

Promoting fair prices, quality services and choice.



THE ECONOMIC REGULATION AUTHORITY IS AN INDEPENDENT GOVERNMENT AGENCY WITH TWO PRINCIPAL ROLES. The first is as the State's independent economic regulator, involving the administration of industry-specific legislation for gas, electricity, rail and water. The second involves undertaking inquiries referred to the Authority by Government on matters relating to regulated and non-regulated industries. This second role is similar to that played by the Productivity Commission at the federal level.



A full copy of this document is available from the Economic Regulation Authority website at www.era.wa.gov.au. For further information, contact:

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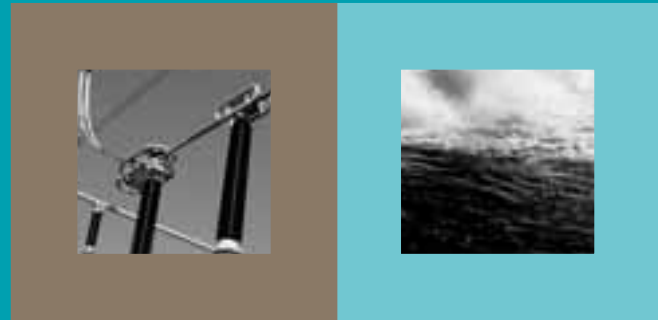
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LETTER OF TRANSMISSION TO THE TREASURER

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

In accordance with section 66 of the *Financial Administration and Audit Act 1985*, we submit the Economic Regulation Authority's Annual Report for the year ended 30 June 2006 for your information and presentation to Parliament.

The Annual Report has been prepared in accordance with the provisions of the *Financial Administration and Audit Act 1985*, the *Public Sector Management Act 1994* and Treasurer's Instructions.

Handwritten signature of Mr Lyndon Rowe in black ink.

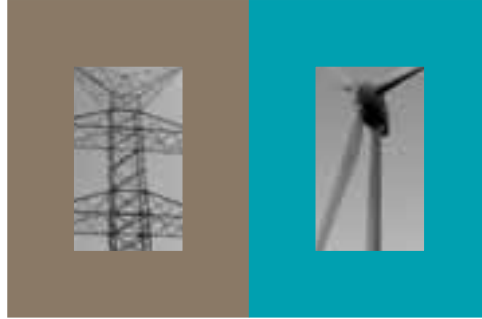
Mr Lyndon Rowe - Chairman
26 September 2006

Handwritten signature of Mr Chris Field in black ink.

Mr Chris Field - Member
26 September 2006

Handwritten signature of Mr Steve Edwell in black ink.

Mr Steve Edwell - Member
26 September 2006



Executive Summary

The Economic Regulation Authority is an independent State Government agency responsible for administration of the State's regulatory regimes for gas, electricity, rail and water. This includes regulating access (including prices) to rail track infrastructure, gas transmission and distribution pipelines, and electricity transmission and distribution networks. The Authority is also responsible for licensing and monitoring the performance of water, gas and electricity service providers.

The Authority may also be asked to undertake inquiries referred to it by Government on matters relating to regulated and non-regulated industries.

The Authority seeks to produce outcomes and recommendations that promote fair prices, quality services and choice in the long-term interests of consumers.

The Authority's Governing Body which is responsible for regulatory decisions, consists of a full-time Chairman and two part-time members. The Authority is supported by a Secretariat of around 25 staff.

The Minister responsible for administrative matters of the Authority is the Hon Eric Ripper, MLA, Deputy Premier; Treasurer; Minister for Government Enterprises; Minister Assisting the Minister for Public Sector Management. In other respects, the Authority is independent of direction or control in performing its functions under the *Economic Regulation Authority Act 2003* and relevant industry-specific legislation.

During the year the Authority achieved a number of significant outcomes, including:

- completion of assessments for third party access to some of the State's most significant gas infrastructure;
- completion of three inquiries for the State Government into urban and country water and wastewater pricing and the cost of supplying bulk water to Kalgoorlie-Boulder;
- completion of a review of the *Railways (Access) Code 2000*;
- issuing 39 licences for the new electricity licensing regime;
- lodging several submissions to national forums on proposed changes to the regulatory environment; and
- being awarded the Alan Skinner Trophy and a Gold Award in the WS Lonnie Awards for annual reports.

These and other achievements, reported below, contribute towards fulfilling the Authority's vision of leadership in best practice economic regulation for the benefit of all Western Australians.

The Authority also achieved considerable efficiency gains by locating all staff at the one address and by taking a common approach to regulation across the different industry sectors.

These achievements were supported by the results of the Authority's first Customer Satisfaction Survey which confirmed the importance of the Authority's role in regulation and showed encouraging levels of satisfaction with the Authority's overall performance.

While the Authority's total cost of services was \$1.228 million below budget, these nevertheless represented an increase of \$885,000 on the previous year. The increase in the cost of services mainly reflected an expansion of the Authority's functions, particularly in electricity regulation and licensing.

Looking ahead to the 2006-07 financial year, the Authority will assume responsibility for a number of functions relating to the Western Australian Wholesale Electricity Market scheduled to be introduced later this year. The Authority will continue its assessment process for third party access arrangements to Western Power's electricity network in the South West Interconnected System and finalise technical rules for the network.

The Authority will also continue to pursue best practice economic regulation, contribute to the national regulatory debate and perform its inquiry function. The Customer Satisfaction Survey provided a solid foundation for the Authority but also identified several areas offering opportunities for continued improvement.

About the Authority

The Role of the Authority

The Economic Regulation Authority is an independent Government agency with two principal roles. The first is as the State's independent economic regulator, involving the administration of industry-specific legislation for gas, electricity, rail and water. The second involves undertaking inquiries referred to the Authority by Government on matters relating to regulated and non-regulated industries. This second role is similar to that played by the Productivity Commission at the federal level.

As part of its regulatory role the Authority is responsible for regulating the terms and conditions of access (including prices) to rail track infrastructure, gas transmission and distribution pipelines, and electricity transmission and distribution networks.

The Authority is also responsible for licensing and monitoring the performance of water, gas and electricity service providers.

From 21 September 2006, the Authority will have several new functions relating to the Western Australian Wholesale Electricity Market.

These include determining the allowable revenue for the Independent Market Operator and Western Power's System Management, the annual approval of price limits for reserve capacity and energy and, with the assistance of the Independent Market Operator, monitoring the short-term electricity market.

In performing these various functions, the Authority seeks to produce outcomes that promote fair prices, quality services and choice.



The Governing Body

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.

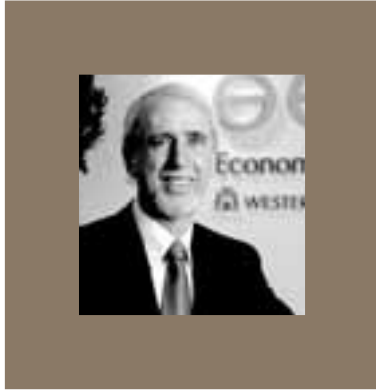
The Authority's Governing Body consists of a full-time Chairman and such other members as the Governor of Western Australia considers necessary for the proper performance of the Authority's functions.

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

On 8 March 2004, Mr Lyndon Rowe was appointed as the full-time Chairman for a period of five years.

The two part-time Members are:

- Mr Chris Field, who was appointed for five years on 8 March 2004; and
- Mr Steve Edwell, who was appointed for five years from 17 January 2006.



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 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 the recipient of the 1999 Austin Holmes Award awarded by the Economic Society of Australia (WA), and was awarded the Centenary Medal for service to Australian society and to commerce and industry in 2003.

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



Mr Chris Field
Member

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

Until June 2005, Mr Field was the Executive Director of the Consumer Law Centre Victoria, a position he held for seven years. In that role, he was widely regarded as Australia's leading consumer advocate. In that role he spoke regularly on competition and consumer issues and was a leading national media commentator.

In addition to his role at the Authority, Mr Field is the immediate past Chairman of the Australian Consumers' Association (a position he held for four years), a Director of the Energy and Water Ombudsman Victoria (since 2001), the Chairman of the Consumer Utilities Advocacy Centre (since 2005) and an Adjunct Professor at La Trobe University.

He also undertakes selected consultancy work. Mr Field has recently undertaken consultancy work for the Victorian Department of Justice, including major research reports on consumer advocacy and alternative dispute resolution.

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



Mr Steve Edwell
Member

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 15 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 23 May 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.

Organisational Structure

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

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 of the Authority that is responsible for regulatory decisions.

During the reporting year, the Authority developed and established its organisational structure by bringing together functional and industry-specific commonalities across the regulated gas, electricity, water and rail industries. This has enabled the Authority to deal with functional commonalities and ensure that resources are allocated efficiently.

The structure comprises five operational divisions and an Administration and Finance Division.

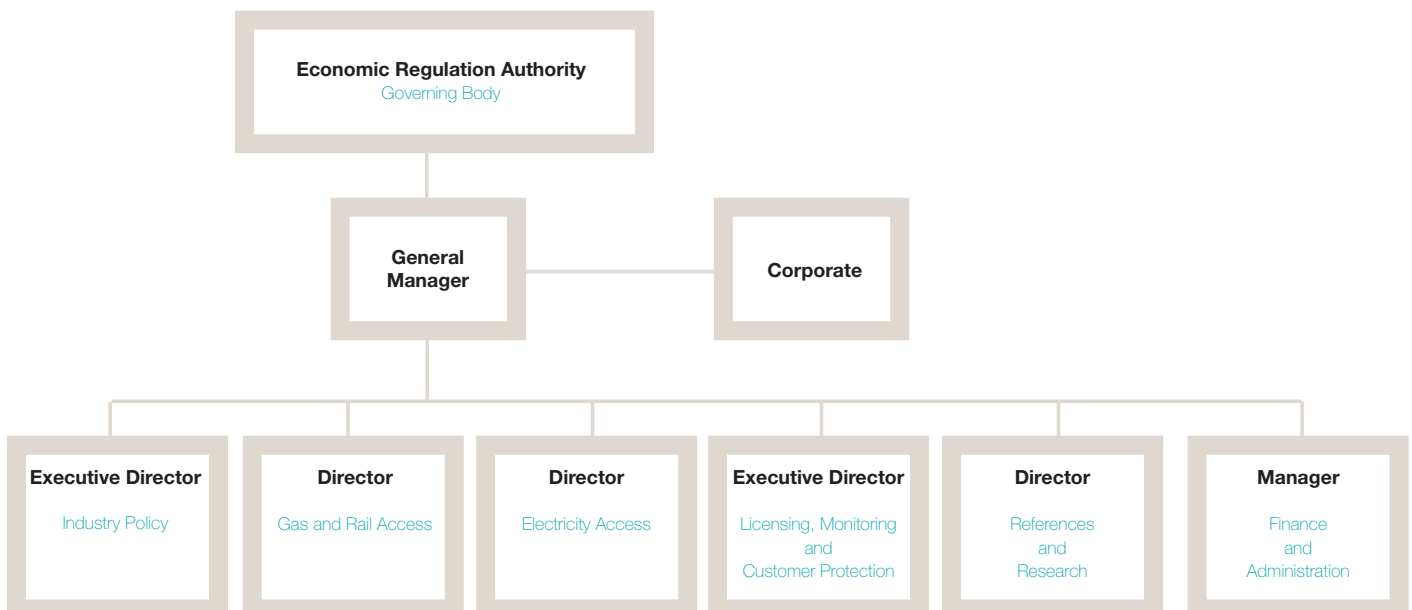
For reasons of efficiency, effectiveness and timeliness the Authority has adopted distinct regulatory and administrative organisational structures, which provide for operational divisions to report directly to the Authority on regulatory matters. The administrative structure is shown in the chart below.

Secretariat Staff

The Secretariat's staff comprises both permanent and contract employees.

Classification	Number of Permanent Employees – 30 June 2006	Number of Contracted Employees – 30 June 2006
Class 3	1	-
Class 1	2	-
Level 9	1	-
Level 8	3	-
Level 7	3	2
Level 6	6	-
Level 5	3	-
Level 4	1	-
Level 3	1	1
Level 2	4	2
Level 1	-	-
Totals	25	5

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



Corporate Executive



Mr K Peter Kolf
 General Manager

Mr 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'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.

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



In addition to the General Manager, the corporate executive comprised (from left to right):

- Mr Robert Pullella, Executive Director Industry Policy;
- Mr Paul Kelly, Executive Director Licensing, Monitoring and Customer Protection;
- Mr Greg Watkinson, Director References and Research;
- Mr Russell Dumas, Director Gas and Rail Access;
- Mr Alistair Butcher, Acting Director Electricity Access (until 29 May 2006); and
- Ms Pam Herbener, Manager Finance and Administration.

Vision, Mission and Values

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

Our 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.

Our Corporate Values

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

- 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.

- accountability – being responsible to the Western Australian public and Parliament for its actions;

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, MLA, Deputy Premier; Treasurer; Minister for Government Enterprises; Minister Assisting the Minister for Public Sector Management.



Relevant Legislation

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
- *Economic Regulation Authority (Transitional) Regulations 2003*.



Legislation Administered

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

The relevant legislation in relation to the gas industry includes the:

- *Energy Coordination Act 1994;*
- *Gas Pipelines Access (Western Australia) Act 1998;*
- *Energy Coordination Regulations 2004;*
- *Energy Coordination (Customer Contracts) Regulations 2004;*
- *Energy Coordination (Last Resort Supply) Regulations 2005;*
- *Energy Coordination (Licensing Fees) Regulations 2005;*
- *Energy Coordination (Retail Market Schemes) Regulations 2004;*
- *Gas Pipelines Access (Western Australia) Regulations 2000;*
- *Gas Pipelines Access (Western Australia) (Funding) Regulations 1999;* and
- *Gas Marketing Code of Conduct 2004.*

With regard to the electricity industry, the Authority has a number of powers and obligations pursuant to the following legislation:

- *Electricity Industry Act 2004;*
- *Electricity Industry (Access Code Enforcement) Regulations 2005;*
- *Electricity Industry (Code of Conduct) Regulations 2005;*
- *Electricity Industry (Customer Contracts) Regulations 2005;*
- *Electricity Industry (Licence Conditions) Regulations 2005;*
- *Electricity Industry (Licensing Fees) Regulations 2005;*
- *Electricity Industry (Obligation to Connect) Regulations 2005;*
- *Electricity Industry (Wholesale Electricity Market) Regulations 2004;*
- *Electricity Industry (Network Quality and Reliability of Supply) Code 2005;*
- *Wholesale Electricity Market Rules;*
- *Code of Conduct for the Supply of Electricity to Small Use Customers;*
- *Electricity Industry Customer Transfer Code 2004;*
- *Electricity Networks Access Code 2004;* and
- *Electricity Industry Metering Code 2005.*

Relevant legislation in relation to the water industry includes the:

- *Water Services Licensing Act 1995;* and
- *Water Services Coordination Regulations 1996.*

The Authority's powers and obligations with regard to the rail industry are set out in the:

- *Railways (Access) Act 1998;* and
- *Railways (Access) Code 2000.*

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 Administration and Audit Act 1995;*
- *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 Year in Review

The Chairman's Overview

Looking back at the past year, it is satisfying to report that the organisational initiatives that were introduced in the previous year have proved to be successful. Considerable efficiency gains have been achieved by locating all staff at the one address and by taking a common approach to regulation across the different industry sectors.

Particular efforts were made to assist stakeholders by issuing guidelines particularly in areas such as licensing. Feedback suggests this has been especially helpful in electricity where new and existing industry participants needed to be licensed for the first time by 30 June 2006. The approach adopted resulted in all licences being issued within the required timeframe. The Authority has also achieved a great deal in other areas of regulatory responsibility,

undertaken major inquiries into aspects of the State's water sector; and contributed to the national debate on economic regulation. We hope that these achievements have contributed to the Authority's vision of leadership in best practice economic regulation for the benefit of all Western Australians. The Authority can take some comfort from the results of our first Customer Satisfaction Survey which showed that, while we can continue to improve, only 1.3 per cent of stakeholders surveyed were dissatisfied with the overall performance of the Authority – an encouraging result for any regulator.

Major regulatory activities in 2005-06 included finalising arrangements for third party access to gas infrastructure such as the Dampier to Bunbury Natural Gas Pipeline (DBNGP), AlintaGas' Mid-West and South-West Gas Distribution Systems and the Goldfields Gas Pipeline.

Substantial progress was also made in assessing the arrangements for third party access to Western Power's electricity network in the South West Interconnected System and in finalising draft Technical Rules for this network.

The Authority's regulatory activities in rail include a review of the *Railways (Access) Code 2000* to assess its suitability to give effect to the Competition Principles Agreement and a review of WestNet Rail's Part 5 Instruments under the Rail Code.

In 2005-06, the Authority undertook three inquiries into aspects of the delivery of water services in Western Australia. These were: the Inquiry on Urban Water and Wastewater Pricing; the Inquiry on the Cost of Supplying Bulk Potable Water to Kalgoorlie-Boulder; and the Inquiry on Country Water and Wastewater Pricing. The Government's acceptance of recommendations,

particularly in relation to cost-reflective pricing of urban water, as reflected, in the 2006-07 budget, was most welcome.

From 1 July 2006, the Authority will assume responsibility for a number of functions relating to the Western Australian Wholesale Electricity Market scheduled to be introduced later this year. The Authority's new responsibilities will include monitoring the effectiveness of the market, determination of the allowable revenue for both the Independent Market Operator and Western Power's System Management and approval of price limits for reserve capacity and energy annually.

While I completely support the independence of the regulator and the separation of the administration of the regulatory regime from the policy role of Government, I am of the view that regulators can make a valuable contribution to the regulatory debate on appropriate models based on the practical experience of administering regulatory regimes. To this end I welcome the opportunity to contribute to and advance the debate in economic regulation.

The Authority endorses the Ministerial Council on Energy's (MCE) goal to achieve a consistent national approach to regulation in electricity and gas transmission and distribution. During 2005-06, the Authority responded to the Expert Panel established by the MCE to formulate the Australian Government's response to the Productivity Commission's reviews of the National Access Regime and the National Gas Access Regime. In this regard, the Authority made four submissions to national bodies drawing on first-hand experience in the application of the national gas code and State-based rail and electricity access regimes.

In considering future changes to regulatory regimes, it will be important to retain those aspects of existing regimes that have worked well. In this regard, the Authority notes comments by gas network owners and operators to the Federal Energy Minister in support of the "current successful gas decision-making model" and expressing concern that this "model is not replaced by an approach which may prove to be more time-consuming, costly and complex".

The Authority is also of the view that sufficient discretion with clearly enunciated objectives be available to the regulator to adequately address the specific circumstances of individual cases. While prescriptive rules may provide greater certainty and improve timeliness, such benefits could be lost where there is not enough flexibility to accommodate individual circumstances.

Further, proposed changes to regulatory regimes should be based on both factual evidence of regulatory failure and analysis indicating that proposed changes will result in a net benefit to the regulatory regime as a whole. Otherwise changes will just add to regulatory uncertainty, at least in the short-term, for no benefit. A particular concern is that some seriously proposed recommendations for change at the national level have not been so factually based.

The year saw changes in the composition of the Authority with Dr Ken Michael AC taking up his appointment as Governor in January 2006 and the appointment of Mr Steve Edwell as a part-time member of the Governing Body.

On behalf of the members of the Authority, I sincerely thank Dr Michael for his significant contribution to economic regulation in this State. Dr Michael was the State's first rail

and gas access regulator and a foundation member of the Authority.

I also welcome Mr Steve Edwell as a part-time member of the Governing Body. Mr Edwell brings with him a wealth of experience in both the energy industry and the regulation of access to monopoly infrastructure.

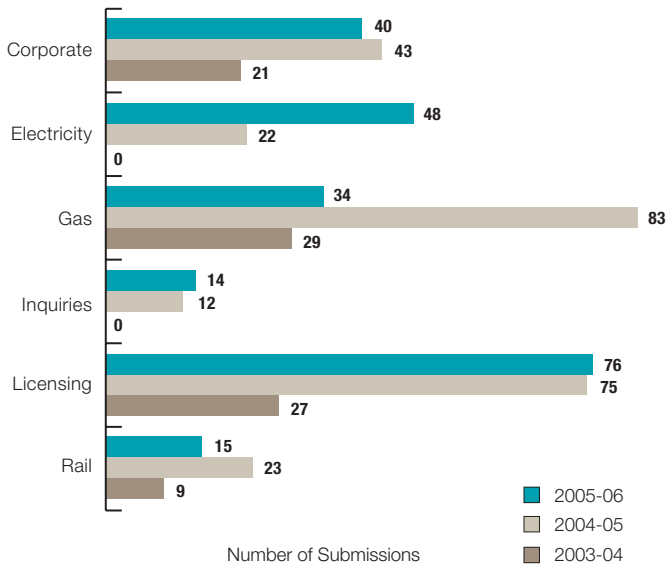
I would also wish to express my personal appreciation to the current part-time members Mr Chris Field and Mr Edwell and of course to Dr Michael all of whom have brought professionalism, experience and knowledge to the Authority and have greatly facilitated my role as Chairman.

Finally, I would like to acknowledge the valuable contribution made by the General Manager, Peter Kolf, and staff of the Authority and, on behalf of the members, thank them for their professional expertise, support and enthusiasm in this challenging and interesting work. I look forward to working with them in the following year as we continue to address the ongoing and emerging economic regulatory issues in Western Australia.

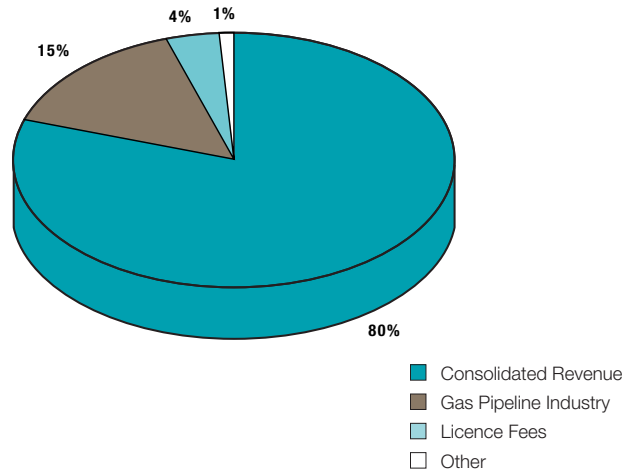
Mr Lyndon Rowe
Chairman

Facts-at-a-glance

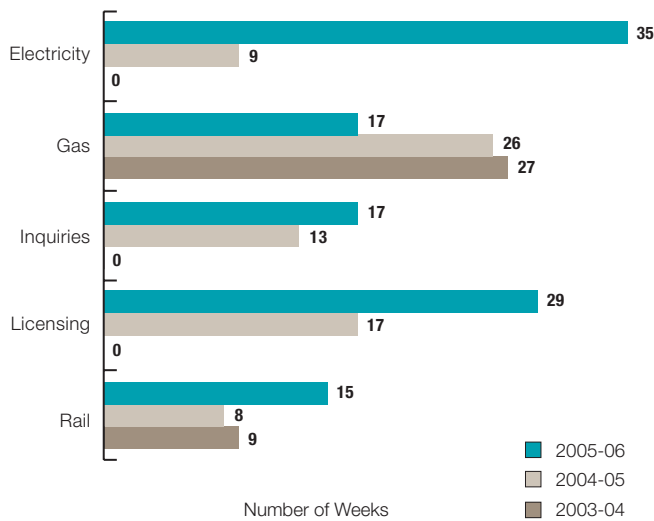
Items of Advice Considered by the Governing Body



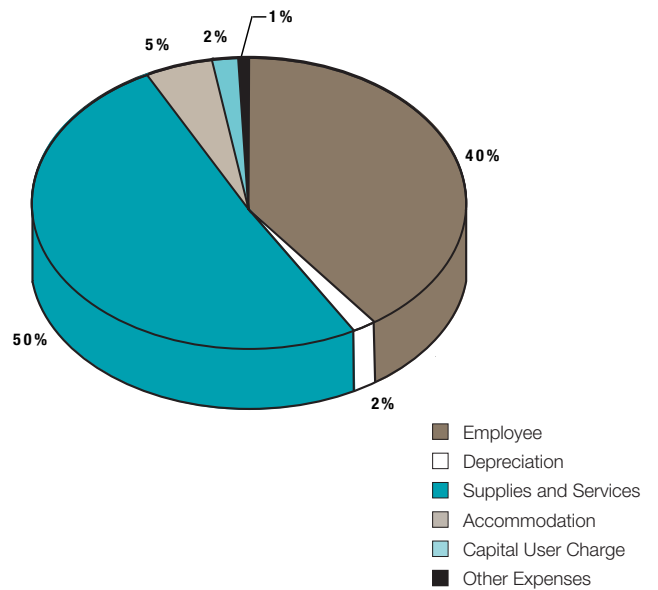
Sources of Income 2005-06



Public Consultation



Expenditure 2005-06



Highlights

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

... in our operations.

- The Authority completed the assessment of arrangements (terms and conditions) for third party access to gas infrastructure, including the Dampier to Bunbury Natural Gas Pipeline, AlintaGas' Mid-West and South-West Gas Distribution Systems and the Goldfields Gas Pipeline. Third party access provides for parties such as gas producers, electricity generators and gas retailers to make use of access to gas transmission and distribution infrastructure.

- The Authority's inquiry functions gained momentum with the delivery to Government of the Final Reports on:
 - the Urban Water and Wastewater Pricing Inquiry;
 - the Inquiry on the Cost of Supplying Bulk Potable Water to Kalgoorlie-Boulder; and
 - the Inquiry on Country Water and Wastewater Pricing.
- With the introduction of economic regulation in the electricity industry, the Authority's electricity access functions have become an area of great focus and accomplishment. On 21 March 2006 the Authority issued its Draft Decision on Western Power's access arrangement for its network in the South West Interconnected System.
- Substantial progress was also made with the publication on 11 April 2006 of Draft Technical Rules for the South West Interconnected System. The Technical Rules consist of the standards, procedures and planning criteria governing the construction and operation of the electricity network.
- The new electricity licensing regime resulted in significant activity for the Authority during 2005-06, which saw 39 licences issued including all those that were required to be issued before the end of the financial year. One licence application was determined not to be required.
- As part of its customer protection functions, the Authority approved the implementation of the new Western Australian Energy Ombudsman Scheme. The purpose of the Energy Ombudsman is to provide a dispute resolution scheme that promotes fairness, equity and industry accountability through its role of investigating and facilitating the resolution of electricity and gas industry complaints.
- The Authority has completed a review of the *Railways (Access) Code 2000* to assess its suitability to give effect to the national Competition Principles Agreement. The Final Report on the review was published on 23 September 2005.
- The Authority commenced a review of WestNet Rail's Part 5 Instruments under the *Railways (Access) Code 2000*, which is anticipated to be completed in early August 2006. The Part 5 Instruments are a series of documents that outline the principles, policies and rules governing the operation of railway lines.
- A Draft Decision was issued on the assessment of proposed capital expenditure for the stage 5 expansion of the Dampier to Bunbury Natural Gas Pipeline. The decision means that if the proposed capital expenditure is approved by the Authority, this amount would be added to the capital base of the pipeline to the extent that the expenditure is actually incurred in the expansion. This will be relevant in the future determination of prices to apply to gas transported through the pipeline.
- The Authority has, with the assistance of the Gas Marketing Code Consultative Committee, made significant progress toward the review of the *Gas Marketing Code of Conduct 2004*. This Code specifies the standards that gas companies must meet when marketing gas to residential and small business customers and has been developed to ensure that customers are protected from unfair practices and behaviour.



Highlights cont.

- The Authority assessed and approved a number of instruments proposed by Western Power under the *Electricity Industry Customer Transfer Code 2004* and the *Electricity Industry Metering Code 2005*. These included the approval of Communication Rules applying to the transfer of contestable customers, as well as Communication Rules governing the transfer of information between Western Power and electricity retailers in relation to customer meters.
 - With the start of the Wholesale Electricity Market now scheduled for 21 September 2006, the Authority approved the revised Maximum Reserve Capacity Price (\$122,500 per megawatt) on 23 January 2006 as proposed by the Independent Market Operator for the 2008-09 capacity year. The Maximum Reserve Capacity Price is the cap that will be placed on offers for an auction that will be conducted by the Independent Market Operator if forecasts indicate a potential future shortfall in electricity generation capacity.
 - A new licensing and monitoring database was established to administer and monitor licensees in the gas, electricity and water industries.
 - The monitoring of electricity, gas and water licensees' performance has also received considerable attention. The Authority has published a set of manuals and guidelines to help licensees comply with their obligations and completed 20 operational audits and asset management reviews during the year.
 - A Memorandum of Understanding was signed between the Energy Ombudsman and the Authority to share statistical information to help identify systemic or emerging issues and monitor relevant legislative provisions that govern behaviour in the gas and electricity industries.
 - The Authority received major awards for the quality of its 2005 annual report. It received the Alan Skinner Trophy in the WS Lonnie Awards for the best annual report in the general government sector and a Gold Award in the category for agencies with less than 100 employees.
 - A Memorandum of Understanding was also signed on 23 May 2006 between the Department of Consumer and Employment Protection and the Authority to establish an agreed framework for mutual cooperation between the two agencies in relation to the regulation of electricity and gas in Western Australia.
 - In accordance with its mission statement, the Authority has actively participated in advancing the debate in economic regulation by making submissions to national forums on proposed changes to the national gas access regime and the review of electricity transmission revenue and pricing rules.
 - The Authority also provided administrative support to the Western Australian Gas Disputes Arbitrator.
- ... for our stakeholders.**
- In keeping with its commitment to accountability, the Authority surveyed customers to determine the level of satisfaction with services provided during the reporting year. The survey identified strengths and areas requiring improvement. The outcomes of the



survey will be used to streamline the Authority's processes and ensure that its services meet its stakeholders' needs.

- The Economic Regulation Authority Consumer Consultative Committee (ERACCC) was established in March 2005. The Committee comprises an Authority Member, Mr Chris Field (Chair) and members from community, consumer and stakeholder groups.
- The Authority commenced redevelopment of its website, which is expected to be completed in the 2006-07 financial year. It will substantially improve transparency in decision-making and help interested parties access information.

Highlights cont.

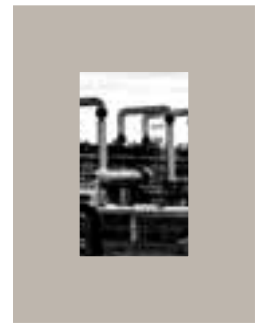
- In January 2006, the first edition of the Authority's newsletter, "e news" was published on its website. The newsletter will be produced quarterly in order to keep stakeholders abreast of regulatory outcomes and decisions, and to promote debate on issues that ultimately affect all West Australians through the prices they pay for regulated services.
- In May 2006, the Authority participated in the WACOSS State Conference to inform stakeholders of the functions of the Authority and identify matters of relevance to interested parties.

... for our people.

- In recognition that Secretariat staff is the Authority's most valuable asset, staff were encouraged to undertake both internal and external professional development and training courses. This was done at a cost of \$49,000 (\$1,600 per staff member).
- The new corporate structure established during the reporting year, provided staff with greater opportunities for career development.
- The Authority adopted new approaches in recruitment to attract more applicants with relevant experience and skills.
- Several occupational health and safety initiatives, such as ergonomic assessments, were implemented.
- A fitness program was introduced, involving a fitness assessment and the development of individual fitness programs, for staff wishing to participate. The fitness program was arranged through the University of Western Australia's School of Human Movement and Exercise Science.

... in our business processes.

- During the reporting year, the Authority finalised implementation of a revised corporate structure to enable it to deal with functional commonalities and ensure that resources are allocated efficiently.
- A review of the Finance and Administration Division was completed. The outcomes of the review will be implemented during the 2006-07 financial year to improve the provision of services to the Authority, other divisions within the Secretariat and external stakeholders.
- New strategic and business-planning processes were implemented to continue to improve performance.
- The Authority completed a review of its risk register and risk management strategy.
- The Authority streamlined its financial reporting capabilities by implementing a new finance management system.
- The Authority established an Audit and Risk Management Committee to oversee all audit activities and to strengthen the operation of the internal audit function. The Committee aims to enhance transparency, efficiency, risk management and control.





Report on Operations

Contribution to Better Planning: Better Services

In November 2003, the Western Australian Government released its strategic planning framework, “Better Planning: Better Services”, which outlines the Government’s five key strategic goals relating to: People and Communities; the Economy; the Environment; the Regions; and Governance.

The Authority contributes most directly to the Government’s Strategic Goal 2: The Economy, which aims at developing 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 Authority contributes to this goal through the regulation of vital gas, electricity, rail and water infrastructure in a fair, independent and transparent manner. It also seeks to encourage economic development of Western Australia through its role in inquiring and reporting on matters referred to it by Government. These matters can relate to “regulated” or “non-regulated” industries in the areas of pricing, quality of services, business practices and compliance costs.

In carrying out these functions, and as required by the *Economic Regulation Authority Act 2003*, the Authority has regard to the following:

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

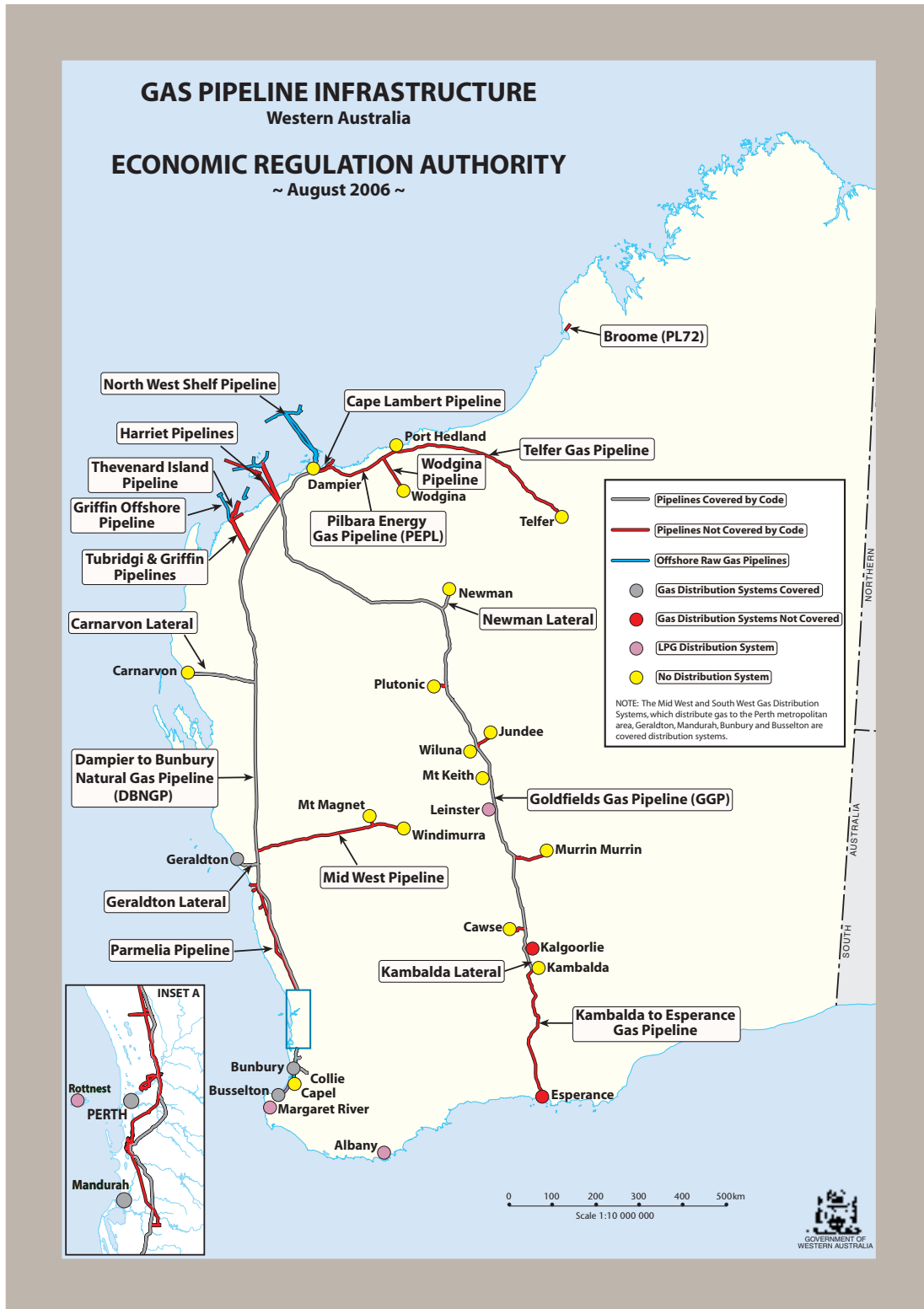
In pursuing its stated objectives the Authority also contributes in various ways to the other Government strategic goals.

Divisional Operations – Key Deliverables and Achievements

The Authority’s corporate and business plans are developed within the strategic framework provided by Better Planning: Better Services and set out specific objectives and deliverables for each division within the organisation. This ensures that divisional operations contribute to the achievement of the Government’s strategic goals.

As reflected in its 2004-05 Annual Report, challenging deliverables were set out for each division for the 2005-06 financial year. The Authority is therefore pleased to report that most of these have been achieved.

Gas and Rail Access Division – Gas Access Functions



Gas Access Functions cont.

Objectives

Under the *National Third Party Access Code for Natural Gas Pipeline Systems* -

- To regulate third party access to gas transmission and distribution pipelines in Western Australia which are subject to regulation under the 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.
- To monitor and enforce compliance with the *Gas Marketing Code of Conduct 2004*.
- To amend or replace the *Gas Marketing Code of Conduct 2004*.

Key deliverables and achievements

What we set out to do...

In its 2004-05 Annual Report, the Authority committed to the following work:

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

What we achieved...

- The Authority completed the assessment of access arrangements and revisions to access arrangements for three of the four regulated gas pipelines in Western Australia, namely the Dampier to Bunbury Natural Gas Pipeline, the Goldfields Gas Pipeline and the Mid-West and South-West Gas Distribution Systems. The owner of the Kalgoorlie to Kambalda Pipeline is yet to lodge a proposed access arrangement for the Authority's consideration.

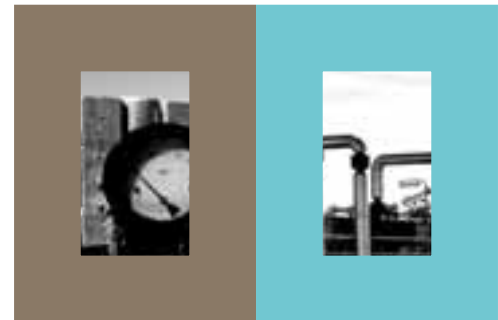
- The Western Australian Minister for Energy made a decision to revoke coverage of the Tubridgi Pipeline System effective from 1 May 2006. This meant that third party access to the Tubridgi Pipeline System was no longer regulated by the Authority and as a result, a review of the access arrangement for this pipeline was not required.
- The release of the Final Report on the review of the *Gas Marketing Code of Conduct 2004* is now expected to occur in late 2006 to provide a longer period for interested parties to respond to the interim reports than previously anticipated.



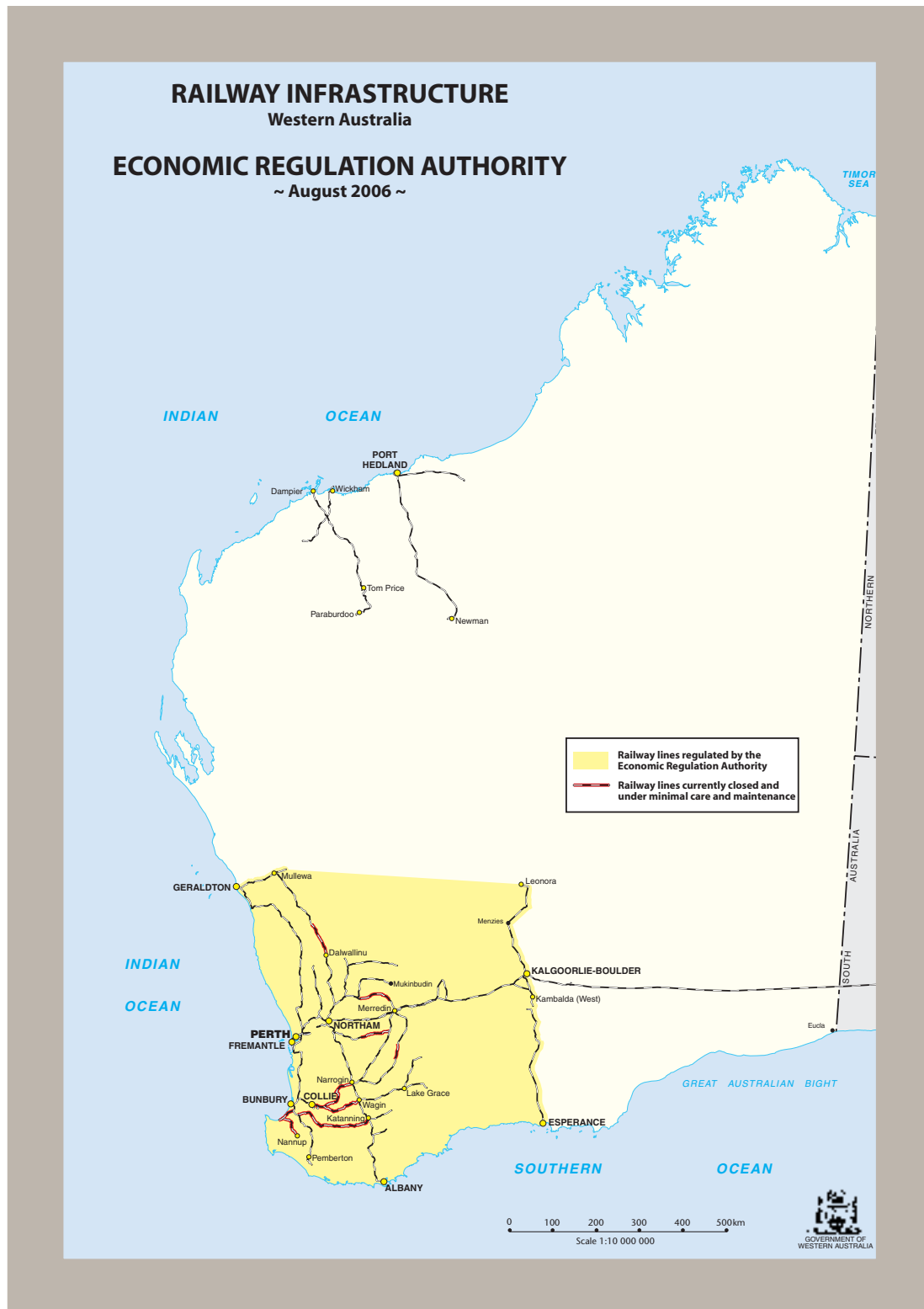
Gas Access Functions cont.

More specifically, the following key achievements were accomplished in the area of gas access:

- On 15 December 2005 the Authority issued its Further Final Decision and Final Approval on the revisions proposed to the access arrangement for the Dampier to Bunbury Natural Gas Pipeline. The Further Final Decision of the Authority was to not approve the proposed revised access arrangement submitted by DBNGP (WA) Transmission Pty Limited. Subsequently, the Authority drafted and approved its own access arrangement for the pipeline, which came into effect on 30 December 2005.
- Significant progress was made toward finalising the assessment of a section 8.21 application on the proposed capital expenditure for the stage 5 expansion of the Dampier to Bunbury Natural Gas Pipeline.
- The Further Final Decision and Final Approval of the revised proposed access arrangement for the Goldfields Gas Pipeline was published on 14 July 2005. The Authority's decision was to approve the revised proposed access arrangement submitted by Goldfields Gas Transmission Pty Ltd on 17 June 2005. The access arrangement commenced on 1 August 2005.
- The Further Final Decision and Final Approval for the AlintaGas Networks Pty Ltd revised access arrangement for the Mid-West and South-West Gas Distribution Systems was issued on 10 August 2005. The decision was to approve the proposed revised access arrangement, which came into operation on 25 August 2005.
- Significant progress was made toward finalising a review of the *Gas Marketing Code of Conduct 2004*, which is expected to be completed in the second half of 2006.
- A number of rule changes associated with administering the Retail Energy Market Company (REMCo) Retail Market Scheme were considered and approved.
- Gas market participants' compliance with the obligations set out under the gas Retail Market Scheme was monitored.



Gas and Rail Access Division – Rail Access Functions



Rail Access Functions cont.

Objectives

Under the *Railways (Access) Code 2000* -

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

Key deliverables and achievements

What we set out to do...

In its 2004-05 Annual Report, the Authority committed to the following work:

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

What we achieved...

- The Final Report on the review of the *Railways (Access) Code 2000* was provided to the Minister on 23 September 2005 and released on the Authority's website on 5 December 2005.
- The Department of Treasury and Finance is currently considering the Authority's recommendations in its Final Report on the review of the *Railways (Access) Code 2000*. Following this, the Authority will help the Department prepare the relevant amendments to the Code.
- The Authority has monitored the performance of railway owners in meeting required service standards. Reports on the annual key performance indicators for WestNet Rail and the Public Transport Authority for the 2004-05 financial year were published on the Authority's website.
- The Authority has confirmed with WestNet Rail that one item of non-compliance, identified in the performance audit for WestNet Rail, would be rectified.
- In December 2005, the Authority began a review of WestNet Rail's Costing Principles, Over-payment Rules, Train Management Guidelines and Train Path Policy. Following extensive public consultation the review was expected to be completed in August 2006 resulting in amendments to WestNet Rail's four policy documents.
- The Authority established a working group of interested stakeholders to assist with the review of methodologies for allocating common costs in the rail industry. Following the review of methodologies in other jurisdictions, the working group recommended that train control costs to be directly attributed to rail lines. The new cost allocation methodologies will be reflected in future reviews (expected to commence in September 2006) of floor and ceiling costs for rail lines.



Electricity Access Division



Electricity Access Division cont.

Objectives

Under the *Electricity Networks Access Code 2004* -

- To regulate third party access to electricity transmission and distribution networks in Western Australia which are subject to regulation under the 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.
- 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* -

- 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.
- To approve a registration process for meter installation providers.

Key deliverables and achievements

What we set out to do...

In its 2004-05 Annual Report, the Authority committed to the following work:

- Acquire responsibility for assessing and responding to Western Power Corporation's proposed access arrangement and Technical Rules for its network in the South West Interconnected System.
- Monitor performance of network operators against benchmark service standards.
- Monitor and arbitrate transfers of contestable customers between retailers.
- Undertake ongoing monitoring of compliance with ring fencing obligations.

What we achieved...

- The Authority became responsible for regulating third party access to electricity networks and issued a Draft Decision on Western Power's proposed access arrangement and Draft Technical Rules for its network in the South West Interconnected System.
- The access arrangement for Western Power's network will set out benchmark service standards. The Authority will begin monitoring Western Power's performance against its benchmark service standards following the approval of the access arrangement. This was expected in the second half of 2006.
- Work on the monitoring of transfers of contestable customers was postponed to the 2006-07 financial year due to resources being concentrated on assessing Western Power's proposed access arrangement and Technical Rules. No disputes arose in relation to the transfer of contestable customers between retailers.
- In March 2005, the Authority published a discussion paper on arrangements to ring fence Western Power Corporation. Further consideration of ring fencing

arrangements was deferred following parliamentary passage of the bill to split Western Power Corporation into four separate organisations.

More specifically, the following key achievements were accomplished in the area of electricity access:

- On 21 March 2006, the Authority issued a Draft Decision on Western Power's proposed access arrangement for its network in the South West Interconnected System. The Authority's Draft Decision was to not approve the proposed access arrangement. The Authority is expected to release its Final Decision in the second half of 2006.
- Draft Technical Rules for Western Power's South West Interconnected Network were published on 11 April 2006. Significant progress was made towards finalising the Technical Rules.
- Communication Rules applying to the transfer of contestable electricity customers were approved on 16 December 2005 for Western Power's South West Interconnected Network.
- Communication Rules governing the format and protocols by which Western Power communicates information and data relating to customer meters to retailers were approved on 16 February 2006.
- A Model Service Level Agreement for metering services proposed by Western Power was approved by the Authority. The Model Service Level Agreement specifies the metering services provided by Western Power under the *Electricity Industry Metering Code 2005*.

Industry Policy Division

Objectives

Under the Wholesale Electricity Market Rules –

- To monitor the effectiveness of the market.
- To determine budgets for the Independent Market Operator and Western Power's System Management.
- To approve price limits for reserve capacity and energy annually.

The Authority will acquire these responsibilities with the start of the Wholesale Electricity Market.

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.

Key deliverables and achievements

What we set out to do...

In its 2004-05 Annual Report, the Authority committed to the following work:

- Establish competencies to monitor the ongoing effectiveness of the Wholesale Electricity Market to be established on 1 July 2006.

The Authority also committed to pursuing its stated objective of advancing the debate in economic regulation.

What we achieved...

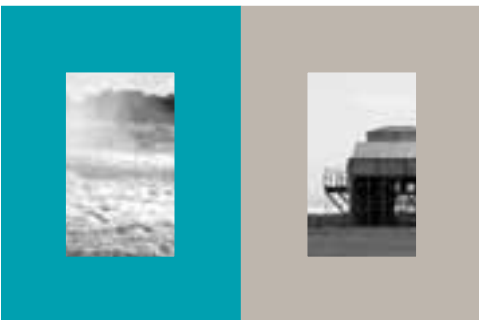
- During the reporting year, the Authority has focused on acquiring the necessary human resources and identifying the relevant IT systems for it to perform its functions in the Wholesale Electricity Market. The Authority also participated as an observer in the work undertaken by the Market Readiness Committee, which was established to advise the Minister for Energy and the Independent Market Operator on market design.
- The Authority made several submissions to relevant regulatory policy bodies on matters relating to the debate in economic regulation. This is consistent with the view that regulators can make a valuable contribution to the regulatory debate based on the practical experience of administering regulatory regimes.

More specifically, the following key achievements were accomplished in the area of industry policy:

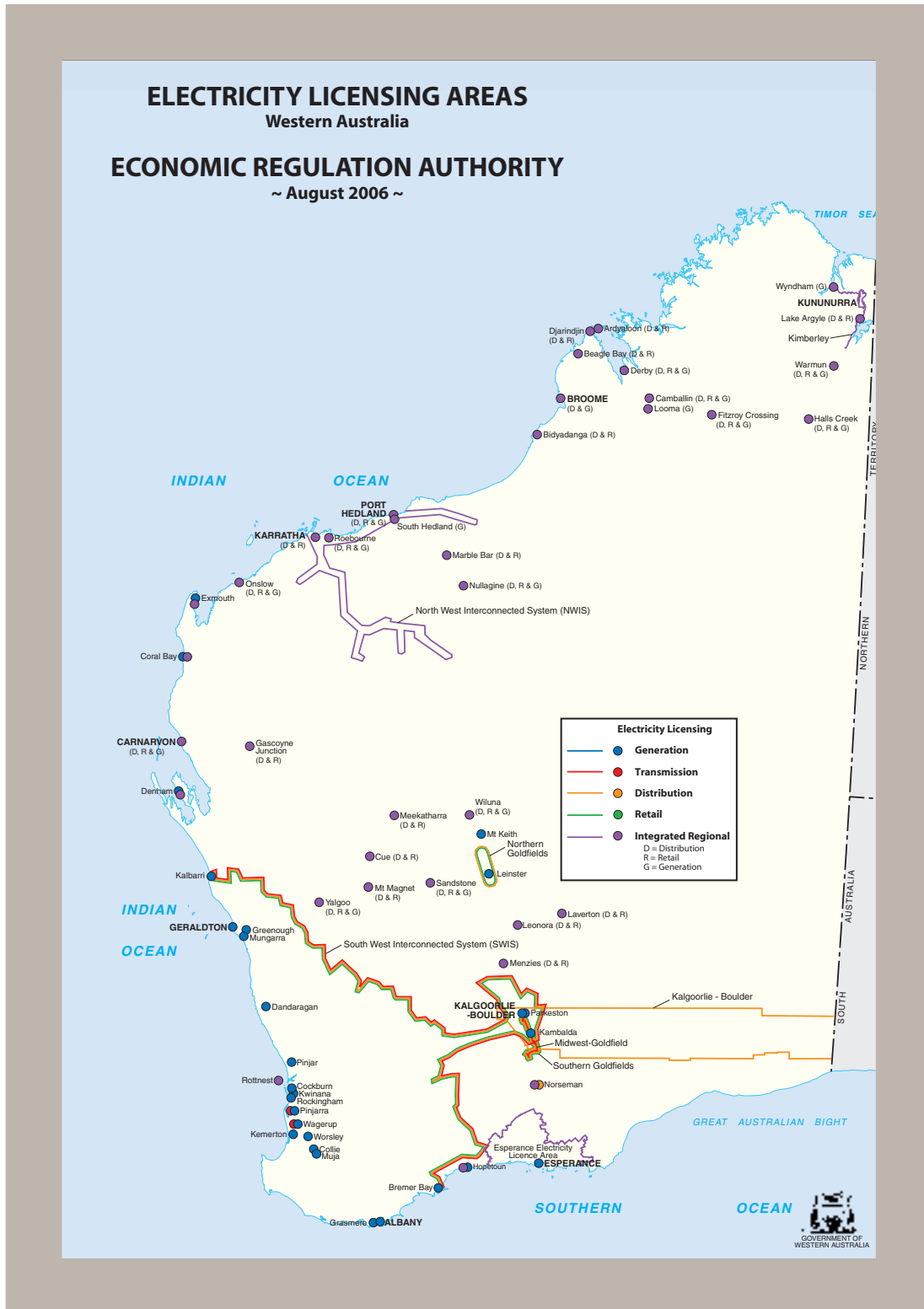
- On 29 July 2005, the Authority provided a submission to the Senate Economics Legislation Committee Inquiry into the provisions of the *Trade Practices Amendment (National Access Regime) Bill 2005*.
- The Authority provided a submission to the Australian Energy Market Commission on 20 March 2006 regarding the Draft National Electricity Amendment (Economic Regulation of Transmission Services) Rule 2006 review.
- On 7 April 2006, the Authority provided a submission to the Ministerial Council on Energy Expert Panel Draft Report on the Review of Revenue and Network Pricing Across the Energy Market.

In addition, the following key achievement was accomplished in the area of wholesale electricity market monitoring:

- A revised Maximum Reserve Capacity Price proposed by the Independent Market Operator for the 2008-09 capacity year was approved by the Authority on 23 January 2006.



Licensing, Monitoring and Customer Protection Division – Licensing Functions



Licensing Functions cont.

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.

Key deliverables and achievements

What we set out to do...

In its 2004-05 Annual Report, the Authority committed to the following work:

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

What we achieved...

- Public consultation guidelines were established for licensing, standard form contracts and customer service charters.
- No new gas or water licences were granted in the year to 30 June 2006.
- Thirty nine applications for an electricity licence were received during the year and all were completed. This involved granting 15 generation licences, four transmission licences, five distribution licences, 10 retail licences and four integrated regional licences. One licence application was determined to be not required.
- Guidelines for electricity licence applications and standard licence terms and conditions for each classification of electricity licence (namely generation, transmission, distribution, retail and integrated regional) were developed in consultation with Government, industry and consumer representative groups. Licences are now issued under the approved licence terms and conditions. It is intended to establish a single application form and guidelines for all three regulated utility industries.
- A review of gas distribution and trading licences has begun and will be completed in 2006-07.



Licensing Functions cont.

More specifically, the following key achievements were accomplished in the area of licensing:

- Thirty nine electricity licence applications were received from either existing operators or new entrants into the electricity market. All the applications were assessed before the statutory deadline of 1 July 2006. Priority was given to assessing applications from new entrants, particularly for generation, where applicants required a licence before starting construction of their generation facilities.
- No new gas licences were granted in the year although one gas trading and one gas distribution licence transfer occurred.
- No new water licences were granted in the period to 30 June 2006. However, there were five licence amendments (including one licence renewal).
- Application forms and guidelines were developed for prospective electricity licensees. These were for existing operators and new entrants into the electricity generation, transmission, distribution and retail markets. This was acknowledged as being helpful to licensees in preparing their licence applications. It also helped the Authority review the information provided by applicants.
- Licence terms and conditions for gas trading and distribution licences were being reviewed in consultation with Government, industry and consumer representative groups.
- Public consultation guidelines were developed by the Authority for the purpose of considering licence applications and amendments, standard form contracts and customer service charters. The guidelines outline the Authority's process for seeking comment from stakeholders and consumers.
- In 2005, the Commonwealth Government requested the Authority to provide services in relation to licensing requirements of electricity and water providers on Christmas and the Cocos (Keeling) Islands. A Service Delivery Arrangement has been signed between the Authority and the Commonwealth Government which provides for the Authority to licence and regulate service providers for electricity and water utilities on the Islands. The full costs of these regulatory services will be met by the Commonwealth Government and Western Australian State laws will apply to the Islands.



Monitoring Functions

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.

Key deliverables and achievements

What we set out to do...

In its 2004-05 Annual Report, the Authority committed to the following work:

- Twenty operational audits and 20 asset system management reviews will be reviewed with summary comments to be sent to the relevant Minister.
- The performance monitoring function to be further streamlined by developing a standard audit scope to be used across the water, gas and electricity industries.
- Performance criteria for electricity licensees to be further developed in conjunction with industry and consumer groups.
- A licensing database to be developed to improve the efficiency and effectiveness of the licence monitoring function and to provide improved levels of information to internal management and external stakeholders.

What we achieved...

- Twenty operational audits and asset management system effectiveness reviews of local government waste water systems were completed by the Authority and a performance report summarising the audit findings was provided to the Minister for Water Resources.
- A standard audit scope document for the purposes of operational audits and asset management reviews across all regulated industries was developed for comment by key stakeholders and the public.
- Performance reporting manuals were developed for the electricity industry in association with the newly established electricity licensing regime.
- A new licensing and monitoring database was established for administering and monitoring of licensees.

More specifically, the following key achievements were accomplished in the area of monitoring:

- To improve the efficiency of regulatory procedures associated with operational audits and asset management reviews, the Authority developed a standard audit scope to apply across the water, electricity and gas industries. This has been strongly supported by industry and is unique in Australia's regulated utility businesses.
- The Authority developed a draft electricity compliance reporting manual for licensees within the electricity industry. The manual identifies all of the compliance requirements that apply to the different types of electricity licences. The manual is based on an exception reporting framework which requires reporting according to the severity of a compliance breach or non-compliance with elements of the relevant legislative instruments. It also provides for regular compliance reporting on, at least, an annual basis.

- A draft set of audit guidelines for conducting performance audits and asset management system effectiveness reviews was released for public comment. The audit guidelines describe minimum requirements for selecting auditors and for scoping, conducting and reporting audits to ensure they are done in a consistent, rigorous and independent manner.
- A water performance information report covering the 2000-05 reporting period was published. The report details and compares water delivery and performance data provided by water service licensees as required under their licence terms and conditions.
- A database recording licensee details, licence compliance information and licensee performance information was established. The ability to electronically manage the monitoring, compliance and customer protection matters associated with the terms and conditions of licences is essential to the efficient regulation of the water, electricity and gas industries.

Customer Protection Functions

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.

Key deliverables and achievements

What we set out to do...

In its 2004-05 Annual Report, the Authority committed to completing the following work:

- Expansion of the existing Gas Industry Ombudsman Scheme to include complaints against electricity service providers. The new scheme will be known as the Energy Ombudsman Scheme.
- Continue to review customer charters.
- Undertake a review of the Code of Conduct for the Supply of Electricity to Small Use Customers.
- Ensure operational audits focus on reviewing industry compliance with customer charters and codes.
- Review standard form contracts in conjunction with electricity and gas retail licence applications.

What we achieved...

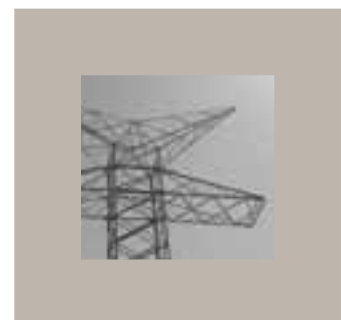
- The Authority approved the implementation of the new Energy Ombudsman Scheme on 22 September 2005.
- Eight customer charters were received and approved.
- The Authority progressed the establishment of the Electricity Code Consultative Committee with the review of the Code to be undertaken in 2006-07.
- Operational audits completed during the year revealed high levels of compliance with customer charters and codes.
- Standard form contracts for three electricity retail and integrated regional licensees were approved following consultation with industry and consumer groups.



Customer Protection Functions cont.

More specifically, the following key achievements were accomplished in the area of customer protection:

- The Authority approved standard form contracts for three electricity retail and integrated regional licensees in the operating areas of the South West Interconnected System and regional Western Australia. The standard form contracts were developed in consultation with industry and consumer representative groups.
- Two customer charters for providing water services were received and subsequently approved by the Authority. Given that no standard form contracts or regulated code of conduct apply to the water industry, the approval of customer charters is an important regulatory role performed by the Authority to ensure water service standards for customers are set and complied with.
- Twenty operational audits were received and reviewed during the year.
- The Authority developed draft public consultation guidelines for electricity, gas and water licences, standard form contracts and customer service charters.
- The Authority contributed to the development of a variety of codes relating to customer service standards in the electricity industry.
- The Authority approved the amendments to the Gas Industry Ombudsman Scheme to provide for the Energy Ombudsman Scheme to be established within Western Australia. This scheme has jurisdiction over both gas and electricity licensees and provides an important means of complaint investigation and resolution should a dispute arise between a customer and an industry service provider.
- A Memorandum of Understanding was signed between the Energy Ombudsman and the Authority in September 2005 to share statistical information to help identify systemic or emerging industry issues and to monitor the relevance of legislative codes that govern industry.



References and Research Division

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.

Key deliverables and achievements

What we set out to do...

In its 2004-05 Annual Report, the Authority committed to the following work:

- To deliver the Final Report on the Urban Water and Wastewater Pricing Inquiry to Government on 30 September 2005.
- To deliver the Final Report on the Cost of Supplying Bulk Potable Water to Kalgoorlie-Boulder to Government on 16 September 2005.

What we achieved...

- The Final Report on the Urban Water and Wastewater Pricing Inquiry was delivered to the Treasurer on 4 November 2005.
- The Final Report on the Inquiry into the Cost of Supplying Bulk Potable Water to Kalgoorlie-Boulder was delivered to the Treasurer on 14 October 2005.

More specifically, the following key achievements were accomplished in the area of references and research:

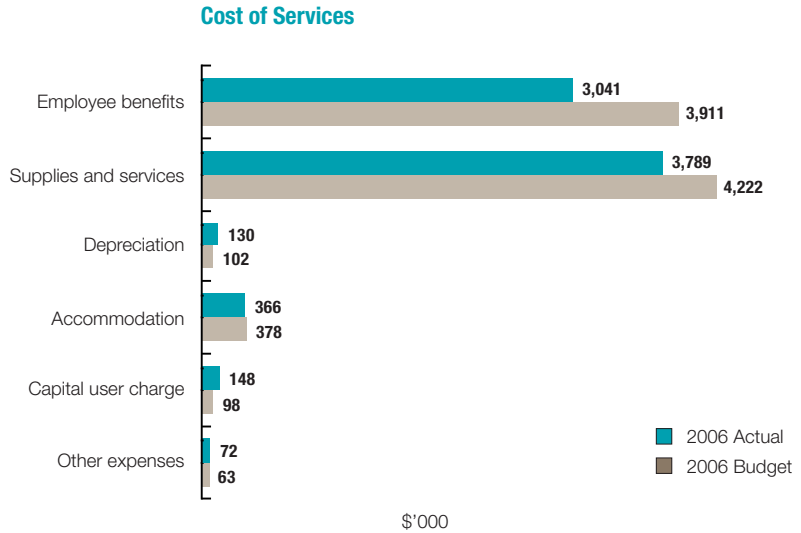
- On 15 June 2004, the Treasurer directed the Authority to undertake an inquiry into urban water and wastewater pricing. The Final Report on the Inquiry was delivered to the Treasurer on 4 November 2005 and subsequently published on 30 November 2005. It presented the Authority's recommendations on the pricing structures and tariff levels of the Water Corporation's urban water and wastewater services and the Bunbury and Busselton Water Boards' water services.

- On 13 January 2005, the Treasurer directed the Authority to inquire into the cost of supplying bulk potable water to Kalgoorlie-Boulder. The Inquiry's Final Report was delivered to the Treasurer on 14 October 2005 and subsequently tabled in Parliament on 9 November 2005. The Final Report compares the cost of transporting water from Perth to Kalgoorlie-Boulder to the cost of the proposal by United Utilities Australia to transport desalinated seawater by pipeline from Esperance to Kalgoorlie-Boulder.
- In October 2005, the Authority was directed by the Treasurer to undertake an inquiry into country water and wastewater pricing. On 31 January 2006, the Authority published a Draft Report on its Inquiry and the Final Report was delivered to Government on 23 June 2006.



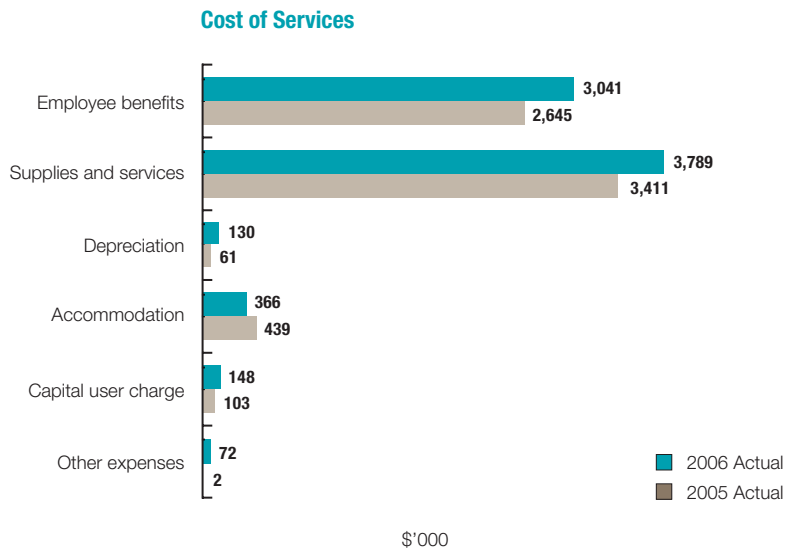
Financial Outcomes

The Authority's total cost of services for the financial year amounted to \$7.546 million as compared with a budget of \$8.774 million. The difference of \$1.228 million is mainly attributable to lower than anticipated employee expenditure and lower expenditure on services and supplies. The chart (right) compares the total cost of services by type of expenditure with that budgeted for the financial year.



Costs for the year were lower than anticipated partly due to delays in appointing new staff and on account of some activities relating to the approval of Western Power's access arrangement not being able to be finalised.

By comparison with the 2004-05 financial year, total cost of services increased by \$885,000 reflecting increased levels of activity mainly relating to the introduction of independent regulation in the electricity area including the licensing of electricity industry participants. A detailed comparison of the cost of services with the 2004-05 financial year is given in the chart (right).



Income from sources other than Government declined by \$413,000 as compared with that originally estimated. By comparison with 2004-05, this reduction was even more significant at \$737,000. The reduction in income reflects lower levels of activity in areas where the Authority recovers its costs from industry.

In contrast, as a result of overall increases in activity, the amount of income received from the Government increased by an amount of \$2.365 million. The increased levels of activity are mainly attributable to those related to the regulation of the electricity industry including licensing.

Survey of Stakeholders

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

While legislation limits the Authority's requirement to prepare key performance indicators to its management functions, this reporting year the Authority has decided to undertake a customer satisfaction survey to measure its effectiveness and efficiency in performing its functions as a whole and achieving its stated objectives. This is in accordance with the Authority's commitment to good corporate governance, accountability and transparency.

The Authority engaged an independent consultant to assess stakeholders' satisfaction with the Authority's performance.

The Authority provided the consultants with a list of 91 potential survey respondents. Attempts were made to contact all potential respondents by telephone and 76 stakeholders completed questionnaires. This gave a response rate of approximately 83.5 per cent, sufficient to give the overall results within a sampling error of plus or minus 5 per cent at the 95 per cent confidence level.

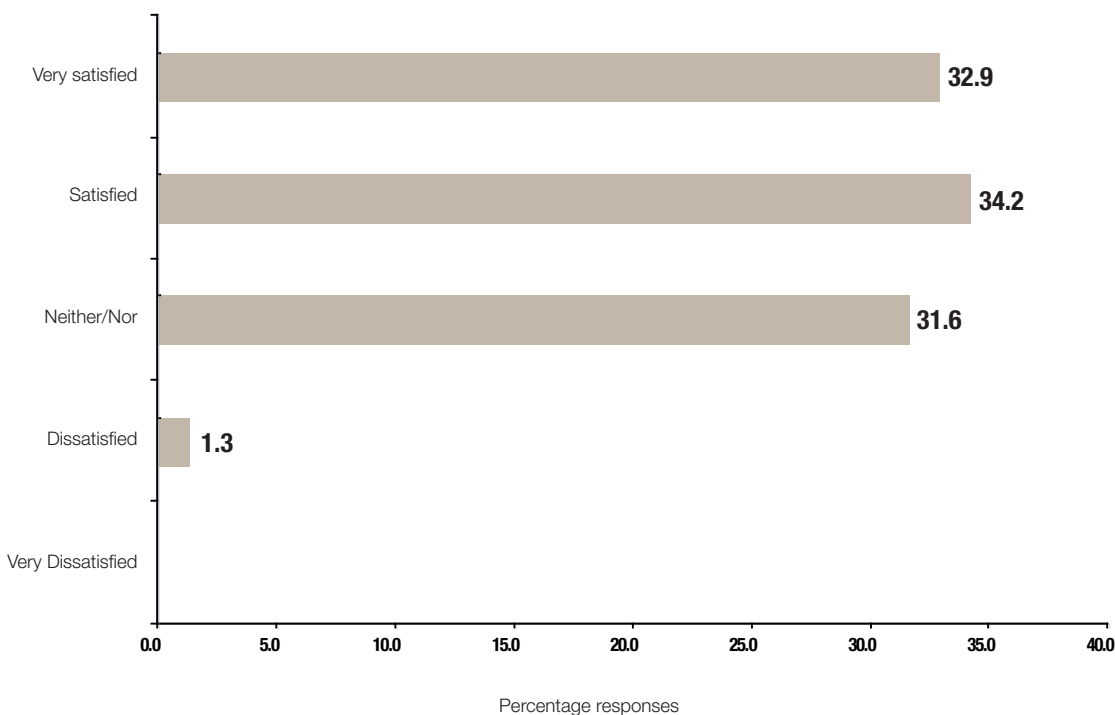
Government departments or agencies represented 28.9 per cent of respondents, licensees made up 23.7 per cent, infrastructure owners represented 19.7 per cent, non-government organisations accounted for 6.6 per cent and infrastructure owners/users/licensees represented 5.3 per cent of respondents.

The Authority will utilise the outcomes of this survey to streamline its processes, improve its effectiveness and efficiency in performing its functions and ensure that the services it provides meet its stakeholders' needs and expectations.

Survey Results

Chart 1 – Overall Satisfaction with ERA

Overall scores showed a high level of satisfaction. 67.1 per cent of respondents were "at least satisfied" with the Authority's performance. A further 31.6 per cent were neither satisfied nor dissatisfied and only 1.3 per cent of respondents said they were dissatisfied.

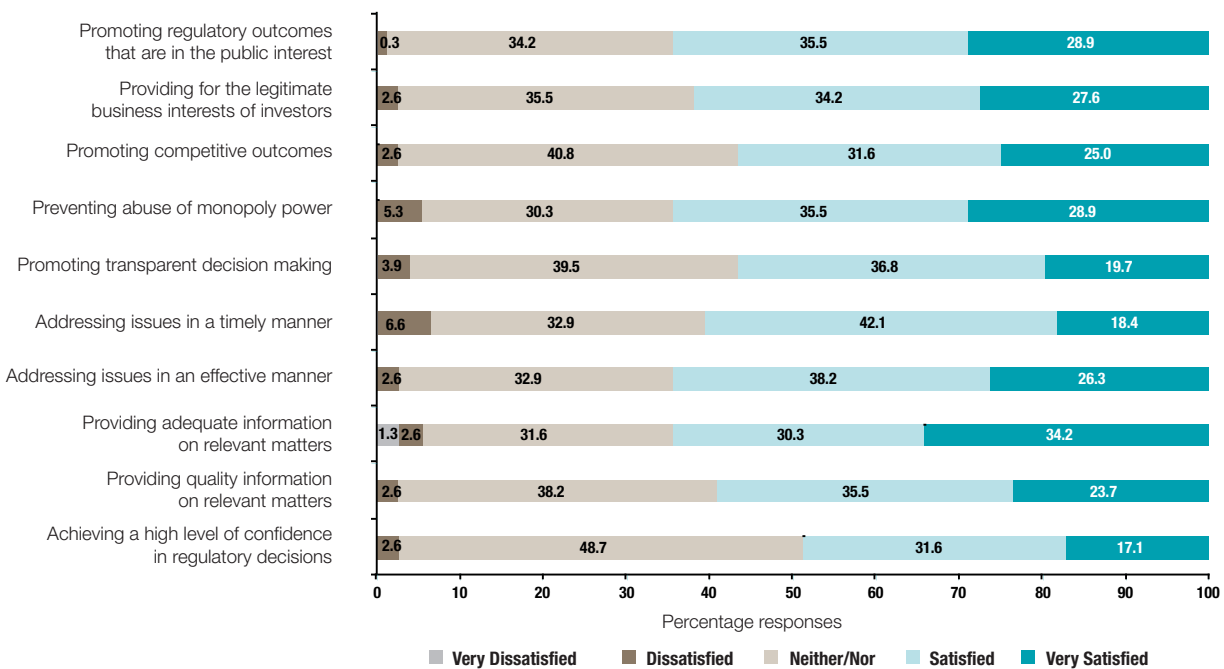


Survey of Stakeholders cont.

Chart 2 - Satisfaction with Authority Goals

The highest levels of 'at least satisfied' scores were obtained for promoting regulatory outcomes that are in the public interest, preventing abuse of monopoly power, addressing issues in an effective manner and providing adequate information on relevant matters. All of these goal areas achieved 'at least satisfied' scores of 64.4 per cent.

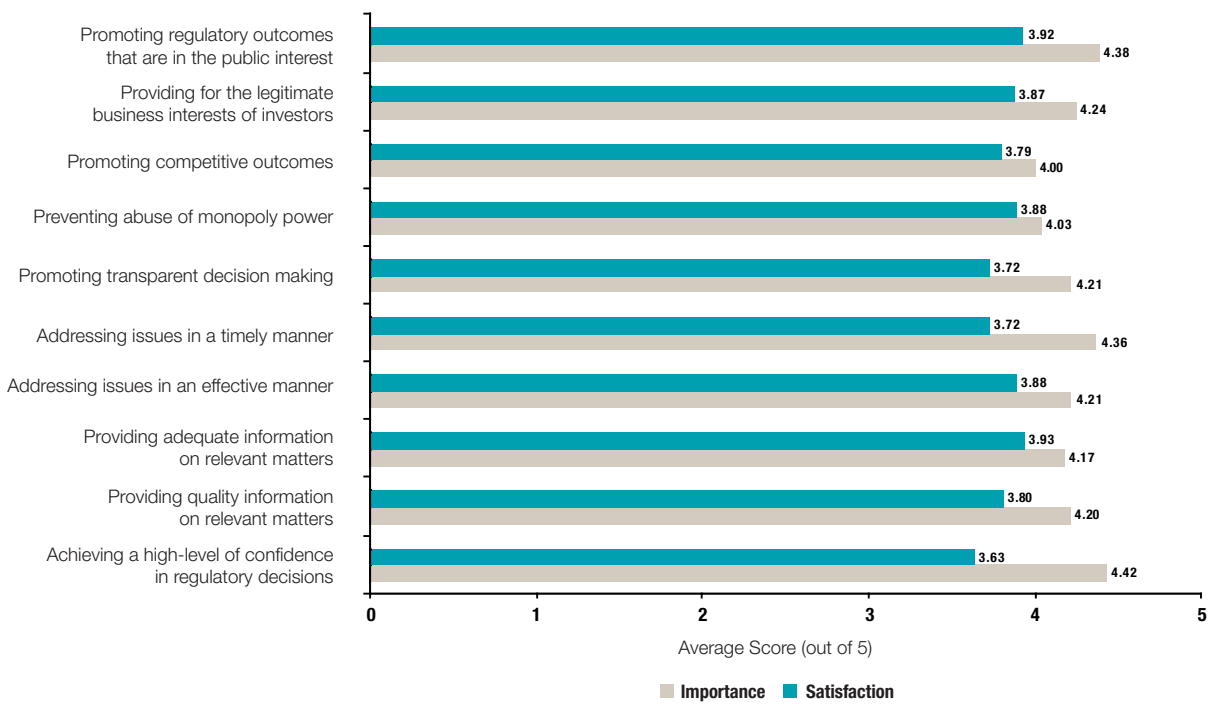
The lowest 'at least satisfied' score was obtained for 'achieving a high level of confidence in regulatory decisions' (48.7 per cent). It should be noted that, while this score is lower than for the other Authority goals, it still reflected a high level of satisfaction with only 2.6 per cent of respondents advising that they were dissatisfied.



Survey of Stakeholders cont.

Chart 3 – Comparing Authority Goals with Perceived Importance of the Areas

Respondents were asked how important each of the Authority goals were to them. This chart shows a comparison of overall mean scores for satisfaction and importance across all goal areas. This shows the gap between importance and satisfaction for each issue. The chart suggests a need for increased satisfaction levels to meet stakeholder expectations. However, it should be noted that satisfaction levels are already quite high across all areas.



Report on Corporate Activities

Corporate Support

A small team provides high-level strategic and operational support to the Governing Body. The role of the corporate team includes preparation of the Authority's Annual Report, Corporate and Business Plans, and Work Programs.

Other major corporate services, including human resource and accounting services, are managed by the Finance and Administration Division.

While most of the corporate support is internally sourced, some of the work related to human resources and accounting services is outsourced through a service-level agreement with the Western Australian Department of Treasury and Finance. Information services are also contracted out.

Compliance

The Authority contributes to the achievement of the Government's strategic goals in Better Planning: Better Services as follows.

Goal 1: People and the Communities

"To enhance the quality of life and wellbeing of all people throughout Western Australia."

Disability Access and Inclusion Plan

As stated in its 2004-05 Annual Report, the Authority intended to develop and implement its Disability Service Plan during the 2005-06 financial year. The Authority was aware that the *Disability Services Act 1993* was amended in December 2004 and this required it to develop and implement a Disability Access and Inclusion Plan. The Authority produced a draft plan and sent it to the Disability Services Commission by 21 July 2006, as required under the Act.

Cultural Diversity and Language Services Outcomes

In line with the Government's Language Services Policy, the Authority has developed a Language Services Policy to ensure that language difficulties do not create a barrier to accessing its services.

The policy outlines how the Authority recognises that some clients and/or stakeholders may not speak English at all or may not speak it well enough to communicate adequately with Authority staff members.

During the 2006-07 financial year, work will focus on implementing this policy through a series of initiatives such as:

- acknowledging clients' entitlement to the services of a qualified interpreter, where necessary, provided at the expense of the Authority, or to linguistically appropriate information in situations of communication difficulty;
- collecting data necessary to guide the development of the Authority's language services strategy;
- investigating, where necessary, a variety of ways to communicate with clients that require assistance in English (such as visual and electronic media);
- recognising and providing for the cultural diversity that exists in the community when undertaking public consultation;
- ensuring that, where necessary, documents are translated into languages appropriate to the client and stakeholder groups; and
- consulting, where appropriate, with client groups when planning communication strategies.

Youth Outcomes

The Authority understands that it is required to report against outcomes of programs and policies specifically targeting young people aged 12 to 25 years.

Due to the nature of its activities and client base, the Authority will give further consideration to developing such programs during 2006-07.

Goal 2: The Economy

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

As the economy is the main Government goal towards which the Authority contributes, discussion of this goal and the Authority's contribution is dealt with in some detail under the Report on Operations.

Compliance cont.

Goal 3: The Environment

“To ensure that Western Australia has an environment in which resources are managed, developed and used sustainably, biological diversity is preserved and habitats protected.”

Waste Paper Recycling

Recycling bins are available throughout the Authority’s premises. Approximately 3,000 kilograms of paper were collected for recycling during the reporting year.

Energy Smart Government Policy

The Authority understands that the Energy Smart Government Policy applies to agencies with 25 or more full time equivalent (FTE) employees.

The number of staff employed by the Authority during the reporting year varied, but was generally below 25 FTEs.

Due to the timing of approval of the new organisational structure by the Public Sector Management Division of the Department of the Premier and Cabinet, the Authority was unable to recruit the necessary staff to implement its new structure until April 2006.

As a result of this recruitment process, the Authority employed more than 25 FTEs at the end of the period under review. It planned to determine its energy-usage baseline in the 2006-07 financial year and implement measures to ensure compliance with the requirements of the Energy Smart Government Policy.

Goal 4: The Regions

“To ensure that regional Western Australia is strong and vibrant.”

Regional Development Policy

The Government’s Regional Development Policy recognises that the economic, social and environmental development of regional Western Australia largely depends on the ability to provide equitable access to quality services and infrastructure and that pricing is one of the key determinants of access to goods and services.

The Authority is responsible for contributing to the achievement of Outcome 8 of the Regional Development Policy, which seeks to attain fair pricing for regional residents and businesses. The Authority is to do so by ensuring that its recommendations fully consider the needs of regional residents and businesses.

Also in June 2006, the Authority provided a progress report to the Department of Local Government and Regional Development on its contribution to Outcome 8 of the Regional Development Policy as well as appointing a Regional Development Policy Officer.



Goal 5: Governance

“To govern for all Western Australians in an open, effective and efficient manner that also ensures a sustainable future.”

Continued Improvement

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

The Authority’s recent organisational restructure was a major achievement in its commitment to continually improving its performance, as it will enable the Authority to streamline processes, address potential overlap between divisional functions and improve the distribution of workloads.

Expected benefits from the organisational restructure are better administrative synergies and encouraging cross-fertilisation of regulatory approaches.

Further, during the reporting year the Authority reviewed its Delegations Manual with a view to maximising operational efficiency. The Authority may delegate to a member of the Governing Body or a staff member any power or duty of the Authority under the *Economic Regulation Authority Act 2003* or under any other written law.

Compliance cont.

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 allocations of

costs between these pipeline operators are set out in Schedule 1 of the Regulations.

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

The total amounts of Standing Charges and Service Charges paid by pipeline operators in the year ending 30 June 2006 are indicated in the table below.

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



Compliance cont.

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

- 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 2005-06 amounted to \$100.

Charges paid by pipeline operators for the year ended 30 June 2006

Service Provider	Standing Charges (\$)	Service Charges (\$)
AlintaGas Networks Pty Ltd	143,129	110,048
Goldfields Gas Transmission	126,424	55,411
BHP Petroleum (Ashmore Operations) Pty Ltd	20,193	0
Southern Cross Pipelines Pty Ltd	16,828	2,497
DBNGP (WA) Transmission Pty Ltd	305,350	443,259
Total	611,924	611,215



Information Statement

The *Freedom of Information Act 1992* does not apply to the Authority's regulatory function relating to gas pipeline access. In other respects the Act does apply.

The Authority's Information Statement is available on request in either hard copy form at reception or on the home page of the Authority's website: www.era.wa.gov.au. During the year under review the Authority processed one freedom of information request made by Gadens Lawyers.

Recordkeeping Plans

During the 2005-06 financial year, there was significant progress towards establishing an efficient and effective Records Management System. The existing system was a combination of predecessor agency procedures and systems and had slowly been customised by the Authority through the development of a Policy and Procedure Manual, a Business Classification Scheme and other supporting documentation.

In late 2005, there was progress towards purchasing an appropriate document management software package to help manage records. However, the Authority was not able to finalise a purchase owing to a decision to implement a Common Use Arrangement (CUA). It is proposed that an appropriate document management system be acquired once the CUA is implemented.

During the year, the Authority evaluated the efficiency and effectiveness of its recordkeeping system. This evaluation led to a decision to seek assistance with developing a comprehensive records management program. A consultant was engaged, and significant progress made.

Progress was also made toward the purchase of a suitable Electronic Information Management System (EIMS) software package. Further work will be done in the coming financial year.

Records management training has been provided during the year to those staff directly involved in managing the Authority's records. It is intended that all staff will receive comprehensive training during the implementation of the EIMS.

The Authority's induction program addresses the role and responsibility of staff to comply with the Authority's recordkeeping plan. The Authority intends to complete the implementation of an EIMS in the coming financial year. This will then provide a more efficient and effective means of managing the Authority's records.

Compliance cont.

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 2005 to 30 June 2006 was \$123,831.99.

Expenditure was incurred in the following areas:

Advertising Agencies	123,831.99
Market Research Organisations	Nil
Polling Organisations	Nil
Direct Mail Organisations	Nil
Media Advertising Organisations	Nil
Totals	123,831.99

Note: Amount shown includes GST.

Sustainability

During the 2005-06 financial year, the Authority developed its Sustainability Action Plan in accordance with the Sustainability Code of Practice for Government Agencies and Resource Guide for Implementation (Code).

In its Sustainability Action Plan, the Authority addressed the target and priority areas as laid out in the Code and detailed how these commitments could be implemented. During the 2006-07 financial period, the Authority will endeavour to review its Corporate Plan to ensure that it is better aligned to the sustainability principles contained in Better Planning: Better Services – A Strategic Planning Framework for the Western Australian Public Sector. In addition, the Authority will review its Consultation Guidelines to facilitate meaningful and effective public engagement in decision-making processes, where appropriate. Further, the issue of sustainability will inform appropriate decision-making processes, through the Sustainability Assessment Framework currently being developed by the Department of the Premier and Cabinet.

Other such measures to be implemented through the Sustainability Action Plan involve setting new targets for waste, energy and water reduction and efficiency in line with advice received from the Department of Housing and Works and the Sustainable Energy Development Office.

Equal Employment Opportunity Outcomes

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

The Authority is developing its Equal Employment Opportunity Management Plan, which is to be completed and approved during the 2006-07 financial year.

Compliance with Human Resource Management Standards

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

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

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

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

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

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

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

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

Compliance is assessed through:

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

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

Compliance cont.

Compliance with Codes of Ethics and Codes of Conduct

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

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

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

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

The Authority has procedures in place and has undertaken appropriate assessments to ensure compliance with the Code of Ethics and the Code of Conduct. Compliance is assessed through:

- external financial audits;
- specific examinations by external agencies;
- internal reviews;
- staff feedback through staff forums;
- staff feedback from exit interviews; and
- the analysis of, and action on, substantiated complaints on issues raised about non-compliance with ethical codes.

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

Corruption Prevention

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

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

The Code of Conduct outlines the measures taken by the Authority to prevent corruption and misconduct, including measures relating to employees' responsibilities with regard to:

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

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



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

In addition, a person who is or has been a Member of the Governing Body or a staff member of the Authority must comply with the obligations set out under section 57 of the *Economic Regulation Authority Act 2003* in relation to the treatment of confidential information obtained in the course of duty. A breach of such obligations may attract a penalty of \$10,000 or imprisonment for 12 months.

The Authority has put in place measures to ensure all confidential information is secure.

Public Interest Disclosures

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

During the reporting year, the following Public Interest Disclosure Officers were appointed:

- Ms Nerea Ugarte, Acting Executive Manager, until 19 June 2006; and
- Ms Meg Jones, Acting Executive Manager, from 19 June 2006.

Stakeholder and Public Communication

The Authority is committed to undertaking open and comprehensive stakeholder and public communication processes in relation to the regulatory matters with which it deals. This is critical in engendering confidence in regulatory processes and outcomes and in ensuring the success of those regulatory processes and outcomes.

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

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

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

Website

The Authority's website (www.era.wa.gov.au) is a key communication tool for the organisation.

During the reporting year, the Authority made significant progress in its redevelopment, with work anticipated to be completed during the 2006-07 financial year.

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

In developing the new website, the Authority will aim to ensure that the site is user-friendly and the information provided is easily accessible. This is expected to further improve transparency in the Authority's decision-making processes and facilitate access to information by interested parties.



Memoranda of Understanding

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

Energy Ombudsman

The Memorandum of Understanding (MOU) between the Authority and the Energy Ombudsman will assist the Authority to identify and deal with systemic complaints from residential and small business customers about their gas and electricity suppliers or other matters that may need to be addressed by way of licence, code or guideline amendment or by way of action under the *Economic Regulation Authority Act 2003*.

Directorate of Energy Safety

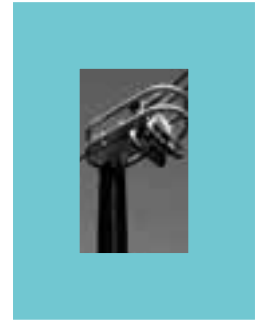
The MOU between the Authority and the Directorate of Energy Safety was signed on 23 May 2006. The MOU is designed to cover the regulation of the electricity and gas industries by the Director of Energy Safety of the Energy Safety Division, Department of Consumer and Employment Protection and the Economic Regulation Authority. The Economic Regulation Authority and the Director of Energy Safety recognise that mutual cooperation between them will contribute significantly to the ability of the agencies to effectively and efficiently discharge their respective functions and to ensure that their respective regulatory efforts are as harmonised as is reasonably possible.

Office of Water Policy

The Authority had signed a MOU with the Office of Water Policy. However, this Office was absorbed into the newly established Department of Water from 1 January 2006. Negotiation of a Memorandum of Understanding with the Department of Water was nearing completion.

Boards and Committees

During the 2005-06 financial year, the Authority was responsible for several committees and was also involved in a number of independent constituted committees. A brief overview of these committees and the Authority's role on each is given 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, water and rail industries.

The purpose of the ERACCC is to provide:

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

The ERACCC comprises an Authority Member, Mr Chris Field (Chair) and the following members from community, consumer and stakeholder groups:

- Ms Cara Babb/Ms Shona Zulsdorf - Chamber of Minerals and Energy of WA (Inc);
- Dr Ray Wills - Chamber of Commerce and Industry of WA;
- Mr Damian Stone (replaced Joe Lenzo March 2006) - Property Council of Australia;

- Ms Yvonne Lawrence - Country Women's Association of WA (Inc);
- Mr Dale Park - WA Farmers Federation;
- Ms Bindi Thomson - Pastoralists & Graziers Association of WA (Inc);
- Ms Lisa Baker / Ms Kate Mills - WA Council of Social Service (Inc);
- Ms Genette Keating - Consumers Association of Western Australia;
- Ms Su Mahalingham - Consumer Credit Legal Service (WA) Inc; and
- Vacant (previous representative Lisa Scaffidi) - Western Australian Local Government Association.

In addition, the ERACCC has two observers:

- Ms Deirdre O'Donnell - State Ombudsman; and
- Mr Gary Newcombe - Department of Consumer and Employment Protection.

The ERACCC met four times during the year. Highlights for the period included:

- a presentation from the Department of the Premier and Cabinet on the potential establishment of a Water Ombudsman in WA; and
- discussion with Authority staff regarding topics such as issues facing the electricity industry, urban and country water and wastewater pricing, and strategic directions in licensing, monitoring and customer protection.

Gas Marketing Code Consultative Committee

The Gas Marketing Code Consultative Committee was established to:

- advise the Authority on matters relating to the *Gas Marketing Code of Conduct 2004*;
- undertake reviews of the Code of Conduct; and
- provide advice to the Authority on proposed amendment or replacement of the Code of Conduct.

The Gas Marketing Code of Conduct 2004 specifies what gas suppliers and gas marketing agents can and cannot do when they market gas to residential and small business customers. All gas companies that market gas to these customers in Western Australia are required to comply with the code.

The Authority chairs the Committee, which includes representatives from the Department of Consumer and Employment Protection, the Chamber of Commerce and Industry of Western Australia, the Western Australian Council of Social Services and each retailer that holds a gas trading licence.

Committees Observed

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

Technical Rules Committee

Under the *Electricity Networks Access Code 2004*, Western Power is required to submit to the Authority a set of proposed Technical Rules for its network in the South West Interconnected System (SWIS) when it submits its proposed access arrangement. Technical Rules consist of the standards, procedures and planning criteria governing the construction and operation of an electricity network.

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

A Technical Rules Committee was established by the Authority to provide specialist knowledge and advice to help assess the Technical Rules proposed by Western Power for its network in the SWIS.

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

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

The Authority has appointed a representative to observe the operation of the Technical Rules Committee. However, the Authority's representative is not able to participate in any decision making process of the Technical Rules Committee.

Electricity Code of Conduct Consultative Committee

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

Transitional Market Advisory Committee/ Market Readiness Committee

The Transitional Market Advisory Committee (TMAC) was an informal forerunner of the Market Advisory Committee, which was to be established on 1 July 2006 under section 2.3 of the Wholesale Electricity Market Rules, made under the *Electricity Industry (Wholesale Electricity Market) Regulations 2004*. The Authority by virtue of its Wholesale Electricity Market role, was invited as an observer on this Committee.

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

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

TMAC was also responsible for advising the IMO and Western Power's System Management on procedure change proposals.

In August 2005, TMAC was discontinued and replaced by the Market Readiness

Committee which was established to work on the next phase in the implementation of the Wholesale Electricity Market. The Market Readiness Committee has the following functions:

- managing and overseeing the development of market procedures;
- reviewing various documents necessary for the effective implementation of IMO market systems;
- providing data and setting up tests for market trials;
- designing the market trials and assisting with their execution; and
- assisting market participants during the testing phases of the project.

Retail Energy Market Company (REMCo) Rule Change Committee

REMCo is the Retail Market Administrator for the contestable gas retail markets of Western Australia and South Australia and is governed by a Board of Directors. The Authority as administrator of the retail market scheme was invited on this Committee as an observer.

The Rule Change Committee is operated by REMCo to help it further develop the Retail Market Rules governing the operation of the retail gas markets. The Authority is responsible for approving proposed changes to the market rules and was invited to attend as an observer on the Rule Change Committee.

As part of this role, the Authority is an observer on the Balancing, Load, Allocation and Settlement Team which has broad membership across gas market participants, pipeline operators, and prescribed persons in both Western Australia and South Australia. It deals with the technical issues related to balancing, load allocation and settlement and, where necessary, develops rule changes for the Rule Change Committee to consider.

Publications

The following publications were issued in 2005-06 and may be found on the Authority's website:

1 July 2005

Draft Report on the Review of the *Railways (Access) Code 2000*

5 July 2005

Determination on the WACC for the Public Transport Authority and WestNet Rail

12 July 2005

Final Decision on the Proposed Revised Access Arrangement for the Mid-West and South-West Distribution Systems

14 July 2005

Further Final Decision and Final Approval of the Revised Proposed Access Arrangement for the Goldfields Gas Pipeline

29 July 2005

Submission to the Senate Economics Legislation Committee Inquiry into National Access Regime Amendments

10 August 2005

Further Final Decision and Final Approval of the Revised Proposed Access Arrangement for the Mid-West and South-West Distribution Systems

11 August 2005

Decision to Not Approve Communication Rules Submitted by Western Power under the *Electricity Industry Customer Transfer Code 2004*

12 August 2005

Decision on Integrated Regional Licence Application for EDL NGD (WA) Pty Ltd

16 September 2005

Utility Regulators Forum Submission to the Ministerial Council on Energy Review of the National Gas Pipelines Access Regime Consultation Paper

28 September 2005

Economic Regulation Authority's Work Program 2005-06

5 October 2005

Decision on Licence Amendment for EDL NGD (WA) Pty Ltd

2 November 2005

Final Decision on the Proposed Access Arrangement for the Dampier to Bunbury Natural Gas Pipeline

9 November 2005

Final Report on the Inquiry on the Cost of Supplying Bulk Potable Water to Kalgoorlie-Boulder

10 November 2005

Economic Regulation Authority's Annual Report 2004-05

11 November 2005

Final Decision Including Corrigenda on the Proposed Access Arrangement for the Dampier to Bunbury Natural Gas Pipeline

30 November 2005

Final Report on the Inquiry on Urban Water and Wastewater Pricing

1 December 2005

Standard Electricity Licences, Application Guidelines and Application Form

5 December 2005

Final and Supplementary Reports on the Review of the *Railways (Access) Code 2000*

9 December 2005

Issues Paper for the Inquiry on Country Water and Wastewater Pricing in Western Australia

15 December 2005

Further Final Decision and Final Approval of the Revised Access Arrangement for the Dampier to Bunbury Natural Gas Pipeline

Publications Cont.

23 December 2005

Principles Paper for the Review of the Gas Marketing Code of Conduct 2004

23 January 2006

Economic Regulation Authority's Newsletter – Edition 1 of "e news"

31 January 2006

Draft Report on the Inquiry on Country Water and Wastewater Pricing in Western Australia

3 February 2006

Draft Public Consultation Guidelines for Electricity, Gas and Water Licences; Standard Form Contracts and Customer Service Charters

3 February 2006

Final Decision on Generation Licence Application for Walkaway Wind Power Pty Ltd

23 February 2006

Decision to Approve Proposed Communication Rules Pursuant to the *Electricity Industry Metering Code 2005*

9 March 2006

Decision on Generation Licence Application for Griffin Power Pty Ltd

20 March 2006

Decision on Generation Licence Application for Transfield Services Kemerton Pty Ltd

21 March 2006

Draft Decision on Western Power's Proposed Access Arrangement for the Regulated Electricity Network in the South West Interconnected System

24 March 2006

Decision on Generation and Transmission Licence Applications for Alinta Cogeneration (Wagerup) Pty Ltd

30 March 2006

Approval of Proposed Model Service Level Agreement under the *Electricity Industry Metering Code 2005*

5 April 2006

Draft Audit Guidelines: Electricity, Gas and Water Licences

5 April 2006

Audit Guidelines: Electricity, Gas and Water Licences – Audit Template for Smaller Organisations

10 April 2006

Decision on Generation and Transmission Licence Applications for Alinta Cogeneration (Pinjarra) Pty Ltd

11 April 2006

Draft Technical Rules for Western Power's Network in the South West Interconnected System

11 April 2006

Economic Regulation Authority's Newsletter – Edition 2 of "e news"

27 April 2006

Draft Decision on Section 8.21 Application for the Stage 5 Expansion of the Dampier to Bunbury Natural Gas Pipelines

10 May 2006

Decision on Electricity Standard Form Contracts for Alinta Sales Pty Ltd and Perth Energy Pty Ltd

10 May 2006

Draft Determination on WestNet Rail's Proposed Part 5 Instruments

19 May 2006

Decision on Retail Licence Application for Alinta Sales Pty Ltd

30 May 2006

Decision on Generation and Retail Licence Applications for Goldfields Power Pty Ltd

31 May 2006

Decision on Electricity Standard Form Contract Amendment Application by Synergy

8 June 2006

Decision on Electricity Standard Form Contract Amendment Application by Horizon Power

9 June 2006

Decision on Generation Licence Application for Perth Power Partnership



Statement of Compliance

Compliance with Public Sector Management Act 1994 section 31(1) for the 12 months from 1 July 2005 to 30 June 2006

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

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

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

K Peter Kolf - General Manager
26 September 2006

Looking into the Future

Operating Environment

After two years since its commencement, the principal Act under which the Authority operates, the *Economic Regulation Authority Act 2003*, is currently scheduled for review by a joint standing committee of both houses of Parliament. The Authority would welcome the opportunity to have input to a review of the Act with a view to achieving various administrative improvements.

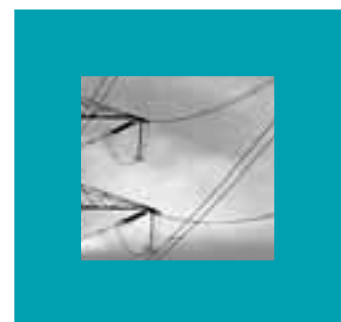
While the restructuring of the electricity industry in Western Australia is well progressed, which on 1 April 2006 culminated in the splitting of the then dominant Government owned electricity provider into Verve Energy (generation), Synergy (retail and trading), Western Power (networks) and Horizon Power (rural and remote), various elements of the new arrangements remain to be implemented. Of particular importance is the commencement of the new Wholesale Electricity Market, which is scheduled to start on the 21 September 2006. This will see the introduction of a range of new functions for the Authority and other bodies including the Independent Market Operator and the Energy Review Board.

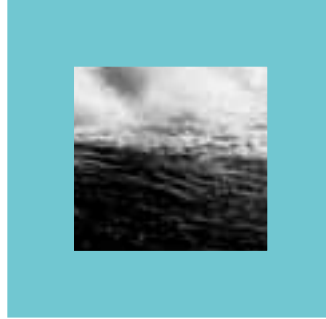
In implementing the new regulatory arrangements, a number of desired changes to the Western Australian electricity networks access code have been identified, which the Government seeks to implement prior to the Authority approving Western Power's access arrangement. This is likely to see a delay in the Authority finalising the access arrangement for Western Power until midway through the next financial year.

At the national level, several lengthy reviews have been undertaken including that of the national access regime as set out under Part IIIA of the *Trade Practices Act 1974*, the gas access regime and the regulation of nationally significant infrastructure. As a result, the Council of Australian Governments is progressing implementation of various changes to national legislation and codes some of which will directly impact on the functions of the Authority. In particular, the Ministerial Council on Energy is nearing completion of amendments to the national gas law, which is expected to see various changes to the national gas code and associated legislation.

One anticipated outcome of the national reviews is that there will be some harmonisation in the regulation of access to gas and electricity infrastructure at the national level. While the Authority will continue to regulate both areas in Western Australia, the Australian Energy Regulator will progressively have responsibility for the regulation of access in the areas of gas and electricity in other jurisdictions. A new national body known as the Australian Energy Market Commission has been created with responsibility for rule making and market development at the national level. As the Authority regulates access to gas pipelines in Western Australia under the national regime, it will interact with the Australian Energy Market Commission in relation to the regulation of gas pipelines.

At the Council of Australian Governments meeting of February 2006, consideration was given to a proposal for the development of a national rail access regime. In the first instance, it is anticipated that the national regime would apply to all interstate rail lines followed by rail lines of national significance. In the case of Western Australia, the interstate rail line between Forrestfield and Kalgoorlie would be likely to come under the national regime and, given the importance of the line between Kwinana and Bunbury, this could also come under the national regime. It is likely that coverage of lines under the national regime will be assessed on a cost benefit basis. Under the proposal, State based rail access regimes that apply to rail lines not covered by the national regime would need to be certified by 2010.





Operating Environment cont.

The possible development of new iron ore mines in the mid-west, east of Geraldton, in the next few years may 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.

In relation to the Pilbara, it is understood that the Western Australian rail access regime would apply to any new rail line built by the Fortescue Metals Group to transport iron ore from its mines in the Pilbara to Port Hedland. It is anticipated that such a rail line would offer open access to other mining companies for the transport of bulk commodities.

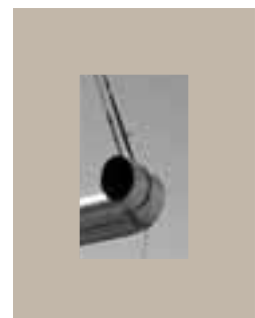
The two existing iron ore mining companies in the Pilbara, BHP-Billiton and Rio Tinto, have rail lines which are not covered under the Western Australian rail access regime. The Western Australian Government is assessing the prospect of having the BHP-Billiton and Rio Tinto rail lines covered under a third party haulage regime to enable other mining companies to utilise the existing rail facilities owned by these two companies.

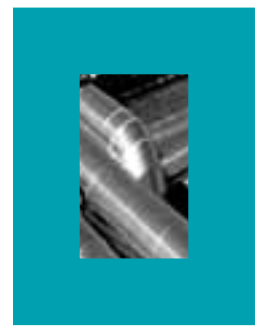
A proposed merger between the Retail Energy Market Company and the Gas Market Company Limited (operator of the gas retail market in New South Wales and the Australian Capital Territory) has been considered. However, this proposal has been put on hold while the Commonwealth's

Ministerial Council on Energy considers the Gas Market Leaders Group Gas Market Development Plan. This plan would involve the creation of a body to oversee gas retail market operations at a national level. If the gas market development plan proceeds, this is likely to have an impact on the Authority as it is the gas market rule administrator in Western Australia.

The Western Australia Government became a signatory to the National Water Agreement in April 2006. Clause 75 of the Agreement requires the signatories to report independently, publicly, and on an annual basis, benchmarking of pricing and service quality for metropolitan, non-metropolitan and rural water service providers. The Authority is a member of the National Roundtable, which is establishing the industry performance indicators in association with the National Water Commission, and will be responsible for the collection and auditing of data from Western Australian licensees.

Clause 77 of the Agreement also requires the State and Territory Governments to use an independent body to publicly review or set water prices. The Western Australian Government may choose to use the Authority to undertake such reviews as they have in recent years for both metropolitan and country water and wastewater charges.





Future Challenges

In progressing changes to existing regulatory regimes and extending the application of independent regulation to areas previously administered by Government, it will be important to retain and build on those aspects of existing regimes that have worked well. In particular, it will be important to avoid changes that are administratively more time consuming, costly and complex. In the interests of greater certainty, there is a need for regulatory arrangements to become more settled. With the costly judicial and merits reviews that have taken place over recent years and with the precedents that

have been established as a result of these reviews, significant changes to regimes risk increased uncertainty and the loss of the contributions made by courts and review bodies. Proposals for change also need to be mindful of the factual evidence in support of change and the adequacy of analysis purporting net benefits.

The Authority considers that sufficient discretion with clearly enunciated objectives needs to be available to the regulator to adequately address the specific circumstances of individual cases. While prescriptively codifying rules may provide greater certainty and improve timeliness, such benefits may be lost where there is insufficient flexibility to accommodate individual circumstances.

As mentioned previously, the reform process stemming from the Productivity Commission's review of the gas access regime has been progressed by the Ministerial Council on Energy during 2005-06 and the implementation of reforms will continue into the new financial year. The exposure draft of the proposed reforms to the national electricity and gas access regimes are expected to be available for comment early in 2006-07 and a revised national gas law is anticipated to be introduced early in 2007.

In addition to its continuing role and the need to further improve the regulatory services provided by the Authority, a significant challenge will be to review, understand and implement the reforms planned for the future.

After having successfully completed three major inquiries referred to the Authority by Government, the likelihood of further inquiries including in areas that will be new to the Authority will also be a challenge for the future.

In relation to administrative matters, the Authority is challenged by the proposed restructuring of support services which have in recent times been provided to the Authority by the Department of Treasury and Finance under a service level agreement. It is understood that these services will be transferred to the Office of Shared Services by the middle of 2006-07. The transfer of services will involve implementing new systems which on account of the Authority's complex funding and financial compliance arrangements are expected to involve a considerable amount of activity, possibly extending over a number of years.

Planned Achievements

A detailed work program has been issued by the Authority setting out its planned activities over the next year. The work program is accessible on the Authority's website at www.era.wa.gov.au. The following provides an overview of planned achievements flowing from both programmed work and those sought further into the future.

Gas and Rail Access Division

The anticipated implementation of reforms to the national gas and electricity regimes early in 2007 is expected to pose a significant communication task to help stakeholders understand the likely impacts on their respective interests. This will offer an opportunity to engage stakeholders and work towards preparing clear guidelines in crucial areas of the Authority's assessment processes.

If the infrastructure developments in the mid-west proceed and rail lines are made open access facilities involving the transport of iron ore from several mining companies, the Authority's activities under the Western Australian rail access regime could be significantly expanded.

The Authority may also be given a role in the regulation of third party haulage if such arrangements are introduced for the existing BHP-Billiton and Rio Tinto rail lines in the Pilbara.

The Authority is scheduled to undertake a review of its previous (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.

Industry Policy and Electricity Division

Following the commencement of the Wholesale Electricity Market, the Authority expects to work closely with the Independent Market Operator to understand the practical dynamics of the new market. To this end, the Authority is developing a Memorandum of Understanding with the Independent Market Operator in recognition for the need for mutual cooperation.

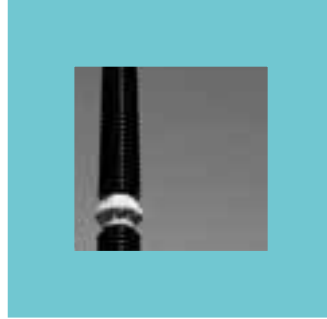
The Authority anticipates that the monitoring of the Wholesale Electricity Market will involve a significant workload. The primary challenge will be to quickly understand how participants in the market behave, as the structure of the Western Australian market differs significantly from that of the national electricity market which operates in all other Australian jurisdictions.

Particular planned achievements in respect of the Wholesale Electricity Market include the following:

- In monitoring the effectiveness of the electricity market, the Authority aims to develop arrangements to permit early understanding of market behaviour and assess the effectiveness of the market.
- With responsibility for assessing the effectiveness of both market rules and procedure change processes, the Authority is developing methods for undertaking such assessments.
- Similarly, processes will need to be developed for assessing the effectiveness of the Independent Market Operator and Western Power's System Management in carrying out their functions under the *Electricity Industry (Wholesale Electricity Market) Regulations 2004* and the Wholesale Electricity Market rules and market procedures.
- Other planned achievements include the development of processes for the approval of the Independent Market Operator's and System Management's allowable revenue and the assessment of values for the maximum reserve capacity price or one or more energy price limits applicable under the electricity wholesale market.

The Authority anticipates finalising the approval of the Western Power's proposed access arrangement and technical rules around mid-way through the next financial year. This approval will mark the commencement of monitoring processes under the electricity access code and the development of processes for assessing proposed major augmentations to the network.

The Authority will also conclude its 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.



Planned Achievements cont.

Licensing, Monitoring and Customer Protection Division

Following the Western Australia Government's signing of the National Water Agreement this year, the performance of the water industry in Western Australia will in the future be benchmarked against other water service providers in Australia. This will include the Water Corporation for towns having more than 10,000 connections, the City of Kalgoorlie for wastewater services, and Aqwest and Busselton for water services. The Authority will have responsibility for receiving the data and ensuring the data is audited. A National Report comparing performance by water service providers around Australia will be produced annually by the National Water Commission.

There are currently well in excess of 60 licensees in the Western Australian water, electricity and gas industries that are licensed by the Authority ranging from small local government wastewater service providers to large state-owned electricity corporations. In the interests of best practice regulation, the Authority is keen to establish and support opportunities for regulatory managers within licensed entities to come together, share information, hear from key experts and participate in activities to foster improvements in compliance and efficiency. To this end, the Authority plans to host a series of forums for regulatory managers in 2007.

The Economic Regulation Authority Consumer Consultative Committee is keen to work with the Energy Ombudsman and the Department of Consumer and Employment Protection in 2007 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. It is hoped that this event will

attract high profile industry leaders and professionals from other jurisdictions able to share their practical ideas and experience in areas such as internal dispute resolution mechanisms, consumer consultation and product innovation.

With the introduction of electricity licensing, the Authority has developed a more efficient format for licences. An important achievement for the future will be to extend the more efficient licensing format to other licences including gas and water. Ultimately, it is proposed that the Authority will establish a single application form and set of guidelines for all three utility industries subject to licensing. Whilst there may still be a need to have some separation between the respective industries of gas, water and electricity, the development of consolidated guidelines will be of great assistance to prospective applicants.

In the development of these consolidated guidelines, a review of customer charters is also proposed. Whilst standard form contracts are required to be approved for gas and electricity, there is currently no standard form contract for the water industry. There is, however, a requirement for the Authority to approve customer charters in the water industry via a licence requirement, and there is also a statutory requirement for gas and electricity licensees to have a customer charter.

It is anticipated that in 2006-07, the Authority will receive approximately 10 new licence applications from across the three utility areas of gas, water and electricity; notwithstanding that existing operators within the electricity industry will be licensed by 1 July 2006.

The *Code of Conduct for the Supply of Electricity to Small Use Customers* will have been in operation for 18 months by the end of the 2006-07 financial year. Under the legislation, the Authority is required to establish a consultative committee to undertake a review of this code, which is scheduled to be achieved within this timeframe.

Given the increased complexity and variability between the legislative frameworks for the licensing of gas, water and electricity, there is a need for a manual on internal control procedures to deal with licensing, monitoring and customer protection matters. The development of this manual will begin in the 2006-07 financial year.

A review of overall performance reporting of licensees is also planned in order to streamline the reporting process for licensees and to make the collection and analysis of data by the Authority more efficient.

Planned Achievements cont.

References and Research Division

The References and Research Division of the Authority has carriage of a range of responsibilities from providing technical assistance across the various divisions of the Authority to undertaking inquiries referred by Government. Among these is a responsibility to undertake any necessary research that will assist other divisions in meeting their planned achievements and providing support to the Authority in its desire to further the national debate in economic regulation.

It is understood that the Government is developing a work program of inquiries for the Authority. Inquiries are anticipated to become an increasing share of the Authority's workload over the coming years. One of the Authority's planned achievements is to develop and retain a capacity to effectively undertake inquiries in a diverse range of areas.

Finance and Administration

Having achieved a great deal since the Authority was established on 1 January 2004, the Finance and Administration Division aims to further expand the delivery of quality administrative services and strive for greater efficiency in the delivery of such services.

In particular, planned achievements include:

- ensuring the Authority's compliance with relevant legislative requirements through training and audit processes, including in the areas of finance and human resources management;
- improving records management including through the selection and implementation of an appropriate electronic document management system;
- keeping abreast of administrative policies and procedures by reviewing and updating the Authority's policies in relation to: members' and employees' conduct, information technology, human resource management, equal employment opportunity, accounting and finance, risk management and audit, confidentiality, consultation and communications, sustainability, freedom of information and procurement;
- enhancing the quality of management reports by further developing systems and reports and providing training, where necessary, in the use of electronic management reporting systems;
- achieving higher standards including through the implementation of a performance management system;
- improving internal communications through the development of an intranet and staff newsletter; and
- achieving better outcomes through improvements in human resources management.

Independent Audit Opinion

ECONOMIC REGULATION AUTHORITY
FINANCIAL STATEMENTS AND PERFORMANCE INDICATORS
FOR THE YEAR ENDED 30 JUNE 2006

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 2006 and its financial performance and cash flows for the year ended on that date. They are in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia and the Treasurer's Instructions;
- (ii) the controls exercised by the Authority provide reasonable assurance that the receipt and expenditure of moneys, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions; and
- (iii) the key effectiveness and efficiency 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 2006.

Scope

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

The financial statements consist of the Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement, and the Notes to the Financial Statements.

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

Summary of My Role

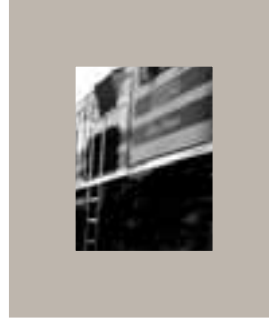
As required by the Act, I have independently audited the accounts, financial statements and performance indicators to express an opinion on the financial statements, controls and performance indicators. This was done by testing selected samples of the evidence. Further information on my audit approach 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 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 performance indicators.



D D R PEARSON
AUDITOR GENERAL
22 September 2006

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



Performance Indicators

Statement of Certification

We hereby certify that the performance indicators are based on proper records, are relevant and appropriate for assisting users to assess the Economic Regulation Authority's performance, and fairly represent the performance of the Economic Regulation Authority for the financial year ended 30 June 2006.

Mr Lyndon Rowe - Chairman
20 September 2006

Mr Chris Field - Member
20 September 2006

Mr Steve Edwell - Member
20 September 2006

ACCOUNTABLE AUTHORITY
ECONOMIC REGULATION AUTHORITY

Performance Indicators for 2005-06

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 58 of the Financial Administration and Audit Act 1985) that the Authority prepare performance indicators is to be limited to the Authority's management functions (including financial management), and is not to apply to the performance of any other function of the Authority."

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

Performance Indicators for 2005-06 cont.

2005-06 Performance

Submissions

The Authority's Governing Body met 61 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.

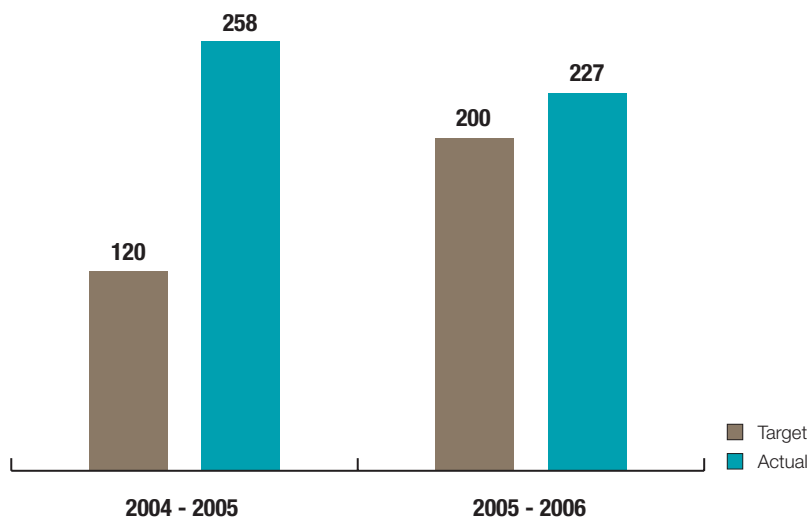
With the finalisation of the assessment of three outstanding gas access arrangements for AlintaGas Networks Pty Ltd, Goldfields Gas Pipeline and Dampier to Bunbury Natural Gas Pipeline, the overall number of submissions fell slightly in comparison with 2004-05. However, the number of submissions exceeded the target due to electricity access and licensing matters that were brought before the Authority.

Quality

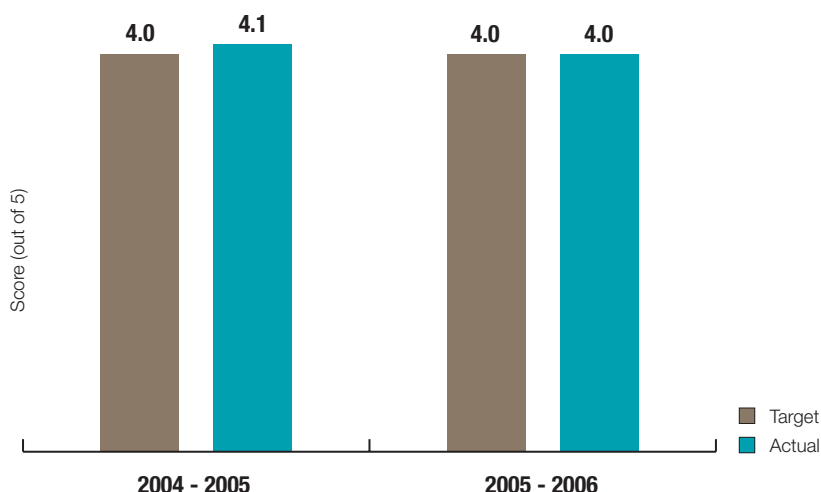
The members of Authority's Governing Body rated the submissions they reviewed each month for quality and timeliness. Ratings were assigned on a range of one to five, where one was "well below expectations", three was "expected level of performance" and five was "well above expectations". Ratings are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

Quality was rated at the expected level of performance, with the average rating for the year being 4.0. This was a slight reduction on 2004-05.

Number of Submissions



Quality



Performance Indicators for 2005-06 cont.

Timeliness (Deadlines Achieved)

Of the 227 submissions reviewed during the year, 49 related to functions that had time limits. This was a significant increase on the previous year, during which only six 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 49 submissions with deadlines, 28 were completed on or before expiry of the prescribed time limit. This equated to 57.1 per cent of submissions meeting the criteria. While this was well 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.

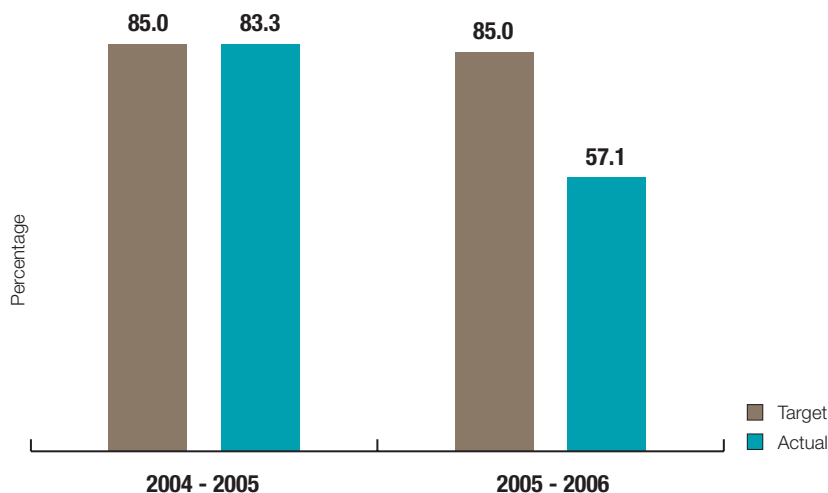
An assessment of the time limits that were not met indicated that these related to either electricity licence approvals or the reporting of operational audits and asset management reviews. The delays in approving licence applications were mainly due to the need for subsequent follow-up, as a significant number of applications lodged were incomplete.

Timeliness (Governing Body Perception)

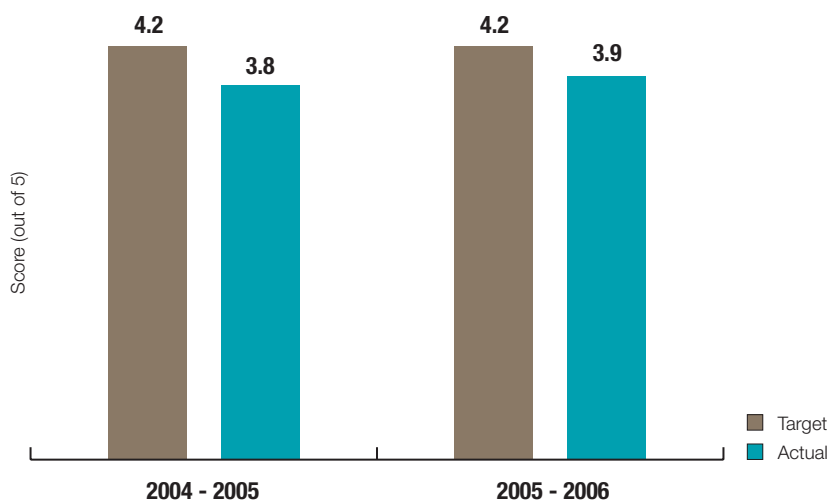
In addition to measuring the number of submissions meeting their deadline, members of the Authority's governing body were also surveyed following each meeting of the Authority to indicate their perception of the Secretariat's timeliness in preparing submissions.

While there was a slight improvement in this measure over 2004-05, members' perception of the Secretariat's timeliness in preparing submissions remained below target.

Deadlines Achieved



Timeliness



Performance Indicators for 2005-06 cont.

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.

2005-06 Performance

Average Cost

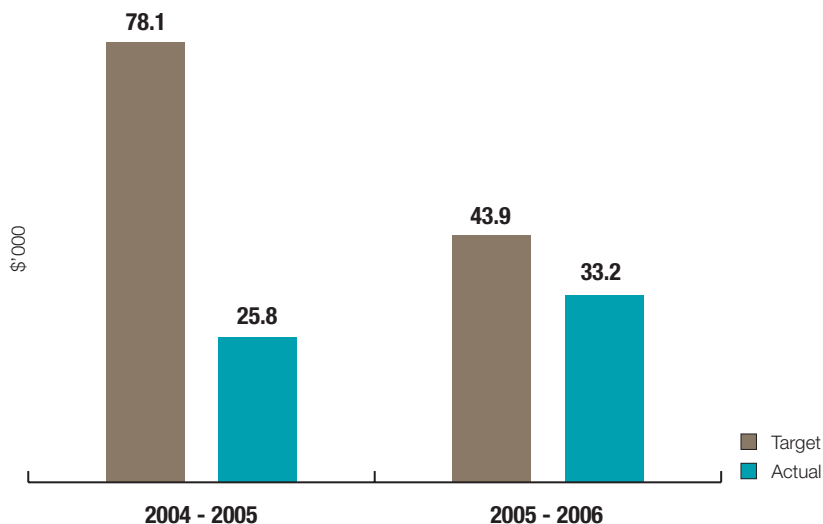
The total cost of the Authority's operations for the 12 months under review was \$7.546 million, compared to an expenditure limit of \$8.774 million. There were 227 submissions compared to the target of 200.

The average cost per submission of \$33,200 was well below the expected average of \$43,900.

The combination of expenditure, which was under the approved expenditure limit used to set the target, and the number of submissions, which was well above target, resulted in the average cost of each submission being 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 \$882,000 and there were 31 fewer submissions.

Average Cost - \$'000





Financial Statements

Certification of Financial Statements for the Year Ended 30 June 2006

The accompanying financial statements of the Economic Regulation Authority have been prepared in compliance with the provisions of the *Financial Administration and Audit Act 1985* from proper accounts and records to fairly present the financial transactions for the financial year ending 30 June 2006 and the financial position as at 30 June 2006.

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
20 September 2006

Mr Chris Field - Member
20 September 2006

Mr Steve Edwell - Member
20 September 2006

Mr Paul Goonting - Chief Finance Officer
20 September 2006

Income Statement

for the year ended 30 June 2006

	Note	2006 \$'000	2005 \$'000
COST OF SERVICES			
Expenses			
Employee benefits expense	4	3,041	2,645
Supplies and services	5	3,789	3,411
Depreciation expense	6	130	61
Accommodation expenses	7	366	439
Capital user charge	8	148	103
Other expenses	9	72	2
Total cost of services		7,546	6,661
Income			
User charges and fees	10	1,532	2,269
Interest revenue	11	60	69
Other revenue	12	26	44
Total income other than income from State Government		1,618	2,382
NET COST OF SERVICES		5,928	4,279
INCOME FROM STATE GOVERNMENT	13		
Service appropriation		6,733	4,353
Resources received free of charge		1	16
Total income from State Government		6,734	4,369
SURPLUS FOR THE PERIOD		806	90

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

Balance Sheet

for the year ended 30 June 2006

	Note	2006 \$'000	2005 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents	14	2,072	1,212
Receivables	16	478	823
Amounts receivable for services	17	18	18
Other assets	18	19	9
Total Current Assets		2,587	2,062
Non-Current Assets			
Restricted cash and cash equivalents	15	11	–
Amounts receivable for services	17	84	13
Property, plant and equipment	19	662	660
Total Non-Current Assets		757	673
TOTAL ASSETS		3,344	2,735
LIABILITIES			
Current Liabilities			
Payables	20	72	2
Provisions	21	572	429
Other liabilities	22	69	604
Total Current Liabilities		713	1,035
NON-CURRENT LIABILITIES			
Provisions	21	152	168
Total Non-Current Liabilities		152	168
Total Liabilities		865	1,203
NET ASSETS		2,479	1,532
EQUITY			
Contributed equity	23	773	632
Accumulated surplus/(deficiency)		1,706	900
TOTAL EQUITY		2,479	1,532

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

Statement of Changes in Equity

for the year ended 30 June 2006

	Note	2006 \$'000	2005 \$'000
BALANCE OF EQUITY AT START OF PERIOD	23	1,532	1,439
CONTRIBUTED EQUITY			
Balance at start of period		632	632
Capital contribution		141	–
Balance at end of period		773	632
ACCUMULATED SURPLUS			
Balance at start of period		900	807
Net adjustment on transition to AIFRS		–	3
Restated balance at start of period		900	810
Surplus/(deficit) for the period		806	90
Balance at end of period		1,706	900
Balance of equity at end of period		2,479	1,532
TOTAL INCOME AND EXPENSE FOR THE PERIOD		806	90

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

Cash Flow Statement

for the year ended 30 June 2006

	Note	2006 \$'000	2005 \$'000
CASH FLOWS FROM STATE GOVERNMENT			
Service appropriation		6,662	4,353
Capital contributions		141	–
Net cash provided by State Government		6,803	4,353
Utilised as follows:			
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments			
Employee benefits		(2,893)	(2,196)
Supplies and services		(4,311)	(3,389)
Capital User Charge		(148)	(103)
Accommodation		(366)	(439)
GST payments on purchases		(422)	(351)
GST payments to taxation authority		(31)	(78)
Other payments		(72)	(2)
Receipts			
User charges and fees		1,772	2,889
GST receipts on sales		56	59
GST receipts from taxation authority		527	381
Other receipts		86	113
Net cash used in operating activities	24(a)	(5,802)	(3,116)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of non-current physical assets		(130)	(590)
Net cash used in investing activities		(130)	(590)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of Treasurer's Advance		–	(200)
Net cash used in financing activities		–	(200)
Net increase in cash and cash equivalents		871	447
Cash and cash equivalents at the beginning of period		1,212	765
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	24(b)	2,083	1,212

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

Notes to the Financial Statements

for the year ended 30 June 2006

1. First-time adoption of Australian equivalents to International Financial Reporting Standards

a) General

This is the Authority's first published financial statements prepared under Australian equivalents to International Financial Reporting Standards (AIFRS).

Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' has been applied in preparing these financial statements. Until 30 June 2005, the financial statements of the Authority had been prepared under the previous Australian Generally Accepted Accounting Principles (AGAAP).

The Australian Accounting Standards Board (AASB) adopted the Standards of the International Accounting Standards Board (IASB) for application to reporting periods beginning on or after 1 January 2005 by issuing AIFRS which comprise a Framework for the Preparation and Presentation of Financial Statements, Australian Accounting Standards and the Urgent Issues Group (UIG) Interpretations.

In accordance with the option provided by AASB 1 paragraph 36A and exercised by Treasurer's Instruction 1101 'Application of Australian Accounting Standards and Other Pronouncements', financial instrument information prepared under AASB 132 and AASB 139 will apply from 1 July 2005 and consequently comparative information for financial instruments is presented on the previous AGAAP basis. All other comparative information has been prepared under the AIFRS basis.

b) Early adoption of standards

The Authority cannot early adopt an Australian Accounting Standard or UIG Interpretation unless specifically permitted by TI 1101 'Application of Australian Accounting Standards and Other Pronouncements'. This TI requires the early adoption of revised AASB 119 'Employee Benefits' as issued in December 2004, AASB 2004-3 'Amendments to Australian Accounting Standards; AASB 2005-3 'Amendments to Australian Accounting Standards [AASB 119]', AASB 2005-4 'Amendments to Australian Accounting Standard [AASB 139, AASB 132, AASB 1, AASB 1023 and AASB 1038]' and AASB 2005-6 'Amendments to Australian Accounting Standards [AASB 3]' to the annual reporting period beginning 1 July 2005. AASB 2005-4 amends AASB 139 'Financial Instruments: Recognition and Measurement' so that the ability to designate financial assets and financial liabilities at fair value is restricted. AASB 2005-6 excludes business combinations involving common control from the scope of AASB 3 'Business Combinations'.

Reconciliations explaining the transition to AIFRS as at 1 July 2004 and 30 June 2005 are provided at note 34 'Reconciliations explaining the transition to Australian equivalents to International Financial Reporting Standards (AIFRS)'

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 Administration and Audit Act 1985 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 rounded to the nearest thousand dollars (\$'000).

Notes to the Financial Statements cont.

for the year ended 30 June 2006

c) Reporting Entity

The reporting entity comprises the Economic Regulation Authority.

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 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

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.

Rendering of services

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

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 the Department of Treasury and Finance.

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) Property, Plant and Equipment and Infrastructure

Capitalisation/Expensing of assets

Items of property, plant and equipment costing over \$1,000 are recognised as assets and the cost of utilising assets is expensed (depreciated) over their useful lives. Items of property, plant and equipment costing less than \$1,000 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).

Initial recognition and measurement

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

For items of property, plant and equipment and infrastructure 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 property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Notes to the Financial Statements cont.

for the year ended 30 June 2006

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
Leasehold improvements	10 years

g) Impairment of Assets

Property, plant, equipment, and intangible assets are tested for any indication of impairment at each reporting date. Where there is an indication of impairment, the recoverable amount is estimated. Where the recoverable 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 or where the replacement cost is falling. 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 reporting 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 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 reporting date.

h) 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.

i) Financial Instruments

The Authority has two categories of financial instrument:

- (i) receivables (cash and cash equivalents, receivables); and
- (ii) 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.

j) 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, cash at bank, and cash held with the Department of Treasury and Finance in the accrued salaries suspense account.

k) 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.

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.

Notes to the Financial Statements cont.

for the year ended 30 June 2006

l) 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.

m) 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.

n) 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.

o) Provisions

Provisions are liabilities of uncertain timing and amount and are recognised where there is a present legal, equitable or constructive obligation as a result of a past event and when the outflow of economic benefits is probable and can be measured reliably. Provisions are reviewed at each balance date.

(i) 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 reporting 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 reporting 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 reporting 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 reporting 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 reporting date.

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 who are not members of either the Pension or the GSS Schemes become non-contributory members of the West State Superannuation Scheme (WSS), an accumulation scheme. The Authority makes concurrent contributions to GESB on behalf of employees in compliance with the Commonwealth Government's *Superannuation Guarantee (Administration) Act 1992*. The WSS Scheme is a defined contribution scheme as these contributions extinguish all liabilities in respect of the WSS Scheme.

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.

See also note 2(q) 'Superannuation expense'.

Notes to the Financial Statements cont.

for the year ended 30 June 2006

(ii) 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'.

p) Superannuation Expense

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

(i) 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

(ii) Defined contribution plans

– Employer contributions paid to the GSS and the West State Superannuation Scheme (WSS).

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.

q) 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 revenues and as assets or expenses as appropriate, at fair value.

r) Comparative Figures

Comparative figures have been restated on the AIFRS basis except for financial instruments, which have been prepared under the previous AGAAP Australian Accounting Standard AAS 33 'Presentation and Disclosure of Financial Instruments'. The transition date to AIFRS for financial instruments is 1 July 2005 in accordance with the exemption allowed under AASB 1, paragraph 36A and Treasurer's Instruction 1101.

3. Disclosure of changes in accounting policy and estimates

The Authority cannot early adopt an Australian Accounting Standard or UIG Interpretation unless specifically permitted by TI1101 'Application of Australian Accounting Standards and Other Pronouncements'. As referred to in note 1, TI1101 has only mandated the early adoption of revised AASB 119, AASB 2004-3, AASB 2005-3, AASB 2005-4 and AASB 2005-6. Consequently, the Authority has not applied the following Australian Accounting Standards and UIG Interpretations that have been issued but are not yet effective. These will be applied from their application date:

a) 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, AASB 1, AASB 4, AASB 1023 and AASB 1038]'). This Standard requires new disclosures in relation to financial instruments. The Standard is required to be applied to annual reporting periods beginning on or after 1 January 2007. The Standard is considered to result in increased disclosures of an entity's risks, enhanced disclosure about components of a financial position and performance, and changes to the way of presenting financial statements, but otherwise there is no financial impact.

b) 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 undertake these types of transactions resulting in no 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 2006.

c) UIG Interpretation 4 'Determining whether an Arrangement Contains a Lease'. 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 reporting date, the Authority has not entered into any arrangements as specified in the Interpretation 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 2006.

Notes to the Financial Statements cont.

for the year ended 30 June 2006

The following amendments are not applicable to the Authority as they will have no impact:

AASB Amendment	Affected Standards
2005-1	AASB 139 (Cash flow hedge accounting of forecast intra-group transactions)
2005-5	'Amendments to Australian Accounting Standards [AASB 1 and AASB 139]'
2006-1	AASB 121 (Net investment in foreign operations)
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'
UIG 9	'Reassessment of embedded derivatives'

	2006 \$'000	2005 \$'000
4. Employee benefits expense		
Wages and salaries (a)	2,624	2,161
Superannuation – defined contribution plans (b)	245	174
Long service leave (c)	60	92
Annual Leave (c)	(3)	155
Other related expenses	115	63
	3,041	2,645
(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.		
5. Supplies and services		
Communications	49	56
Consultants and contractors	3,028	2,361
Consumables	82	112
Insurance	61	86
Legal costs	56	568
Motor vehicles	85	57
Travel	154	88
Repairs and maintenance	3	1
Other	271	82
	3,789	3,411

Notes to the Financial Statements cont.

for the year ended 30 June 2006

	2006 \$'000	2005 \$'000
6. Depreciation expense		
Computer equipment	57	47
Furniture and fittings	–	1
Office equipment	20	9
Leasehold improvements	53	4
	130	61
7. Accommodation expenses		
Office accommodation rental	271	365
Other accommodation expenses	78	63
Cleaning	17	11
	366	439
8. Capital User Charge		
Capital user charge	148	103
	148	103
<p>The Government applies a levy for the use of its capital for the delivery of services. It is applied at 8 per cent per annum on the net assets of the Authority, excluding exempt assets, and is paid to the Department of Treasury and Finance quarterly.</p>		
9. Other expenses		
Employment on-costs	72	2
	72	2
10. User charges and fees		
Standing charges	671	1,256
Service charges	548	964
Licence fees and charges	313	49
	1,532	2,269
11. Interest revenue		
Interest	60	69
	60	69
12. Other revenue		
Other	26	44
	26	44
13. Income from State Government		
(a) Service appropriation		
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.	6,733	4,353

Notes to the Financial Statements cont.

for the year ended 30 June 2006

	2006 \$'000	2005 \$'000
(b) Resources received free of charge		
Determined on the basis of the following estimates provided by agencies:		
State Solicitor's Office – legal service charges	1	16
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.		
	6,734	4,369
14. Cash and cash equivalents		
Current		
Cash at bank	2,072	1,211
Cash on hand	–	1
	2,072	1,212
15. Restricted cash and cash equivalents		
Non-Current		
Accrued salaries suspense account	11	–
	11	–
16. Receivables		
Current		
Accounts receivable	342	182
Accrued revenue	5	405
GST receivable	131	236
	478	823
17. Amounts receivable for services		
Current	18	18
Non-current	84	13
	102	31
18. Other assets		
Current		
Pre-paid expenses	19	9
	19	9
19. Property, plant and equipment		
(a) Carrying Amounts		
Office equipment		
At cost	94	38
Accumulated depreciation	(25)	(14)
	69	24
Furniture and fittings		
At cost	1	2
Accumulated depreciation	(1)	(2)
	–	–
Computer equipment		
At cost	245	136
Accumulated depreciation	(121)	(72)
	124	64

Notes to the Financial Statements cont.

for the year ended 30 June 2006

	2006 \$'000	2005 \$'000
Leasehold improvements		
At cost	526	526
Accumulated depreciation	(57)	(4)
	469	522
Work in progress		
At cost	–	50
	–	50
Total		
At cost	866	752
Accumulated depreciation	(204)	(92)
	662	660

(b) Reconciliation of carrying amounts

	Office equipment \$000	Furniture and fittings \$000	Computer equipment \$000	Leasehold improvements \$000	Work in progress \$000	Total \$000
2006						
Carrying amount at start of year	24	–	64	522	50	660
Additions	65	–	117	–	–	182
Depreciation	(20)	–	(57)	(53)	–	(130)
Transfer	–	–	–	–	(50)	(50)
Carrying amount at end of year	69	–	124	469	–	662
2005						
Carrying amount at start of year	8	1	70	–	22	101
Additions	25	–	42	526	50	643
Disposals	–	–	(1)	–	–	(1)
Depreciation	(9)	(1)	(47)	(4)	–	(22)
Transfer to assets	–	–	–	–	(22)	(61)
Carrying amount at end of year	24	–	64	522	50	660

(c) Impairment of assets

There were no indications of impairment to property, plant and equipment at 30 June 2006.

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

20. Payables

Current		
Trade payables	58	–
Other payables	14	2
	72	2

Notes to the Financial Statements cont.

for the year ended 30 June 2006

		2006 \$'000	2005 \$'000
21. Provisions			
Current			
Employee benefits provision			
Annual leave	(a)	277	286
Long service leave	(b)	229	139
		506	425
Other provisions			
Employment on-costs	(c)	66	4
		66	4
		572	429
Non-current			
Employee benefits provision			
Long service leave	(b)	141	166
		141	166
Other provisions			
Employment on-costs	(c)	11	2
		11	2
		152	168
		724	597
<p>(a) Annual leave liabilities have been classified as current as 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:</p>			
Within 12 months of reporting date		158	162
More than 12 months from the reporting date		119	123
		277	285
<p>(b) Long service leave 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:</p>			
Within 12 months of reporting date		170	140
More than 12 months from the reporting date		200	165
		370	305
<p>(c) The settlement of annual and long service leave liabilities gives rise to the payment of employment on-costs including superannuation and workers' compensation premiums.</p>			
Movement in other provisions			
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		6	0
Additional provisions recognised		71	6
Carrying amount at end of year		77	6

Notes to the Financial Statements cont.

for the year ended 30 June 2006

	2006 \$'000	2005 \$'000
22. Other liabilities		
Current		
Accrued expenses	15	572
Accrued salaries	54	32
Total current	69	604

23. Equity

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	632	632
Capital contribution	141	–
Balance at end of year	773	632

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.

Accumulated surplus/(deficit)		
Balance at start of year	900	807
Result for the period	806	90
Income and expense recognised directly to equity	–	3
Balance at end of year	1,706	900

24. Notes to the Cash Flow Statement

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

Net cost of services	(5,928)	(4,279)
Non-cash items:		
Depreciation and amortisation expense	130	61
Resources received free of charge	(1)	16
(Increase)/decrease in assets:		
Current receivables	311	599
Other current assets	(10)	(2)
Amounts receivable for services	(71)	(2)
Increase/(decrease) in liabilities:		
Payables	45	203
Provisions	127	217
Other liabilities	(535)	32
Net GST receipts/(payments)	496	303
Change in GST in receivables/payables	(366)	(324)
Net cash provided by/used in operating activities	(5,802)	(3,116)

Notes to the Financial Statements cont.

for the year ended 30 June 2006

	2006 \$'000	2005 \$'000
(b) 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	2,072	1,212
Restricted cash and cash equivalents	11	–
	2,083	1,212
25. Commitments		
(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	257	355
Later than one year and not later than five years	71	348
	328	703
Representing:		
Cancellable operating leases	144	53
Non-cancellable operating leases	184	650
	328	703
(b) Non-cancellable operating lease commitments		
Commitments for minimum lease payments are payable as follows:		
Within one year	184	325
Later than one year and not later than five years	–	325
	184	650

26. 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:

\$	2006	2005
0 – 10,000	1	–
60,001– 70,000	–	1
70,001– 80,000	1	1
130,001– 140,000	1	–
340,001– 350,000	1	1
	\$'000	\$'000

The total remuneration of members of the Accountable Authority is:

561 487

The total remuneration includes the superannuation expense incurred by the Authority in respect of members of the Accountable Authority.

No members of the Accountable Authority are members of the Pension Scheme.

Where a member's remuneration is zero, the member shall be included in a band labelled '\$0–\$10,000'.

Notes to the Financial Statements cont.

for the year ended 30 June 2006

Remuneration of Senior Officers

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

	2006	2005
\$		
130,001–140,000	3	–
140,001–150,000	–	1

The total remuneration of Senior Officers is:

2006	2005
\$'000	\$'000
402	146

The total remuneration includes the superannuation expense incurred by the Authority in respect of senior officers other than senior officers reported as members of the Accountable Authority.

No senior officers are members of the Pension Scheme.

27. Remuneration of Auditor

Remuneration payable to the Auditor General for the financial year is as follows:

	2006	2005
Auditing the accounts, financial statements and performance indicators	\$'000	\$'000
	20	15

28. Related bodies

The Authority had no related bodies during the financial year.

29. Affiliated bodies

The Authority had no affiliated bodies during the financial year.

30. Contingent liabilities and contingent assets

The Authority has no contingent liabilities or contingent assets as at 30 June 2006.

31. 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.

32. 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.

Notes to the Financial Statements cont.

for the year ended 30 June 2006

(a) Significant variances between estimated and actual result for 2006

	2006 Actual \$'000	2006 Estimate \$'000	2006 Variation \$'000
Income			
User charges and fees	1,532	1,810	(278)
Expenses			
Employee benefits expense	3,041	3,937	(896)
Supplies and services	3,789	2,339	1,450

User charges and fees

As the costs of gas access related functions are recovered from industry and activity in this area was lower than originally budgeted, less was recovered.

Employee benefit expense

The Authority's organisational structure was approved in August 2005. The variance reflects the time delay in getting the approval and appointing personnel to approved positions.

Supplies and Services

Increased activity in relation to electricity access in assessing Western Power's access arrangement and implementing the electricity licensing regime occurred during the year. This expenditure was funded by supplementary funding of \$1.120 million in 2005-06 which had been deferred from the previous year.

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

	2006 Actual \$'000	2005 Actual \$'000	Variation \$'000
Income			
User charges and fees	1,532	2,269	(737)
Expenses			
Employee benefits expense	3,041	2,645	396
Supplies and services	3,789	3,411	378

User charges and fees

The costs of gas access related functions are recovered from industry. There was reduced activity in this area for 2005-06 compared to the previous year.

Employee benefit expense

The Authority's organisational structure was approved in August 2005. The variance reflects the anticipated costs of additional employees.

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.

Notes to the Financial Statements cont.

for the year ended 30 June 2006

33. Financial Instruments

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.

Financial Instrument disclosures

Financial instrument information for the year ended 2005 has been prepared under the previous AGAAP Australian Accounting Standard AAS 33 'Presentation and Disclosure of Financial Instruments'. Financial instrument information from 1 July 2005 has been prepared under AASB 132 'Financial Instruments: Presentation' and AASB 139 'Financial Instruments: Recognition and Measurement'.

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 %	Variable Interest Rate \$'000	Non- Interest Bearing \$'000	Total \$'000
Fixed Interest Rate Maturity				
2006				
Financial Assets				
Cash and cash equivalents	5.5	2,072	–	2,072
Restricted cash and cash equivalents		–	11	11
Receivables		–	478	478
Amounts receivable for services		–	102	102
		2,072	591	2,663
Financial Liabilities				
Payables		–	141	141
		–	141	141

Notes to the Financial Statements cont.

for the year ended 30 June 2006

	Fixed Interest Rate Maturity			Total \$'000
	Weighted Average Effective Interest Rate %	Variable Interest Rate \$'000	Non- Interest Bearing \$'000	
2005				
Financial Assets				
Cash and cash equivalents	4.75	1,212	–	1,212
Receivables		–	823	823
Amounts receivable for services		–	31	31
		1,212	854	2,066
Financial Liabilities				
Payables		–	606	606
		–	606	606

Fair Values

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

Notes to the Financial Statements cont.

for the year ended 30 June 2006

34. Reconciliations explaining the transition to Australian equivalents to International Financial Reporting Standards (AIFRS)

RECONCILIATION OF EQUITY AT THE DATE OF TRANSITION TO AIFRS: 1 JULY 2004 (AASB 1.39(A)(I))

Note	Previous AGAAP 1 July 2004 \$'000	AASB 119(a) \$'000	AIFRS 1 July 2004 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents	765	–	765
Receivables	1,422	–	1,422
Amounts receivable for services	18	–	18
Other assets	7	–	7
Total Current Assets	2,212	–	2,212
Non-Current Assets			
Amounts receivable for services	11	–	11
Property, plant and equipment	101	–	101
Total Non-Current Assets	112	–	112
TOTAL ASSETS	2,324	–	2,324
LIABILITIES			
Current Liabilities			
Payables	362	–	362
Amounts due to the Treasurer	200	–	200
Provisions	173	66	239
Total Current Liabilities	735	66	801
Non-Current Liabilities			
Provisions	150	(69)	81
Total Non-Current Liabilities	150	(69)	81
TOTAL LIABILITIES	885	(3)	882
NET ASSETS	1,439	3	1,442
Equity			
Contributed equity	632	–	632
Accumulated surplus/(deficiency)	807	–	807
Amounts recognised directly in equity on transition	–	3	3
TOTAL EQUITY	1,439	3	1,442

Notes to the Financial Statements cont.

for the year ended 30 June 2006

RECONCILIATION OF EQUITY AT THE END OF THE LAST REPORTING PERIOD
UNDER PREVIOUS AGAAP: 30 JUNE 2005 (AASB 1.39(A)(II))

	Note	Previous AGAAP 30 June 2005 \$'000	AASB 119(b) 30 June 2005 \$'000	AIFRS 30 June 2005 \$'000
ASSETS				
Current Assets				
Cash and cash equivalents		1,212	–	1,212
Receivables		823	–	823
Amounts receivable for services		18	–	18
Other assets		9	–	9
Total Current Assets		2,062	–	2,062
Non-Current Assets				
Restricted cash and cash equivalents		–	–	–
Amounts receivable for services		13	–	13
Property, plant and equipment		660	–	660
Total Non-Current Assets		673	–	673
TOTAL ASSETS		2,735	–	2,735
LIABILITIES				
Current Liabilities				
Payables		606	(604)	2
Provisions		354	75	429
Other liabilities		–	604	604
Total Current Liabilities		960	75	1,035
Non-Current Liabilities				
Provisions		249	(81)	168
Total Non-Current Liabilities		249	(81)	168
TOTAL LIABILITIES		1,209	(6)	1,203
NET ASSETS		1,526	6	1,532
Equity				
Contributed equity		632	–	632
Accumulated surplus/(deficiency)		894	6	900
TOTAL EQUITY		1,526	6	1,532

Notes to the Financial Statements cont.

for the year ended 30 June 2006

RECONCILIATION OF INCOME STATEMENT (PROFIT OR LOSS) FOR THE YEAR ENDED 30 JUNE 2005 (AASB 1.39(B))

Note	Previous AGAAP 30 June 2005 \$'000	AASB 119(c) 30 June 2005 \$'000	AIFRS 30 June 2005 \$'000
COST OF SERVICES			
Expenses			
Employee benefits expense	2,579	66	2,645
Supplies and services	3,482	(71)	3,411
Depreciation expense	61	–	61
Accommodation expenses	439	–	439
Capital user charge	103	–	103
Other expenses	–	2	2
Total Cost of Services	6,664	(3)	6,661
Income			
User charges and fees	2,269	–	2,269
Interest revenue	69	–	69
Other revenue	44	–	44
Total income other than income from State Government	2,382	–	2,382
NET COST OF SERVICES	4,282	(3)	4,279
Income from State Government			
Service appropriation	4,353	–	4,353
Resources received free of charge	16	–	16
Total income from State Government	4,369	–	4,369
SURPLUS FOR THE PERIOD	87	3	90

Notes to the Financial Statements cont.

for the year ended 30 June 2006

RECONCILIATION OF CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2005 (AASB 1.40)

	Note	Previous AGAAP 30 June 2005 \$'000	AASB 119(d) 30 June 2005 \$'000	AIFRS 30 June 2005 \$'000
CASH FLOWS FROM STATE GOVERNMENT				
Service appropriation		4,353	–	4,353
Capital contributions		–	–	–
Net cash provided by State Government		4,353	–	4,353
Utilised as follows:				
CASH FLOWS FROM OPERATING ACTIVITIES				
Payments				
Employee benefits	(1)	(2,269)	73	(2,196)
Supplies and services		(3,318)	(71)	(3,389)
Capital user charge		(103)	–	(103)
Accommodation		(439)	–	(439)
GST payments on purchases		(351)	–	(351)
GST payments to taxation authority		(78)	–	(78)
Other payments		–	(2)	(2)
Receipts				
User charges and fees		2,889	–	2,889
GST receipts on sales		59	–	59
GST receipts from taxation authority		381	–	381
Other receipts		113	–	113
Net cash used in operating activities		(3,116)	–	(3,116)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of non-current physical assets		(590)	–	(590)
Net cash used in investing activities		(590)	–	(590)
CASH FLOWS FROM FINANCING ACTIVITIES				
Repayment of Treasurer's Advance		(200)	–	(200)
Net cash used in financing activities		(200)	–	(200)
Net increase in cash and cash equivalents		447	–	447
Cash and cash equivalents at beginning of period		765	–	765
CASH AND CASH EQUIVALENTS AT END OF PERIOD		1,212	–	1,212

(1) Equivalent AGAAP line item 'Employee costs' (AIFRS 'Employee benefits')

Notes to the Financial Statements cont.

for the year ended 30 June 2006

Notes to the reconciliations

[AASB 119 – Employee Benefits and AASB 101 – Presentation of Financial Statements](#)

AASB 101 requires that a liability must be classified as current where the entity does not have an unconditional right to defer settlement of the liability for at least twelve months beyond the reporting date. Consequently, all annual leave and long service leave entitlements (unconditional long service leave) must now be classified as current. Non-vested long service leave liability will be non-current to the extent that it does not become unconditional within twelve months from reporting date.

Employment on-costs are not included in employee benefits under AGAAP or AIFRS. However, under AGAAP employee benefits and on-costs are disclosed together on the face of the Income Statement as employee costs. Under AIFRS employee benefits will be the equivalent item disclosed on the face. On-costs are transferred to other expenses.

[\(a\) Adjustments to opening Balance Sheet \(1 July 2004\)](#)

Annual leave previously shown as non-current has been reclassified to current liability at discounted present value (\$66,000) with the amount of the discount taken directly to equity on transition (\$3,000).

[\(b\) Adjustments to 30 June 2005 Balance Sheet](#)

Annual leave provision previously shown as non-current has been reclassified to current liability (\$75,000) and the current period provision discounted to present value (\$6,000).

[\(c\) Adjustments to the Income Statement for the period ended 30 June 2005](#)

Employee on-costs expense has been reclassified from employee benefits expense to other expense (\$2,000) after employee benefits expense has been discounted to present value (\$3,000) and fringe benefits (\$71,000) have been reclassified from supplies and services to employee benefits.

[\(d\) Adjustments to the Cash Flow Statement for the period ended 30 June 2005](#)

Employee on-costs payments have been reclassified from employee benefits payments to other payments (\$2,000) and fringe benefits (\$71,000) reclassified from supplies and services to employee benefits.

Glossary of Terms

Access Arrangement	An access arrangement sets out terms and conditions (including prices) for access by third parties to regulated infrastructure. The Economic Regulation Authority is responsible for the assessment and approval of access arrangements under the <i>Gas Pipelines Access (Western Australia) Act 1998</i> and the <i>Electricity Networks Access Code 2004</i> .
Allocation	Allocation refers to the process by which capacity available in a pipeline is assigned to parties in the event that requests for gas exceed the available capacity.
Balancing	Balancing refers to the process of matching receipts and deliveries of gas by adding or withdrawing gas from a pipeline (i.e. if a pipeline delivers a shortfall of gas, another pipeline supplies the shortfall in order to meet the capacity demand).
COAG	Council of Australian Governments
DBNGP	Dampier to Bunbury Natural Gas Pipeline
Independent Market Operator	The Independent Market Operator (IMO) 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.
MOU	Memorandum of Understanding. An MOU is an informal agreement between agencies, whereby the participating agencies agree to provide each other with mutual assistance in relation to the exchange of information, appropriate referral of matters and cooperation in compliance, education and enforcement activities.
Retail Energy Market Company	The Retail Energy Market Company is the Retail Market Administrator for the contestable gas markets of Western Australia and South Australia. It began operation in Western Australia on 31 May 2004.
Retail Market Scheme	A gas retailer must be a member of an approved Retail Market Scheme (RMS) if it wishes to sell gas to customers through a gas distribution system in Western Australia and there is at least one other company selling gas through that distribution system. An RMS is a scheme that enables a Retail Market Administrator to manage the gas market. An RMS must cover the process for customer transfers, as well as the balancing, allocation, and reconciliation of the gas market. The Minister for Energy has approved an RMS that covers all of the Alinta Gas Networks distribution systems. The Retail Market Administrator for this RMS is the Retail Energy Market Company Limited.
Ring Fencing	Ring fencing means separating an infrastructure owner/operator's functions and business of providing access to the infrastructure from its other functions and business.

Glossary of Terms cont.

System Management

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

WACC

See Weighted Average Cost of Capital.

Weighted Average Cost of Capital

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

Wholesale Electricity Market

As part of the Western Australian Government's electricity reform program, a new wholesale electricity market will be implemented in the South West Interconnected System from 21 September 2006. The wholesale market will enable the trade of electricity through bilateral contracts.

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



THE ECONOMIC REGULATION AUTHORITY IS AN INDEPENDENT GOVERNMENT AGENCY WITH TWO PRINCIPAL ROLES. The first is as the State's independent economic regulator, involving the administration of industry-specific legislation for gas, electricity, rail and water. The second involves undertaking inquiries referred to the Authority by Government on matters relating to regulated and non-regulated industries. This second role is similar to that played by the Productivity Commission at the federal level.

The report can be viewed online at the Authority's website www.era.wa.gov.au.

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