varying obligations concerning the confidentiality of information it receives from third parties, depending on the function that the Authority is exercising when in receipt of information and the particular legislation governing that function. Details on the treatment of confidential information received from third parties are obtainable via the Authority's web site.

The Authority is anticipating that it will be able to undertake a comprehensive review of its risk register in the upcoming financial year, which includes matters relating to information security, fraud and corruption issues.

### Substantive Equality

The Authority is not a Department represented on the Strategic Management Council and does not currently have obligations under the Substantive Equality Framework.

### Sustainability

During the 2005-06 financial year, the Authority began developing its Sustainability Action Plan in accordance with the Sustainability Code of Practice for Government Agencies and Resource Guide for Implementation (**Sustainability Code**). In the Sustainability Action Plan, the Authority addresses the target and priority areas as laid out in the Sustainability Code and details how these commitments can be implemented.

During the 2006-07 financial period, it was hoped that the Authority would finalise the implementation of its Sustainability Action Plan. However, this project is now expected to be completed in the 2007-08 financial year.

# Glossary of Terms

Below is a glossary of terminology used in this report:

<b>Access Arrangement</b>	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 <i>Gas Pipelines Access (Western Australia) Act 1998</i> and the <i>Electricity Networks Access Code 2004</i> .
<b>Allowable Revenue</b>	The revenue amount that the Independent Market Operator and System Management are allowed to collect for providing services as set out in the <i>Wholesale Electricity Market Rules</i> .
<b>Australian Energy Regulator (AER)</b>	The Australian Energy Regulator performs economic regulation of the wholesale electricity market and electricity transmission networks in the National Electricity Market, and enforcement of the National Electricity Law and National Electricity Rules.
<b>Capacity Rights</b>	Capacity Rights are the rights of access seekers with regard to the transfer of energy through the electricity network; given the technical constraints of the network.
<b>Capital Contributions</b>	A capital contribution is a contribution made, or to be made, by a user in respect of an augmentation.
<b>Headworks Charges</b>	A headworks charge is a capital contribution to facilitate network development payable by new users in particular locations or regions, such as in rural and edge of grid locations.
<b>Independent Market Operator (IMO)</b>	The Independent Market Operator is an independent statutory corporation established on 1 December 2004 pursuant to the <i>Electricity Industry (Independent Market Operator) Regulations 2004</i> . The IMO is responsible for the administration and monitoring of the Western Australian wholesale electricity market.
<b>Maximum Reserve Capacity Price</b>	The maximum allowable price for reserve capacity in a given Reserve Capacity Price, as published by the Independent Market Operator and approved by the Authority.
<b>Retail Energy Market Company</b>	The Retail Energy Market Company ( <b>REMCo</b> ) 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.
<b>Retail Market Scheme (RMS)</b>	<p>A gas retailer must be a member of an approved Retail Market Scheme 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.</p> <p>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.</p> <p>The Minister for Energy has approved an RMS that covers all of the Alinta Gas Networks distribution systems. The Retail Market Administrator for this RMS is the Retail Energy Market Company Limited.</p>

<b>Ring Fencing</b>	Ring fencing means separating an infrastructure owner/operator's functions and business of providing access to the infrastructure from its other functions and businesses.
<b>Short Term Market (STEM)</b>	A forward market operated under Chapter 6 of the <i>Wholesale Energy Electricity Market Rules</i> in which market participants can purchase electricity from, or sell electricity to, the Independent Market Operator.
<b>System Management</b>	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.
<b>Weighted Average Cost of Capital (WACC)</b>	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.
<b>Wholesale Electricity Market (WEM)</b>	<p>As part of the Western Australian Government's electricity reform program, a new wholesale electricity market was implemented in the South West Interconnected System from 21 September 2006. The wholesale market enables the trade of electricity through bilateral contracts.</p> <p>A Short Term Energy Market complements the bilateral contract market by providing for an auction process through which buyers and sellers are able to adjust their bilateral trading contracts.</p>



A full copy of this document is available from the Economic Regulation Authority web site at [www.era.wa.gov.au](http://www.era.wa.gov.au).

For further information contact:

**Office Address**

Level 6  
Governor Stirling Tower  
197 St Georges Terrace  
Perth WA 6000

**Postal Address**

PO Box 8469  
Perth Business Centre  
Perth WA 6849

**Contact Details**

Internet: [www.era.wa.gov.au](http://www.era.wa.gov.au)  
Telephone: (08) 9213 1900  
Facsimile: (08) 9213 1999