

Annual Report **2008**

**Accountability Integrity Professionalism Impartiality Transparency
Excellence Consistency Honesty Equity Innovative Effective Committed
Well-Informed Independent Timely Rigorous Promoting Fair Prices
Reasonable Outcomes Minimising Compliance Costs Quality Service
Promoting Choice Economically Efficient Outcomes Competitive Outcomes
Public Consultation Open Communications Complete Advice Electricity
Gas Rail Water Industry Utilities Infrastructure Controlled Areas
Licensing Third Party Access Customer Protection Markets Research
Inquiries Competition Monitoring Surveillance Contestable
Markets Benchmarking New Facilities Investment Test Technical
Rules Weighted Average Cost of Capital Regulatory Test Wholesale
Electricity Market Ring Fencing Short Run Marginal Cost Maximum
Reserve Capacity Price Short Term Energy Market South West
Interconnected System Energy Price Limits Access Arrangements
Presentations Assessments Regulatory Guidelines Determinations
Reports Approvals Papers Analysis Allowable Revenue Pipelines
Transmission Distribution Retail Generation Tariffs Part 5 Instruments
Segregation Arrangements Legislation Acts Codes Rules**



Economic Regulation Authority

 WESTERN AUSTRALIA



Western Australia

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Vision, Mission and Values

Vision

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

Mission

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

Values

In undertaking its functions, the Economic Regulation Authority (**Authority**) embraces the following corporate values:

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



Contents

| | | | |
|---|-----------|---|------------|
| Letter of Transmission to the Treasurer | 3 | Disclosures and Legal Compliance | 52 |
| From the Chairman | 4 | Auditor General's Independent Audit Opinion | 52 |
| About this Report | 6 | Financial Statements | 54 |
| Overview of the Authority | 7 | Key Performance Indicators | 91 |
| Executive Summary | 7 | Ministerial Directives | 97 |
| Operational Structure | 15 | Other Financial Disclosures | 97 |
| Performance Management Framework | 26 | Governance Disclosures | 100 |
| The Authority's Performance | 29 | Other Legal Requirements | 101 |
| The Authority's Performance Reporting Methodology | 29 | Government Policy Requirements | 105 |
| Divisional Reports | 30 | Other Disclosures | 108 |
| Case Study 1 | 32 | Boards and Committees | 108 |
| Case Study 2 | 37 | Complaints Handling | 110 |
| Case Study 3 | 45 | Corporate Support | 112 |
| Case Study 4 | 48 | Memoranda of Understanding | 113 |
| Significant Issues and Trends | 49 | Risk Management and Audit Processes | 114 |
| Overview | 49 | Stakeholder and Public Communication | 115 |
| Economic and Social Trends | 50 | Publications | 115 |
| Expected Developments in the Authority's Operations | 50 | Glossary of Terms | 116 |
| Legislative Change and the Impact of Judicial Decisions | 51 | | |

Letter of Transmission to the Treasurer



Western Australia

**Hon Troy Buswell BEc MLA
Treasurer of Western Australia**

In accordance with section 61 of the *Financial Management Act 2006*, we hereby submit for your information and presentation to Parliament, the Annual Report of the Economic Regulation Authority for the financial year ended 30 June 2008.

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

Handwritten signature of Mr Lyndon Rowe in black ink.

Mr Lyndon Rowe – Chairman
25 September 2008

Handwritten signature of Mr Steve Edwell in black ink.

Mr Steve Edwell – Member
25 September 2008

Handwritten signature of Mr Peter Panegyres in black ink.

Mr Peter Panegyres AM – Member
25 September 2008



From the Chairman

Together we will continue providing high quality independent regulation and advice for the benefit of all Western Australians

The Authority's strong focus on providing high quality independent regulation of infrastructure assets and providing professional independent advice on matters referred by the Treasurer has continued during the reporting year. It has been a busy and challenging but rewarding year.

After four and a half years, I believe the Authority is developing a track record of which we (the Authority and the Secretariat) can be justifiably proud.

In the last twelve months, we have seen six final reports handed to the State Government following inquiries referred to the Authority by the Treasurer. I believe that the increasing number of inquiries referred to the Authority and the greater diversity of the inquiries (set out later in this report) is a reflection that the Government values the independent and professional advice it receives from the Authority. We are also encouraged by the mostly positive response the reports receive from Government.

Similarly, in the regulation of monopoly infrastructure in the areas of electricity, gas and rail or in the licensing and monitoring of providers in electricity, gas and water, I believe there is a growing recognition by all stakeholders of the role played by the Authority and that the work we do in these areas provides outcomes that are in the long-term interests of all Western Australians. In particular, I think there is a recognition that the Authority has sought to apply regulation in a way that minimises costs and constraints on providers while maximising outcomes for consumers.

Our involvement in monitoring the wholesale electricity market, on the other hand, is relatively recent. We produced our first report for the Minister for Energy in September 2007. The market has now been operating for two years and has been

challenged most recently as a result of the recent crisis with respect to the availability of gas in Western Australia. We are currently preparing our second report for the Minister and we will be seeking to provide an independent assessment of what, if any, lessons are to be learned from the last two years and more recent months. The report should be with the Minister before the end of 2008.

At an operational level, we have continued to consolidate our activities to ensure that we have the human resources necessary to undertake the work of the Authority. We are increasingly drawing on the internal expertise of the Secretariat across the various divisions and only employing consultants when it is clear that either we do not have the particular expertise or we need additional capacity to respond to the current demands. In the current labour market, it is a challenge to attract and retain qualified staff, but one way to do that is to ensure that we provide an interesting and stimulating work environment. The more work we do 'in-house', the greater the opportunity to deliver such a productive culture.

We have also set ourselves a priority for the next twelve months of ensuring that our output – which is mostly written – is easily understood. In short, we use plain English. It is a fact that much of the work of the Authority is of a complex and technical nature and therefore we need to be conscious of the need to ensure that the work we do is accessible to a wide audience. The Authority has a strong focus on being transparent and consultative and a pre-requisite for that is to make ourselves easily understood whether we are writing formal decisions or reports in response to inquiries referred to the Authority by Government.



Mr Lyndon Rowe
Chairman

From the Chairman

The Authority has a very busy year ahead. In addition to the ongoing annual activities, Western Power is required to lodge its proposed new access arrangement in October 2008 with the new access arrangement to take effect from 1 July 2009. The owners of the Goldfields Gas Pipeline and the Alinta Gas Distribution Network are due to lodge their proposed new access arrangements with the Authority at the end of the first quarter of 2009. It is intended that these last two access arrangements will be assessed under the new national gas law (to be introduced into Western Australia through uniform legislation). In addition, the new Pilbara railway became a declared railway on 1 July 2008 and the Authority is currently involved in assessing the various aspects that will apply to the arrangements under the State Rail Code.

I reported last year that Mr Chris Field had resigned from the Authority to take up the role as the State's Ombudsman. I am pleased to report that in October 2007, Mr Peter Panegyres AM was appointed as a part-time Member as a replacement for Chris. Peter was the State's Crown Solicitor for 18 years and the Authority has already benefitted greatly from Peter's legal expertise and knowledge of government processes.

I also wish to acknowledge the contribution of the other part-time Member, Mr Steve Edwell. I am very appreciative of the experience and expertise that Steve brings to the Authority and the contribution he makes, particularly given the demands made on him as the Executive Chairman of the Australian Energy Regulator.

“... the increasing number of inquiries referred to the Authority and the greater diversity of the inquiries is a reflection that the Government values the independent and professional advice it receives from the Authority. “

Again this year, I have been particularly impressed by the response and quality of submissions we have received from stakeholders and the public. This feedback is very important to the work of the Authority and is greatly appreciated.

Finally, I would like to acknowledge the continuing commitment and professionalism of the Authority's staff, ably led by Mr Peter Kolf, and their significant achievements across a wide field of regulatory, licensing and inquiry responsibilities. I look forward to working with them in the following year as we seek to provide quality independent regulation and advice that benefits all Western Australians.

Mr Lyndon Rowe
Chairman



About this Report

This annual report provides a review of the Authority's operations for the 2007/08 financial year and details:

- an overview of its role, responsibilities and organisational structure;
- a report on its operational performance from 1 July 2007 to 30 June 2008;
- the progress towards achieving its and the Government's desired outcomes; and
- its compliance with various legislative and Government policy requirements, including its audited financial statements and key performance indicators for 2007/08.

To make this annual report as accessible as possible, the Authority has provided it in the following three formats:

- This interactive PDF version, which has links to other sections of the report as well as external links to content on the Authority's web site. Links are indicated by blue, underlined text.
- [Online version](#), which allows for quick and easy viewing of report sections. This version also features easy-to-use download and print functions.
- [Text version](#), which is suitable for use with screen reader software applications.



Overview of the Authority

Executive Summary

This executive summary provides an overview of the Authority's performance and highlights, and a financial summary for the 2007/08 financial year. Further detailed information on the Authority's operational accomplishments can be found in the [Authority's Performance](#) section of this annual report.

The Authority's Performance

The following is an overview of the Authority's major achievements in 2007/08.

Operational Achievements

Competition, Markets and Electricity

The Authority:

- Released its [guidelines for the application of the Regulatory Test](#), which determines whether a proposed network augmentation maximises the net benefits to those who generate, transport and consume electricity.
- [Determined that Western Power's proposal for a major augmentation to increase the power supply capacity to the Mid-West region of Western Australia satisfied the regulatory test](#). This is one of the most significant augmentation projects to the South West Interconnected Network in recent times.
- Published a [procedure for a party to refer a dispute under the Electricity Industry Customer Transfer Code 2004 and the Electricity Industry Metering Code 2005 to the Authority for resolution](#).
- Published the [2007 Annual Wholesale Electricity Market Report to the Minister for Energy](#). The report assessed the effectiveness of the market after it began on 21 September 2006.

- [Decided on the maximum reserve capacity price for the 2010/11 capacity year](#). The decision approved the revised value for the 2008 Reserve Capacity Cycle of \$173,400 per megawatt per year.
- [Decided on energy price limits submitted by the Independent Market Operator](#). The Authority approved a new maximum short term energy market (**STEM**) price of \$206/MWh when non-liquid fuel is used to generate electricity and a new alternative maximum STEM price of \$498/MWh for liquid fuel generation.
- Published a [discussion paper on Short Run Marginal Cost \(SRMC\)](#) as it relates to a requirement in the *Wholesale Electricity Market Rules (Market Rules)* about how market generators are required to offer generation into the market. This paper was issued in the interests of advancing the debate in economic regulation and sought to assist market participants in the interpretation of SRMC for the purposes of the Market Rules. The paper set out to identify what costs may be included in a firm's short run portfolio supply curve.

Gas and Rail Access

The Authority:

- Published a paper in December 2007 on [gas quality relating to covered gas pipelines in Western Australia](#) to assist the debate on achieving greater consistency in gas quality specifications applying to such pipelines.

Overview of the Authority

Executive Summary

The Authority's Performance (continued)

- Published its [pre-lodgement consultation guidelines for the gas access arrangement revisions](#), due to start in early 2009 for the Goldfields Gas Pipeline and the Mid-West and South-West Gas Distribution Systems. The guidelines are based on the proposed new national gas legislation, which was expected to come into effect in Western Australia in October 2008.
- Published its [final report on its review of the Retail Energy Market Company \(REMCo\) Gas Retail Market Scheme \(RMS\)](#) in April 2008. The report concluded that the REMCo gas RMS was operating satisfactorily and that no changes were needed for it to satisfy section 11ZOB of the *Energy Coordination Act 1994*.
- Decided on the [application of the Weighted Average Cost of Capital for the freight and urban rail networks in 2008/09](#).
- [Approved the Public Transport Authority's revised Part 5 instruments](#), comprising Train Management Guidelines, Train Path Policy, Costing Principles and Overpayment Rules.

Licensing, Monitoring and Customer Protection

The Authority:

- Completed the first [major review of gas licences](#) after their initial issuance by the Office of Energy in July 2000. The new licences, which were modelled on the electricity licensing scheme, streamlined terms and conditions and amalgamated some licences.
- [Developed a gas distribution and trading compliance reporting manual](#) to facilitate the publication of performance data. The first gas performance report was released during the reporting year and included some interstate comparisons.

- Completed a [comprehensive review of the Code of Conduct for the Supply of Electricity to Small Use Customers \(Code of Conduct\)](#), the first since the Code of Conduct's inception on 31 December 2004 by the Minister for Energy.
- Initiated [development of a draft Gas Customer Code on service standards for gas distribution and trading](#). It is expected that the Code will be introduced in the latter half of 2008.
- [Issued five new licences and approved 20 licence amendments](#).
- [Approved and published 23 reports on operational/performance audits and asset management system reviews](#). Periodic audits and reviews are a requirement of electricity, gas and water licences.

References and Research

- The Authority met the Government's need for advice by delivering six final reports on inquiries finalised during the reporting year. The inquiries provided recommendations on ways to improve the economic performance of the State's economy and, by implication, the overall welfare of Western Australians.

The most significant was to establish an [Independent Procurement Entity for water to provide more innovation and competition in developing options to secure Perth's water supply](#).

Another significant recommendation was to [remove export restrictions on barley, lupins and canola](#).

Overview of the Authority

Executive Summary

The Authority's Performance (continued)

The Authority also recommended [replacing the current system of developers paying uniform charges for water and sewerage across the State with a new system that varied them in different towns, depending on costs.](#)

The Government has not yet made decisions on the recommendations from these inquiries.

- As part of its annual advice on water pricing, which involved two inquiries (one for [Water Corporation's tariffs](#) and the other for the [tariffs of Aqwest in Bunbury and the Busselton Water Board](#)), the Government accepted the Authority's advice that the tariffs of the Corporation's commercial customers should be increased to better reflect costs.
- The Authority found that the [participation of school bus contractors in the commercial bus charter industry was not having an adverse impact on that industry.](#)

Stakeholder Achievements

- [The Economic Regulation Authority Consumer Consultative Committee \(ERACCC\)](#) met twice during the year (on 19 September and 12 December 2007) to discuss consumer issues that fell within the scope of the Authority's administration of the *Economic Regulation Act 2003*.
- The ERACCC hosted a Utility Customer Dispute Resolution Seminar in November 2007 to provide an opportunity to hear from local and eastern states experts and to network with other licensees, consumer representative organisations, regulatory managers and government officers. The seminar was the first in a series planned by the ERACCC on matters relevant to stakeholders.

- The Authority hosted a Gas Regulatory Managers Forum in September 2007 and a Water Regulatory Managers Forum in March 2008.

Governing Body Achievements

- The Governor of Western Australia, Dr Ken Michael AC, appointed Mr Peter Panegyres AM as the new part-time Member of the Authority's Governing Body in October 2007 for a period of three years.

Staff Achievements

- A two-day strategic planning retreat was held for all staff in February 2008. The Authority holds a retreat every three years to refresh its strategic direction and to put in place its strategic goals and objectives that it aims to achieve in the following three years.
- The Authority continues to work on improving the staff performance management review system, which was implemented for divisional heads in December 2006. The Authority completed staff appraisals for all staff members in 2007/08.
- As part of recognising staff as the Authority's most valuable asset, employees are encouraged to undertake both internal and external professional development and training. Costs during the reporting year were \$99,455 (exclusive of GST) or \$2,072 per staff member.

Overview of the Authority

Executive Summary

The Authority's Performance (continued)



- In recognising the importance of employee work-life balance, the Authority operates a comprehensive wellness program for staff. This includes an opportunity for a bi-annual health assessment, monthly back-and-neck massages are available and access to physical exercise programs are operated at Beatty Park. Workplace ergonomic assessments are undertaken for all staff on commencement and regular re-assessments are completed when required. Secretariat staff are invited to participate in a corporate team building exercise on an annual basis. The Authority also encourages the activities of its [social committee](#).

Business Support Achievements

- Significant progress was made in implementing a new [electronic document/records management system \(EDRMS\)](#). Staff were trained in records management and in using the EDRMS. After reviewing its [record keeping plan](#), the Authority started a major review of its business classification system.
- Seven [internal audits](#) were conducted during the financial year, compared to six in 2006/07 and three in 2005/06.
- 2007/08 was the first full year that the Authority received [financial services](#) from the Department of Treasury and Finance Shared Services Centre.
- The Authority's intranet was further developed to give staff access to a wide range of policies and guidelines. The intranet now includes an events calendar to notify staff of dates and deadlines including budget review deadlines, conferences, seminars and other activities.

Overview of the Authority

Executive Summary Highlights

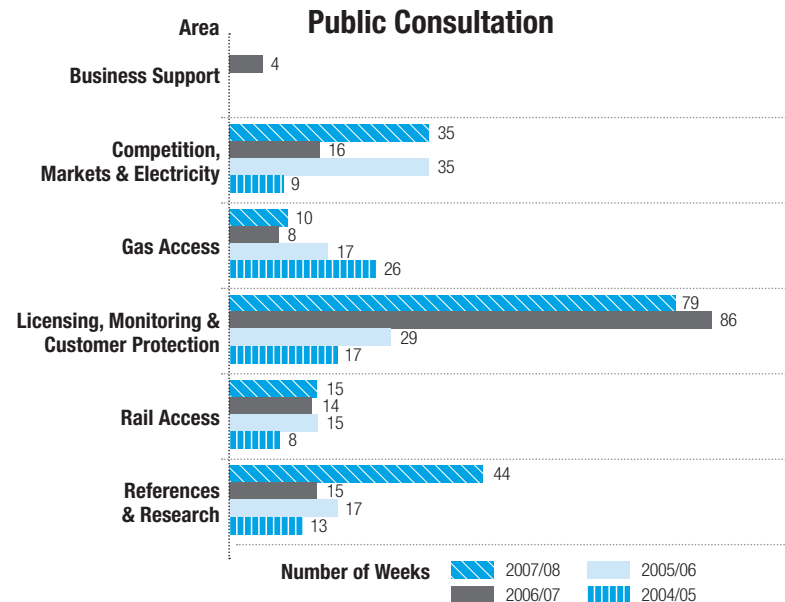
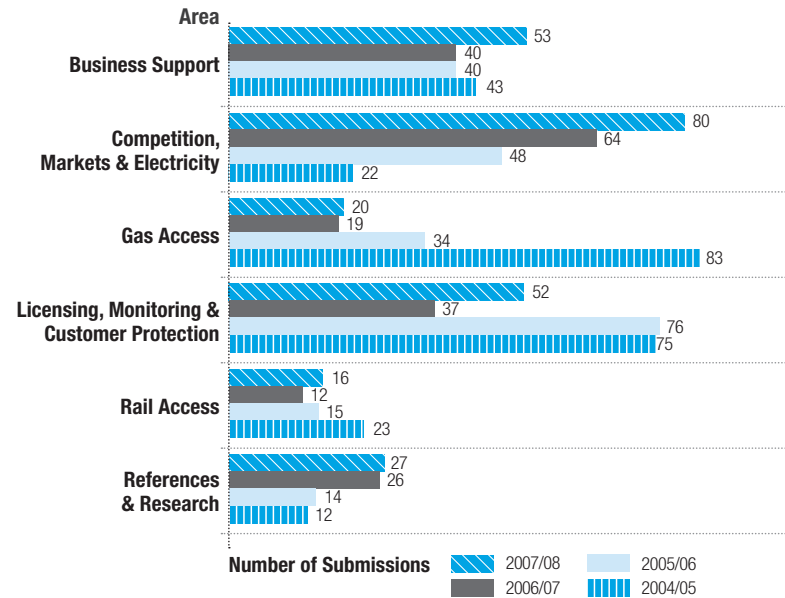
Summary of Achievements

The list below provides a snapshot of the Authority's outputs and related activities for the 2007/08 financial year. Further information on these are available on the Authority's web site:

- [six inquiries finalised](#);
- [31 formal decisions made by the Authority](#);
- [19 reports published](#);
- [13 papers published](#);
- [37 regulatory guidelines issued](#);
- [150 notices issued](#);
- 183 weeks of public consultation undertaken;
- [183 public submissions received](#); and
- [eight corporate publications published](#).

The following two charts provide information on activity levels in the different areas of the Authority's functions. The charts show these activity levels for each of the past four years. What is of particular interest is that activity levels vary substantially from year-to-year and as between the different work areas. To a large extent, this is attributable to the Authority being required to undertake periodic reviews in many of the work areas on a cyclical basis ranging from three to five years.

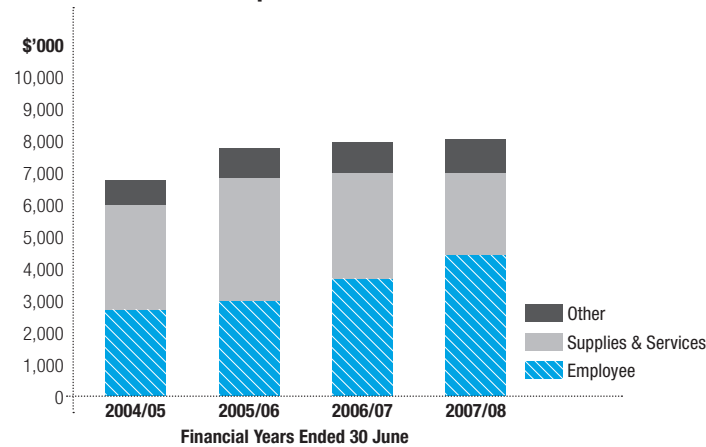
Items of advice considered by the Authority
(In the form of submissions by the Secretariat to the Authority)



Overview of the Authority

Executive Summary Financial Summary

Expenditure



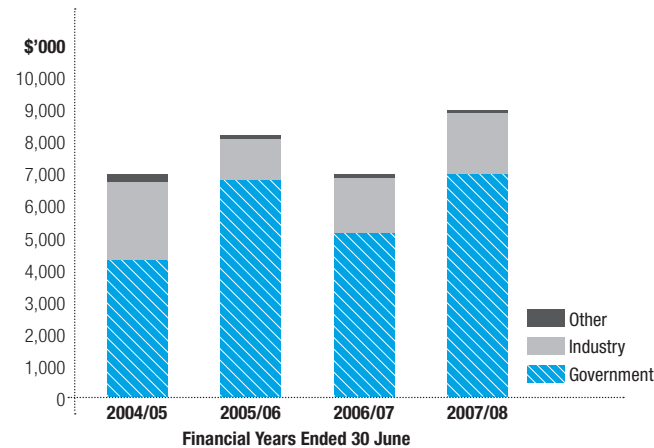
Expenditure and Income

The charts to the left show the Authority's expenditure and income for the first four full years of operation.

The first of these charts shows that total expenditure has been reasonably constant over the past three years. However, the composition of the main categories of expenditure has changed, with employee expenditure becoming a greater proportion of total expenditure. Correspondingly, expenditure on supplies and services has declined. Other expenditure for 2007/08 increased by approximately 13% on the previous year.

The chart representing income indicates an upward trend over the past four years, although income in 2006/07 is clearly below this trend. Total income in 2007/08 amounted to \$9.3 million, exceeding expenditure for that year by \$1.7 million. The chart also shows that the composition of income has tended to vary from year-to-year.

Income

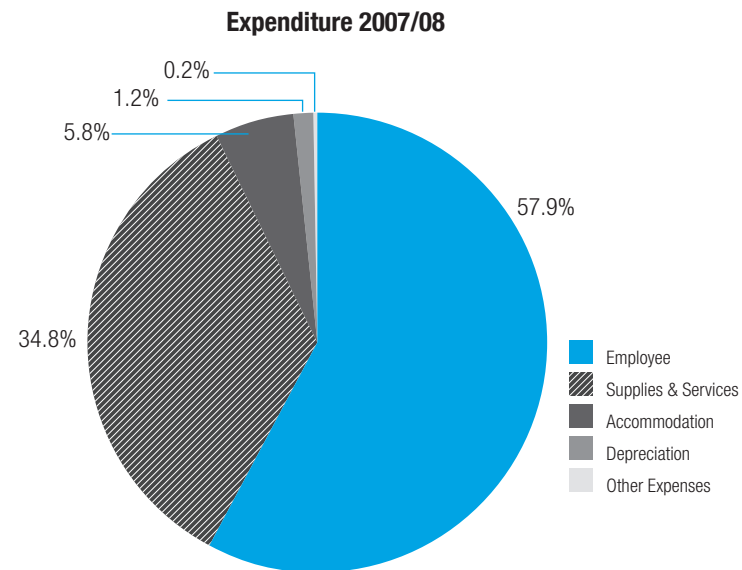
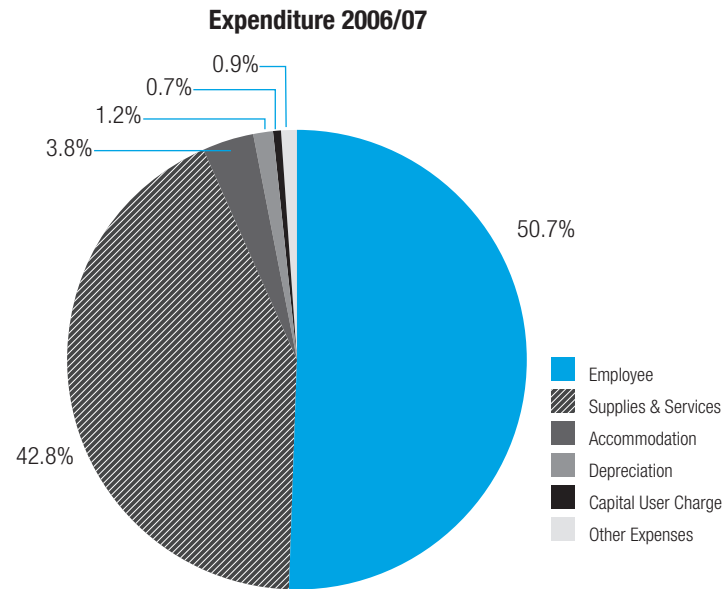


Overview of the Authority

Executive Summary

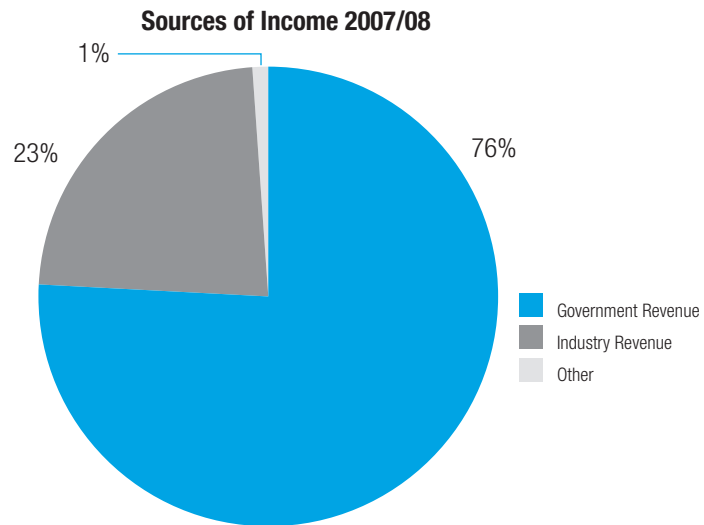
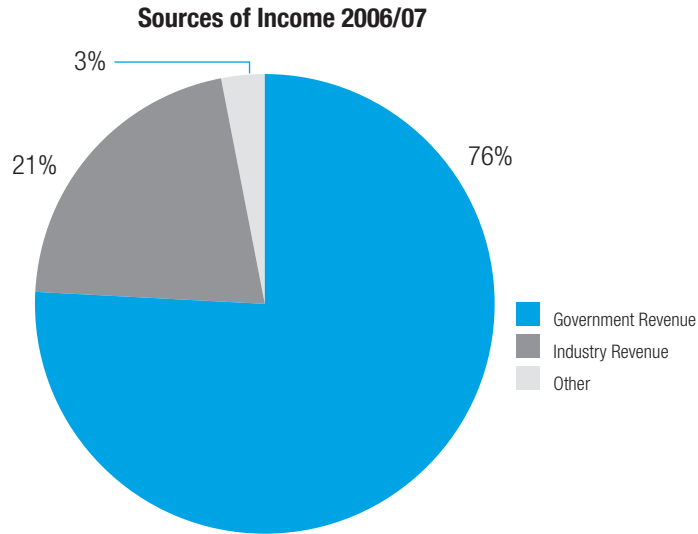
Financial Summary (continued)

The most notable change shown in the following expenditure charts for 2006/07 and 2007/08 is the change in employee expenditure which increased from 50.7% to 57.9%. This increase in employee expenditure follows an increase in staff numbers needed to support new functions assigned to the Authority. In 2006/07, the Authority was supported by a staff of 42.7 full-time equivalents, which increased to 45.3 full-time equivalents in 2007/08. A corresponding reduction in supplies and services from 42.8% to 34.8% is also shown.



Overview of the Authority

Executive Summary Financial Summary (continued)



Both Government and industry income increased significantly during 2007/08. Income from Government increased from \$5.2 million in 2006/07 to \$7 million in 2007/08, which reflects an expansion in the Authority's functions.

Although income from Government increased, as a proportion of total income it remained at approximately 76% as shown in the charts to the left. Income from industry also increased from \$1.5 million in 2006/07 to \$2.2 million in 2007/08. While this represents an increase of approximately 45%, the share of income from industry only increased from approximately 21% to 23%. As a consequence, the proportion of other income decreased from approximately 3% to 1%.

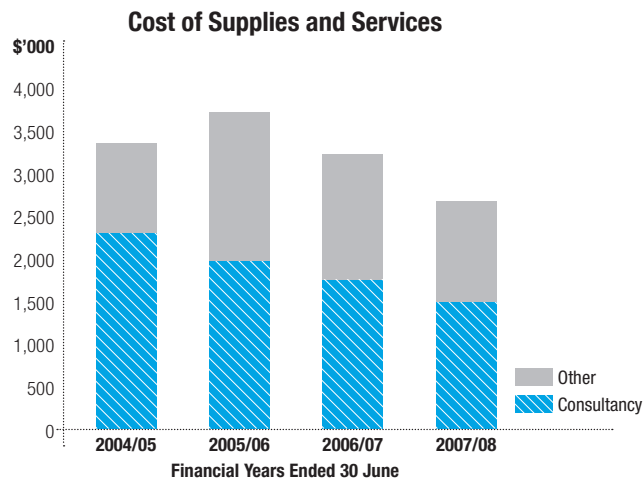
Overview of the Authority

Executive Summary

Financial Summary (continued)

The Authority's main areas of expenditure are employee expenses, supplies and services, and accommodation. Included in supplies and services is expenditure on consultants assisting the Authority in the performance of its regulatory functions. Expenditure on consultants has steadily decreased from \$2.3 million in 2004/05 to \$1.4 million in 2007/08.

This reduction in expenditure is to some extent a reflection of the Authority's policy to build 'in-house' expertise. Accordingly, expenditure on consultants declined while employee expenditure increased. The reporting year was one requiring a lesser degree of specialised expertise, however, the coming year is expected to see a greater level of expenditure on consultants owing to cyclical work flows. With three access arrangements falling due for review (for the electricity network, the gas distribution network and the Goldfields Gas Pipeline), a higher level of consultancy expenditure is expected in 2008/09.



Operational Structure

Role of the Authority

The Authority has two main functions, to act as Western Australia's economic regulator and to be an independent and transparent advisory body to the State Government. 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*.

In its regulatory role, the Authority assesses the terms and conditions, including prices, offered by owners of monopoly infrastructure to third parties in the gas, electricity and rail industries. It also licenses providers of gas, electricity and water services and monitors compliance with licensing conditions. The Authority also has a range of responsibilities in gas retailing and surveillance of the State's wholesale electricity market.

In its advisory role, the Authority inquires into and reports on matters referred to it by the State Government. Inquiries, and the reports which follow, generally involve extensive public consultation carried out in an independent and transparent way. Unlike its regulatory role, the Authority is not a decision-maker when undertaking inquiries or preparing reports, but simply makes recommendations to the State Government.

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

The Authority makes its decisions and provides advice independent of industry, government, or other interests and is not subject to State or Ministerial direction in carrying out its regulatory or inquiry functions. In making its decisions, the Authority strives to promote fair prices, quality services and choice.

Overview of the Authority

Operational Structure

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 direction in writing to the Authority on administration and financial administration matters.

In this context, the relevant Minister during the reporting year was the Hon Eric Ripper BA DipEd MLA, Deputy Premier; Treasurer; Minister for State Development.

Organisational Structure

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

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

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

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

Secretariat staff are the initial point of contact in the Authority's day-to-day dealings on matters relating to gas, electricity, rail and water regulation. Also, the Secretariat is the initial point of contact for inquiries referred to the Authority by the State Government. While Secretariat staff may provide assistance on these matters, it is the Governing Body that has ultimate responsibility for regulatory and inquiry functions.

Our People

As at 30 June 2008, the Authority had 48 employees working either full or part-time. Most were permanent staff, with seven working on contract. Further temporary contract staff were employed during the financial year to provide short-term support and expertise during periods of staff leave and peak workload. Further employment and industrial relations information is discussed in the [Disclosures and Legal Compliance](#) section of this annual report.

Governing Body

The Chairman is the Head of the Governing Body. Mr Lyndon Rowe was appointed as the full-time Chairman on 8 March 2004 for a period of five years. On 17 June 2008, Mr Rowe was reappointed for a further five years, from and including 8 March 2009.

The Authority has two part-time Members, Mr Steve Edwell (appointed for five years from 17 January 2006) and Mr Peter Panegyres AM (appointed for three years from 9 October 2007).

The Governing Body usually meets every month and has regular weekly discussions using conferencing facilities. Extra-ordinary meetings are organised on an as required basis.

The Authority also operates a system of resolutions without meetings using email or hard copy circulation of documents. Resolutions without meetings are an effective way of dealing with the more routine matters requiring consideration by the Governing Body.

Overview of the Authority

Operational Structure

Our People (continued)

Mr Lyndon Rowe, Chairman

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

In addition to his role at the Authority, Mr Rowe is also a Member of the University of WA Senate, a Director of Perth Airport and Non-Executive Chairman of InterStaff Recruitment Limited.

Immediately prior to his appointment as Chairman of the Authority, Mr Rowe was Chief Executive of the Chamber of Commerce and Industry of WA, a position he had held since 1990.

Mr Steve Edwell, Member

Mr Edwell has more than 15 years experience in the 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 sector.

In addition to his role at the Authority, Mr Edwell is the inaugural Chair of the Australian Energy Regulator, a position he has held since mid-2005. Immediately prior to his appointment as Chair of the Australian Energy Regulator, Mr Edwell worked for the Western Australian Government leading the implementation of comprehensive electricity reform.

Mr Edwell was also the Chief Executive Officer of the Queensland Electricity Reform Unit, which implemented a range of electricity reforms that culminated in Queensland joining the National Electricity Market.



The Economic Regulation Authority's Governing Body.
From left to right:
Mr Steve Edwell (Member),
Mr Lyndon Rowe (Chairman) and
Mr Peter Panegyres AM (Member).

His other assignments have included being commissioned by the Queensland Government to implement the Council of Australian Governments' water reforms and as head of the Queensland Office of Energy.

Mr Peter Panegyres AM, Member

Mr Panegyres was the Crown Solicitor for Western Australia from 1985 to 2003. He was appointed a Member of the Order of Australia in 2000 for his services to the law and to public administration as Crown Solicitor for Western Australia, and in 2003 was awarded the Centenary Medal for services to the law in Western Australia.

Overview of the Authority

Operational Structure Our People (continued)



Secretariat

The Secretariat comprises four operational and two business support divisions. The four operational divisions are:

- Competition, Markets and Electricity;
- Gas and Rail Access;
- Licensing, Monitoring and Customer Protection; and
- References and Research.

The two business support divisions are:

- Finance and Administration; and
- Planning and Executive Support.

For efficiency, effectiveness and timeliness, the Authority has adopted distinct regulatory and administrative organisational structures, which provides that operational divisions may report directly to the Governing Body on regulatory matters. The administrative structure is shown in the following chart.

Overview of the Authority

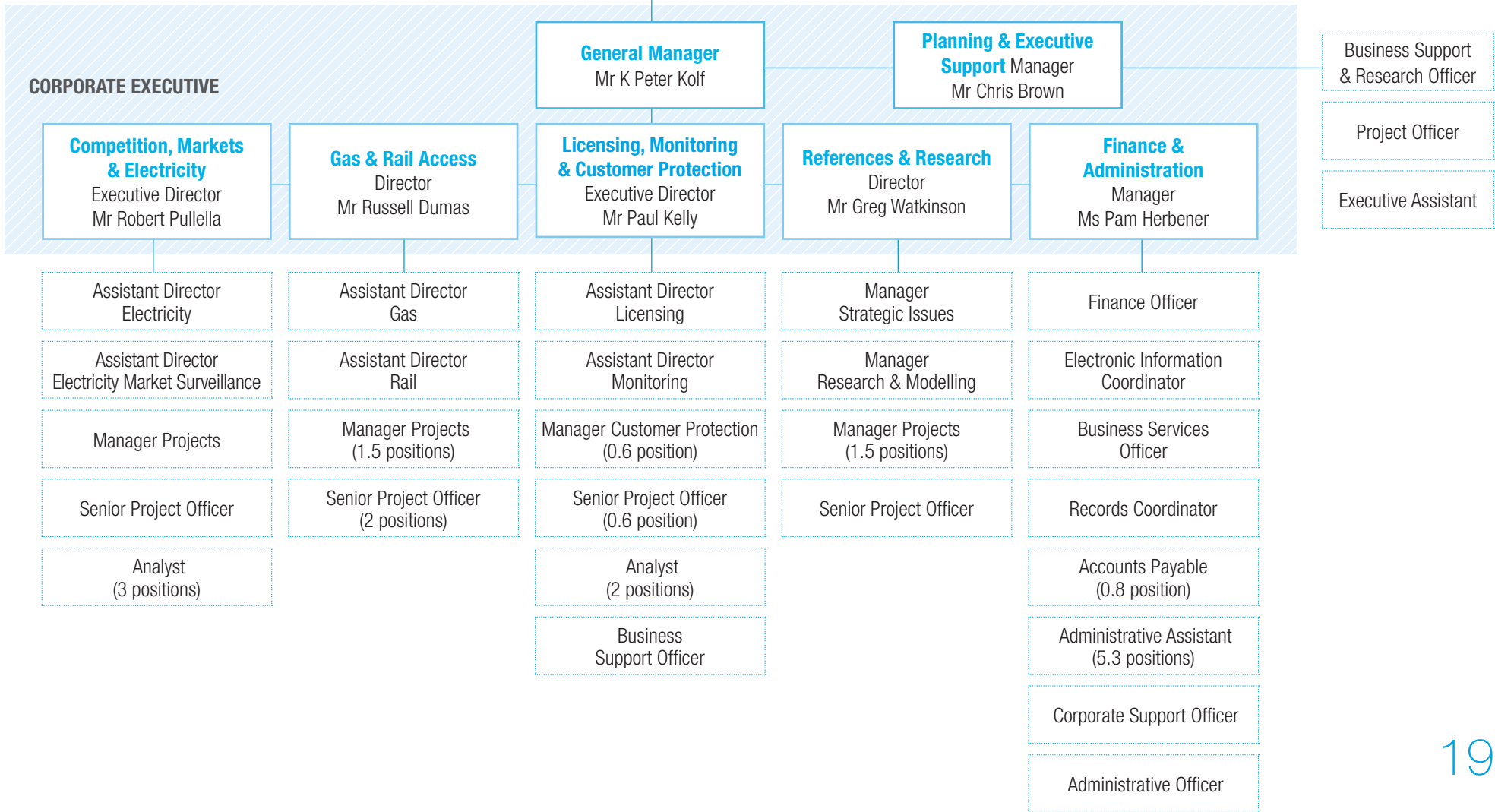
Operational Structure Our People (continued)

GOVERNING BODY

ERA Organisational Structure
as at 30 June 2008

ECONOMIC REGULATION AUTHORITY GOVERNING BODY
Full-time Chairman Mr Lyndon Rowe
Part-time Member Mr Steve Edwell
Part-time Member Mr Peter Panegyres AM

SECRETARIAT



Overview of the Authority

Operational Structure Our People (continued)

Corporate Executive

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

The Corporate Executive comprises the Divisional Heads from each of the Secretariat's six divisions.

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

Mr K Peter Kolf, General Manager

Mr Kolf was appointed General Manager (Chief Employee) in July 2004, having acted in the position since 1 January 2004.

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

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 K Peter Kolf,
General Manager



Other Members of the Corporate Executive

In addition to the General Manager, the Corporate Executive includes the following six Divisional Heads (from top to bottom):

Mr Paul Kelly

Executive Director Licensing, Monitoring and Customer Protection



Mr Robert Pullella

Executive Director Competition, Markets and Electricity



Mr Russell Dumas

Director Gas and Rail Access



Mr Greg Watkinson

Director References and Research



Ms Pam Herbener

Manager Finance and Administration



Mr Chris Brown

Manager Planning and Executive Support

Overview of the Authority

Operational Structure

Our People (continued)

Workplace Culture

Professional Development

The Authority recognises that the professional development of staff is integral in contributing to Goal 5 of the State Government's framework for Strategic Management *Better Planning: Better Futures*, which relates to governance and public sector improvement. One of the strategic outcomes of Goal 5 is to promote a *skilled and capable public sector workforce*.

The Authority encourages staff participation in undertaking training to further develop and acquire new skills. In 2007/08, staff attended training courses that varied in subject matter, from ways to improve administrative and computer skills, to accredited training in project management, strategic planning and leadership. Staff are also encouraged to attend relevant conferences to stay abreast of issues relevant to the Authority's functions.

The Authority also gave presentations at a number of forums during the year. Copies of presentations are available on the Authority's [web site](#).

Staffing Policies

The Authority has implemented numerous policies to cover a range of human resource management practices. In order to continue the ongoing process of improving and addressing the needs of our staff and clients, several human resource initiatives were implemented or formalised during 2007/08. These initiatives are discussed in the [Disclosures and Legal Compliance](#) section of this annual report.

Promoting a Shared Culture

Having Fun at Work

After a series of casual staff get-togethers in recent years, the Social Committee was formally established in June 2007. The Committee meets monthly to discuss how best to promote a workplace culture where staff can communicate and engage with one another on an informal basis. Participation in social activities is voluntary and open to all staff.

Supporting Charities

During the year, the Authority supported several charities and participated in a number of fundraising events. Through the monthly free-dress day, the Authority raised money for Water Aid Australia in 2007 and the Cerebral Palsy Association of Western Australia in 2008. The Authority also participated in the Salvation Army's Christmas Appeal in 2007 and the Cancer Council's 'Australia's Biggest Morning Tea' on 22 May 2008.

Awards

The Authority's commitment to quality communications was recognised when it received Bronze in the 2007 W.S. Lonnie Awards in the General Government Sector category (under 100 full-time equivalent employees) for its annual report in that year.

Overview of the Authority

Operational Structure

Summary of Responsibilities by Division

Competition, Markets and Electricity

The [Competition, Markets and Electricity Division](#) is responsible for:

- co-ordinating and setting strategic directions across the agency;
- administering the third party access regime for regulated electricity networks in Western Australia under the *Electricity Networks Access Code 2004*;
- monitoring the Western Australian wholesale electricity market;
- assessing the state of competition in electricity and gas retail markets;
- administering the disputes mechanism under the *Electricity Industry Metering Code 2005* and the *Electricity Industry Customer Transfer Code 2004*; and
- administering the technical rules approvals process for both 'covered' and 'non-covered' electricity networks under the *Electricity Networks Access Code 2004*.

Gas and Rail Access

The [Gas and Rail Access Division](#) is responsible for:

- administering the third party access regime and associated arrangements such as ring fencing and associate contracts for regulated gas pipelines under the *National Third Party Access Regime for Natural Gas Pipeline Systems*; and
- administering third party access regime including segregation arrangements, Part 5 instruments, floor and ceiling costs and weighted average cost of capital determinations for regulated rail networks under the *Rail (Access) Code 2000*.

Licensing, Monitoring and Customer Protection

The [Licensing, Monitoring and Customer Protection Division](#) is responsible for:

- administering the licensing schemes including granting, renewing, transferring and amending licences for the provision of water, gas and electricity services;
- monitoring licence obligations and reporting to the Minister on the operation of the licensing scheme and on compliance by licensees with their licence conditions;
- enforcing licence obligations and reporting to the Minister on any failure by a licensee to meet performance criteria or other licence requirements; and
- undertaking customer protection activities such as approving standard form contracts, and customer service charters, and developing and reviewing guidelines and codes.

References and Research

The [References and Research Division](#) is responsible for:

- managing the Authority's inquiries and reports functions; and
- undertaking research across the Authority on economic, financial, technical and legal issues.

Overview of the Authority

Operational Structure

Summary of Responsibilities by Division (continued)

Planning and Executive Support

The Planning and Executive Support Division is responsible for:

- providing executive support to the Governing Body;
- providing strategic, business planning and corporate communications services to the Governing Body and Secretariat; and
- preparing the Authority's corporate reports, plans and programs.

Finance and Administration

The Finance and Administration Division is responsible for undertaking statutory management responsibilities in relation to:

- human resource management services to ensure recruitment, staff management and retention, payroll and performance management;
- administration services to support the Secretariat to ensure delivery of high quality products and services to staff and key stakeholders;
- financial management services to ensure the Authority's budget, accounts payable, accounts receivable and procurement processes; and
- information management and information technology services.



Overview of the Authority

Operational Structure

Legislation Affecting Activities

Enabling Legislation

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

Administered Legislation

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

The following table lists the legislation directly relevant to the Authority's regulatory role.

| REGULATED UTILITY | RELEVANT LEGISLATION |
|-------------------|--|
| Electricity | <i>Electricity Industry Act 2004</i> <i>Electricity Industry (Code of Conduct) Regulations 2005</i> <i>Electricity Industry (Customer Contracts) Regulations 2005</i> <i>Electricity Industry (Licence Conditions) Regulations 2005</i> <i>Electricity Industry (Obligation to Connect) Regulations 2005</i> <i>Electricity Industry (Wholesale Electricity Market) Regulations 2004</i> <i>Electricity Industry (Network Quality and Reliability of Supply) Code 2005</i> <i>Code of Conduct (for the Supply of Electricity to Small Use Customers)</i> <i>Electricity Industry Customer Transfer Code 2004</i> <i>Electricity Networks Access Code 2004</i> <i>Electricity Industry Metering Code 2005</i> |
| Gas | <i>Energy Coordination Act 1994</i> <i>Gas Pipelines Access (Western Australia) Act 1998</i> <i>Energy Coordination (Customer Contracts) Regulations 2004</i> <i>Energy Coordination (Last Resort Supply) Regulations 2005</i> <i>Energy Coordination (Licensing Fees) Regulations 2005</i> <i>Energy Coordination (Retail Market Schemes) Regulations 2004</i> <i>Gas Pipelines Access (Western Australia) Regulations 2000</i> <i>Gas Pipelines Access (Western Australia) (Funding) Regulations 1999</i> |
| Rail | <i>Railways (Access) Act 1998</i> <i>Railways (Access) Code 2000</i> |
| Water | <i>Water Services Licensing Act 1995</i> <i>Water Services Coordination Act Regulations 1996</i> |

Overview of the Authority

Operational Structure

Legislation Affecting Activities (continued)

Other Legislation Impacting on the Authority

- *Corruption and Crime Commission Act 2003*;
- *Criminal Code Act Compilation Act 1913*;
- *Disability Services Act 1993*;
- *Electoral Act 1907*;
- *Equal Opportunity Act 1984*;
- *Financial Management Act 2006*;
- *Freedom of Information Act 1992* (does not apply to the Authority's regulatory function relating to access to gas pipelines and rail systems);
- *Industrial Relations Act 1979*;
- *Occupational Safety and Health Act 1984*;
- *Public Interest Disclosure Act 2003*;
- *Public Sector Management Act 1994*;
- *State Records Act 2000*; and
- *Workers' Compensation and Injury Management Act 1981*.



Overview of the Authority

Performance Management Framework

The Authority's Contribution to an Outcome Based Management Framework

The Authority works within the State Government's September 2006 *Better Planning: Better Futures – A Strategic Management Framework for the Western Australian Public Sector*. The *Economic Regulation Authority Act 2003* charges the Authority with being the independent economic regulator for Western Australia. The Authority contributes most directly towards achieving the following State Government strategic goals:

- **Jobs and Economic Development** – *Creating conditions that foster a strong economy delivering more jobs, opportunities and greater wealth for all Western Australians.*
- **Governance and Public Sector Improvement** – *Developing and maintaining a skilled, diverse and ethical public sector serving the Government with consideration of the public interest.*

The Authority contributes to the Government's strategic goals through its own strategic and business planning processes which fall within the integrated planning framework illustrated to the right.



Overview of the Authority

Performance Management Framework

The Authority's Contribution to an Outcome Based Management Framework (continued)

The following outlines the Authority's contribution to fulfilling the objectives of the five goals outlined in *Better Planning: Better Futures*:

Goal One: Better Services – Enhancing the quality of life and wellbeing of all people throughout Western Australia by providing high quality, accessible services.

Section 26 (1) of the *Economic Regulation Authority Act 2003* states that the Authority, in carrying out its functions, needs to promote regulatory outcomes that are in the (a) public interest and (b) long-term interests of consumers in relation to the price, quality and reliability of goods and services provided in relevant markets.

Goal Two: Jobs and Economic Development – Creating conditions that foster a strong economy delivering more jobs, opportunities and greater wealth for all Western Australians.

The Authority contributes most directly through the regulation of electricity, gas, rail and water infrastructure by promoting fair prices, quality services and choice.

The Authority also contributes to goal two through its inquiry and reports function, by promoting economic efficiency in regulated and non-regulated industries.

Goal Three: Lifestyle and the Environment – Protecting and enhancing the unique Western Australian lifestyle and ensuring sustainable management of the environment.

In carrying out its functions, the Authority is required to have regard to the long-term interests of consumers and the need to promote outcomes that are in the public interest (section 26 of the *Economic Regulation Authority Act 2003*).

Goal Four: Regional Development – Ensuring that regional Western Australia is strong and vibrant.

In performing its functions, the Authority is mindful of the importance of regional development. During 2007/08, the Chairman and General Manager made several presentations to regional stakeholder groups, including to the:

- Mid West Development Commission;
- South West Development Commission;
- Goldfields Esperance Development Commission;
- Regional Development Council; and
- Shire of Manjimup – Warren Blackwood Strategic Alliance.

These presentations sought to promote a better understanding of the issues being dealt with by the Authority.

Goal Five: Governance and Public Sector Improvement – Developing and maintaining a skilled, diverse and ethical public sector serving the Government with consideration of the public interest.

The Authority pursues high standards of governance and public sector improvement by developing codes, guidelines and policies to assist Members of the Governing Body and Secretariat in performing their functions. The material is communicated within the agency and made available on the Authority's intranet.

Extensive training and staff development is provided to maintain a skilled workforce and diversity is promoted.

Overview of the Authority

Performance Management Framework

Changes to the Outcome Based Management Framework



There were no changes to the Authority's desired outcomes, services or key performance indicators during the reporting year. However, the Authority completed a three-yearly review of its strategic plan and put in place a new plan, operational from 1 July 2008. To ensure the Authority meets its strategic goals over the plan's life, a suite of internal key performance indicators are being developed to measure progress.

The Authority's Performance

The Authority's Performance Reporting Methodology

The performance methodology adopted for the reporting year compared targets (as set out in the Planned Achievements section of the Authority's 2006/07 annual report) with outcomes (the operational divisions' performance during 2007/08).

This report on agency performance also provides:

- an explanation of any material variations between targets and outcomes;
- narrative on other major initiatives and projects undertaken in the reporting year; and
- the objectives under which operational divisions of the Authority function (these objectives are derived from the various sources of legislation that set out the Authority's functions).

It should be noted that this reporting methodology departs, to some extent, from the Department of the Premier and Cabinet's *Annual Reporting Framework 2008*, which places emphasis on comparing 'results with targets of financial and non-financial key performance indicators'.

For the reasons set out in the [Key Performance Indicators](#) section of this annual report, the Authority only reports on the administrative performance of the Secretariat in relation to the quantity, quality, timeliness and cost of submissions prepared for the Governing Body. These submissions help the Governing Body carry out its functions, including reaching decisions on regulatory matters.



The Authority's Performance

Divisional Reports

The Authority set challenging targets for each operational division to focus on in the 2007/08 reporting year and is pleased to report that most of these planned targets were met.

Competition, Markets and Electricity Electricity Access

Objectives

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

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

Under the *Electricity Industry Customer Transfer Code 2004 (Transfer Code)*:

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

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

- to approve the Model Service Level Agreements, Communication Rules, Metrology Procedures and Mandatory Link Criteria proposed by regulated network operators;



The Authority's Performance

Divisional Reports

Competition, Markets and Electricity (continued)

- to arbitrate disputes that may arise between network operators and Metering Code participants; and
- to approve a registration process for meter installation providers.

Targets and Outcomes

- To assess whether any major augmentation proposals (transmission projects exceeding \$15 million or distribution projects exceeding \$5 million) submitted by Western Power meet the regulatory test principles as set out in the Electricity Access Code. This assessment is referred to as the regulatory test.

The Authority must, for a major augmentation proposal, make and publish its regulatory test determination within 45 business days, if it undertakes public consultation, or otherwise within 25 business days.

The Authority assessed a major augmentation proposal submitted by Western Power on 4 October 2007 (for a 330kV transmission line and associated works in the Mid-West region of Western Australia) for a regulatory test assessment.

On 7 December 2007, the Authority [determined](#) that the proposal satisfied the regulatory test. In making its determination, the Authority considered Western Power's proposal, an independent technical report and the 14 submissions received during the consultation period.

- To assess whether proposed augmentations to Western Power's transmission and distribution network satisfy the new facilities investment test as set out in the Electricity Access Code.

The Authority is assessing a major augmentation proposal submitted by Western Power on 9 April 2008 for a 330kV transmission line and associated works in the Mid-West region of Western Australia for a new facilities investment test.

The Authority released an [issues paper](#) on 23 May 2008 to help interested parties prepare submissions on the proposal. After considering [eight submissions](#), the Authority published its [draft determination](#) on 4 August 2008 for further public consultation.

- To approve the schedule of reference tariffs (price list) proposed by Western Power under the requirements of its access arrangement.

On 8 May 2008, the Authority [approved Western Power's 2008/09 price list](#) for its South West Interconnected Network, which were submitted on 21 April 2008 under chapter 8 of the Electricity Access Code. The new prices came into effect on 1 July 2008.

- To develop arbitration processes for disputes that may arise between electricity network operators and retailers under the Transfer and Metering Codes. These codes allow the Authority to resolve disputes which cannot be resolved through direct negotiations.

In February 2008, the Authority published a [procedure for a party to refer a dispute under the Transfer Code and the Metering Code to the Authority for resolution](#).

The Authority is required to conduct dispute resolution processes quickly and with as little formality and technicality as the Codes, and a proper hearing and determination of the dispute, permit.

The Authority's Performance

Divisional Reports

Competition, Markets and Electricity (continued)

Other Key Outcomes

- The Authority prepared and released for public comment [regulatory test guidelines](#) on 2 November 2007, with a revision on 22 February 2008. The guidelines seek to assist electricity network service providers prepare applications for approval under the regulatory test for major augmentation proposals, both as part of an access arrangement revision process and for major augmentation proposals submitted other than as part of an access arrangement approval process.
- On [23 April 2008](#) and [23 July 2008](#), the Authority granted service providers of non-covered networks further extensions of time (for three and two months respectively) to submit a notice indicating adoption of either Western Power's technical rules, or submission of their own technical rules, to the Authority for approval. The Authority approved Western Power's technical rules on 26 April 2007 as part of the Corporation's access arrangement. Following discussions with the Office of Energy, changes to the Electricity Access Code were being considered to clarify which non-covered networks required technical rules and the process to develop them. It was expected that amendments to the Electricity Access Code would be gazetted in late 2008.
- The Authority has been monitoring the National Smart Meter Cost Benefit Study commissioned by the Ministerial Council on Energy for the Council of Australian Governments (**COAG**). In April 2007, COAG endorsed a staged approach for a national mandated rollout of electricity smart meters to areas where benefits outweighed costs as indicated by a cost benefit study.

This cost benefit study was completed in early 2008 and the results were being considered by the State Government's energy policy agency, the Office of Energy.

Case Study 1

Regulatory Test waived for a major augmentation to electricity infrastructure – April 2008

On 15 April 2008, [the Authority determined to waive the application of the regulatory test for Western Power's proposed major augmentation for a 66/11kV medical centre zone substation expansion and voltage conversion of the distribution network](#). It was decided that applying the test would be against its objectives because:

- there were no, nor were there likely to be any viable alternatives; and
- the nature of the funding meant the augmentation would not cause a net cost to those who generated, transported and consumed electricity.

The Authority made its decision in accordance with section 9.23(f) of the *Electricity Networks Access Code 2004*.

This decision is an example of the Authority using its discretion to achieve appropriate regulatory outcomes while minimising regulatory compliance costs.

The Authority's Performance

Divisional Reports

Competition, Markets and Electricity (continued)

Wholesale Electricity Market

Objectives

Under the *Wholesale Electricity Market Rules* (**Market Rules**):

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

Targets and Outcomes

- To report to the Minister for Energy on the effectiveness of the WEM in meeting its objectives. The Market Rules require the Authority to provide a report at least annually.

The [first annual WEM report](#) was prepared on the basis of nine months activity, from when the market commenced on 21 September 2006.

The available information suggested that the market had been operating effectively during its early stages. It was noted that the vesting contract between Synergy and Verve Energy operates outside of the WEM and was not extensively considered in this first review. In particular, the Authority noted in the report that since the market's commencement:

- new participants have entered the market, which will bring about a fall in the share of capacity in the market that is provided by Verve Energy from around 90% to approximately 60% over the years to 2009/10;

- despite Verve Energy currently accounting for the overwhelming majority of capacity in the market, other market participants have been active in the Short Term Energy Market (**STEM**);
 - with the entry of new generation facilities operated by market participants other than Verve Energy over the next few years, there will be a broader range of market participants scheduling bilateral quantities and participating in the STEM;
 - prices have tended to decline and become less volatile in both the STEM and the balancing market; and
 - prices in the STEM and the balancing market have provided useful signals to market participants, with prices responding to scarcity in the market.
- To meet with market participants and seek submissions from all stakeholders to develop recommendations to increase the market's effectiveness in meeting its objectives.

The Authority consulted with market participants and the public in preparing its first annual WEM report. It also further consulted with market participants and the public in preparing its second report to the Minister.
 - To approve the 2010/11 maximum reserve capacity price as proposed by the IMO.

The Market Rules require the Authority to review the report submitted by the IMO, including public submissions. The Authority must also consider whether the IMO has followed the prescribed methodology and guiding principles to determine the maximum reserve capacity price (**MRCP**) value and the IMO's public consultation was adequate.

The Authority's Performance

Divisional Reports

Competition, Markets and Electricity (continued)

The Authority made a [decision on the MRCP for the 2010/11 capacity year](#) on 16 January 2008. It approved the revised value for the MRCP for the 2008 Reserve Capacity Cycle of \$173,400 per megawatt per year.

- To assess and approve the energy price limits proposed by the IMO, after assessing the maximum and minimum STEM prices and the maximum shut down price.

The Market Rules require the Authority to review the report submitted by the IMO, including all public submissions, to determine whether the prescribed methodology and guiding principles were followed, and whether the public consultation was adequate.

The Authority made a [decision on energy price limits submitted by the IMO](#) on 24 October 2007. It approved the revised value for the maximum STEM price of \$206/MWh and the revised value for the alternative maximum STEM price of \$498/MWh.

Other Key Outcomes

- As reported in the [References and Research divisional report](#), the Authority published [discussion](#) and [technical](#) papers in January to assist WEM participants in the understanding of short run marginal cost (**SRMC**). The Authority, together with the IMO, held a forum on SRMC on 26 February 2008. The forum sought to provide a better understanding of SRMC with reference to clause 6.6.3 of the Market Rules. A copy of the Authority's presentation delivered at the forum is available on its [web site](#).
- The Authority investigated an anomalous market outcome observed in January 2008 and will report its findings in its report to the Minister for Energy on the market's effectiveness, which is to be completed later in 2008.

- The Authority closely monitored behaviour and outcomes in the WEM arising from an incident at the Varanus Island gas processing plant early in June 2008 and the subsequent impacts it had on the electricity market. Its assessment will be included in its report to the Minister for Energy on the effectiveness of the market, set for completion later in 2008.
- The Authority continued its role as an observer on the Market Advisory Committee. This committee of industry representatives was convened by the IMO to advise it on proposals for rule and procedure changes, as well as market and operational matters within the South West Interconnected System.
- The Authority, with the IMO, has continued to monitor the behaviour of market participants to assess whether there has been any anomalous behaviour likely to affect the effectiveness of the market in meeting the wholesale electricity market objectives. It has continued to develop monitoring tools to enhance its surveillance capability.
- The Authority approved the costs relating to a deed of undertaking between System Management and Verve Energy for dispatch support services submitted under the Market Rules. The deed was effective from 20 April 2008 until the date the 330 kV transmission line from Pinjar to Geraldton begins operating.

The Authority's Performance

Divisional Reports Gas and Rail Access

Gas Access

Objectives

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

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

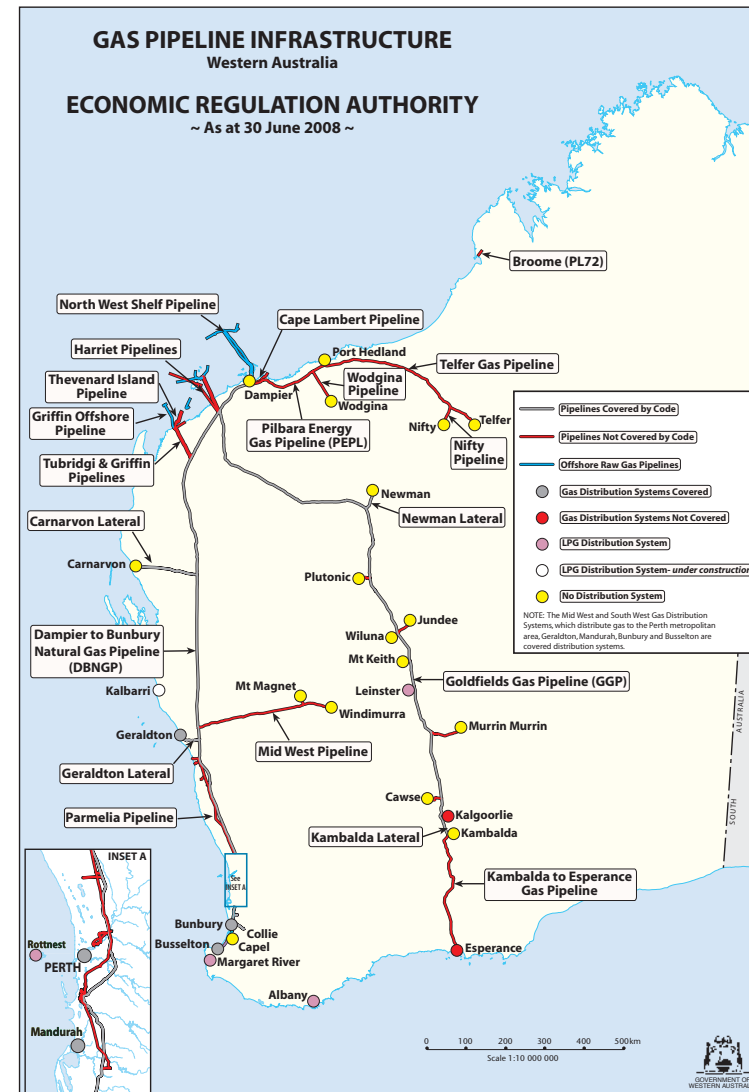
Under the *Energy Coordination Act 1994*:

- to approve and amend gas retail market schemes.

Targets and Outcomes

- To complete a discussion paper on the new facilities investment test (**NFIT**) as provided for under section 8.16(a) of the Gas Code. This discussion paper, which is being prepared jointly with the Australian Energy Regulator (**AER**), is to inform stakeholders and other interested parties on the operation of the NFIT under the Gas Code.

The Authority and the AER produced a draft NFIT discussion paper, with a view to achieving a joint document for endorsement by both organisations. The joint document was intended to be an information paper to assist the Ministerial Council on Energy in its considerations of the proposed new national gas legislation.



The Authority's Performance

Divisional Reports

Gas and Rail Access (continued)

This paper was however put on hold as the requirements of the Gas Code will likely be superseded by the proposed new national gas legislation. It is intended that an updated version of the draft discussion paper will be produced after the new legislation is in place.

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

On 20 August 2007, the Authority commenced the review of REMCo by issuing a notice inviting public submissions on its [issues paper](#). Five submissions were received on the issues paper.

After considering a total of [six submissions](#), including one received in response to the Authority's [draft report](#), the Authority released its [final report](#) on 29 April 2008. The final report concluded that the REMCo gas Retail Market Scheme was currently operating satisfactorily and that no changes to the provisions of the scheme to achieve the purposes set out in section 11ZOB of the *Energy Coordination Act 1994* appeared to be necessary.

- To review the associate contract between AlintaGas Networks Pty Ltd and Alinta Retail Pty Limited, subject to the proposed new national gas legislation. The Gas Code requires the Authority to approve contracts between service providers and associated companies that take up services provided by the pipeline.

During April 2008, the Authority sought legal advice on changes to the associate contract provisions, service provider definitions and ring fencing provisions under the proposed new national gas legislation. Following the advice, it was agreed by the Authority that the initial course of action was to identify the relevant service providers, prior to the GDS and GGP access arrangement revision processes commencing.

Once service providers have been identified, the Secretariat will approach these parties to discuss associate contract issues. It is anticipated that the Secretariat would provide further advice to the Authority prior to the introduction of the proposed new national gas legislation in October 2008.

Other Key Outcomes

- On 20 December 2007, the Authority published a paper on [Gas Exchangeability in Western Australia – Gas Quality Specifications of Interconnected Pipeline Systems](#). The paper addressed technical aspects of gas exchangeability and provided relevant information on existing and potential Western Australian gas fields. Public submissions on the paper were not specifically sought; however several were received and, where possible, were placed on the Authority's web site. It is understood that the relevant national standard is being reviewed and the issues raised in the Authority's paper will be considered as part of that review.

The Authority's Performance

Divisional Reports

Gas and Rail Access (continued)

- The Authority developed and implemented a pre-lodgement consultation process for those pipelines requiring revisions to the access arrangements over 2009 and 2010. Considering the proposed changes to the national gas legislation, the Authority considered it necessary to establish a consultation process for the pipelines to ensure that the required information is available when access arrangements are revised.
- The Authority carried out a major review of the proposed draft new national gas legislation in order to develop a good understanding of the proposed new law and to participate in the public consultation process on the legislation.
- The Authority required the owners of the DBNGP to complete an audit of its ring fencing obligations under the Gas Code, which verified that the obligations had been met. To minimise costs, the Authority aligned its audit requirements for the DBNGP with the Australian Competition and Consumer Commission's audit requirements. However, with the proposed change to the new national gas legislation, the ability to continue this alignment will require review. The cost of the Authority's analysis of the DBNGP ring fencing reports is charged to the pipeline as a service charge under the Authority's funding regulations.
- The Authority approved tariff variations for the DBNGP, the GDS and the GGP.

Case Study 2

Timely revision of the Dampier to Bunbury Natural Gas Pipeline access arrangement – June 2008

On 26 June 2008, the Authority approved minor revisions to the revised access arrangement for the Dampier to Bunbury Natural Gas Pipeline (DBNGP), which came into effect on 11 July 2008. The request for the revisions was submitted by the pipeline operator a day earlier.

The principal amendment sought by the pipeline operator related to Clause 5.2 of the Access Requests and Queuing Policy to allow the commencement date for an access request to be earlier than 30 days after the request was submitted. Other amendments, to Clauses 1.2 and 4, were consequential resulting from the changes to Clause 5.2.

The revisions were requested to help maximise the usage of remaining gas supplies following the incident at the Varanus Island gas processing plant. The changes may also help provide gas pipeline services to prospective shippers who are not existing shippers on the DBNGP.

The Authority's Performance

Divisional Reports

Gas and Rail Access (continued)

The Authority's [final determination](#) for the 2008 WACC was published on 23 June 2008 after considering a further [four submissions](#) on the [draft determination](#), which was published on 4 April 2008.

- Review the floor and ceiling costs for WNR's Mullewa to Geraldton rail line.

This review was deferred for the 2007/08 reporting year and may be done as part of WNR's 2009 floor and ceiling costs determination.

- Review the floor and ceiling costs for the PTA's urban passenger rail network.

The review of the floor and ceiling costs for the PTA's urban passenger rail network will be completed in the first half of 2009.

Other Key Outcomes

- On 29 May 2008, the Authority released a [final determination](#) approving the PTA's proposed revised Train Management Guidelines, Train Path Policy, Costing Principles and Over-Payment Rules (collectively referred to as the Part 5 instruments), which were submitted to the Authority on 22 June 2007. The final determination noted that the Authority had decided that the PTA's compliance arrangements should be modified by reducing some of its compliance obligations to better reflect the nature of the PTA's urban rail network and the limited extent to which third party access to the PTA rail network was likely to be an issue in the future. In coming to its final determination, the Authority conducted two rounds of public consultation.



The Authority's Performance

Divisional Reports

Licensing, Monitoring and Customer Protection

Licensing



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

- [Gas licensing areas](#); and
- [Water services areas](#).

Objectives

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

- to grant, amend, transfer and review licences for the delivery of particular services in the electricity, gas and water industries.

Targets and Outcomes

- To process licence applications and licence amendments in the electricity, gas and water areas.

The Authority approved five new electricity, gas and water licence applications and approved 20 electricity, gas and water licence amendments in the financial year ending 30 June 2008. Generally, all licence applications and amendments were dealt with in the prescribed timeframes.

- To review current water licences to bring them in line with modern licensing practice and with the approach adopted for electricity and gas licences. The review will be similar to that recently completed for gas licences.

A [draft recommendation report on the Review of Water Services Licences](#) and a [draft Water Compliance and Reporting Manual](#) were prepared in consultation with an industry reference group.

The Authority's Performance

Divisional Reports

Licensing, Monitoring and Customer Protection (continued)

Existing water services licensees attended a Regulatory Managers Forum in March 2008 to consult on the draft report and manual.

The draft recommendation report and draft Water Compliance and Reporting Manual were released for public comment on 7 April 2008. The Authority received [three public submissions](#). It is expected that the Authority will amend by substitution all existing water licences with a new licence template by the end of September 2008.

- To further develop a licensing database to manage all licences in the utilities sector.

A consultant was engaged to upgrade the Authority's existing licensing database. The design phase and other work on the new system were completed by 30 June 2008.

Other Key Outcomes

- By September 2007 and after an eleven-month review, the Authority issued new gas trading and distribution licences in a format similar to electricity licences based on best practice licensing principles.
- On 28 May 2008, the Authority released for public comment the draft [Gas Last Resort Supply Arrangements: Guidelines and Template Plan](#). The draft guidelines provide information to gas licensees and interested parties on how the 'supplier of last resort' provisions under the *Energy Coordination Act 1994* are intended to operate.

Monitoring

Objectives

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

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

Targets and Outcomes

- To conduct licence operational audits and asset management reviews as prescribed by the *Electricity Industry Act 2004*, the *Energy Coordination Act 1994* and the *Water Services Licensing Act 1995*.

In the period ending 30 June 2008, the Authority approved and published 23 operational and performance audits and asset management system review reports. Details of these audits and reviews are available on the Authority's [web site](#).

The number of licensees that submitted audit/review reports during the 2007/08 financial year was 16. All applications were approved within the prescribed timeframes.

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

The Authority's Performance

Divisional Reports

Licensing, Monitoring and Customer Protection (continued)

The [draft Electricity, Gas and Water Industry Licensing Compliance Policy](#) was published on 4 June 2008 for public consultation. The Authority approved the final compliance policy in August 2008 after considering three submissions on the draft policy.

The objectives of the compliance policy include:

- indicating to licensees, consumers and industry how the Authority may make decisions on enforcement action;
- guiding decision-making and action in the use of enforcement options;
- ensuring consistency of compliance arrangements between electricity, gas and water; and
- providing an outline of the general compliance provisions in the existing legislation.

Other Key Outcomes

- The Authority published the 2006/07 performance reports for [electricity retail licensees](#) and [electricity distribution licensees](#) on 10 January 2008 and 25 February 2008 respectively. Electricity retail and distribution licensees, who supply small use customers, are required to provide to the Authority non-financial performance data for the year ending 30 June. The Authority collates the data and prepares the annual performance reports for electricity distributors and retailers. The purpose of the reports is to bring transparency and accountability to the performance of electricity distributors and retailers and to benchmark, where possible, performance against similar businesses in other electricity markets.
- The Authority published the [2006/07 Annual Performance Report for Gas Distribution and Trading Licences](#) on 30 October 2007. The report summarised the data that was provided to the Authority between 2005 and 2007 by gas retailers and distributors in accordance with their respective licence requirements.
- The Authority published a [compliance reporting manual for the gas industry](#) on 1 April 2008. The manual was developed to complement the new standard form licences for gas and bring together all of the compliance and performance reporting obligations into a single document. This is consistent with the approach taken in electricity licensing. By separating the compliance and performance reporting obligations from the licence, it will be possible to amend the obligations without a licence amendment; which reduces the regulatory impost on licensees.
- The Authority participated in the roundtable group that has responsibility for defining the performance reporting framework for water utilities and overseeing the release of the National Performance Report on the water industry. Under the National Water Initiative Agreement, the Authority has the dual roles of data and audit coordinator. The data coordinator role involves the Authority collecting performance data from Western Australian urban and rural water service providers on behalf of the National Water Commission (**NWC**). The NWC then collates the data and prepares the National Performance Reports for urban water utilities and rural water delivery agencies. This data has been included in the [Water, Wastewater and Irrigation Performance Report 2007](#), which was released on 14 April 2008.

The Authority's Performance

Divisional Reports

Licensing, Monitoring and Customer Protection (continued)

- The Authority has commenced a feasibility study on upgrading its licensing database to incorporate enhanced post-audit implementation plan progress tracking capabilities. This will enable the Authority to systematically monitor compliance with plans across a number of licensees.

Customer Protection

Objectives

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

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

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

- to approve energy ombudsman schemes.

Targets and Outcomes

- To complete the review of the *Code of Conduct for the Supply of Electricity to Small Use Customers (Small Use Code of Conduct)* by late 2007, following the release of the Electricity Code Consultative Committee's (ECCC) final review report in May 2007.

The Authority published its [final decision on the amendment to clause 1.3 and Part 4 of the Small Use Code of Conduct](#) on 3 October 2007. The Authority referred these proposed alternative amendments to the ECCC for advice, having accepted all but three recommendations in the ECCC's final review report on 20 June 2007.

The ECCC undertook public consultation on the alternative proposed amendments and provided its advice to the Authority on 3 September 2007.

A revised Small Use Code of Conduct, giving effect to these amendments and to the amendments resulting from the review, was published in the Western Australian Government Gazette on 8 January 2008.

An [amended Small Use Code of Conduct](#) was published on 4 March 2008, following the publication in the Western Australian Government Gazette on 26 February 2008.

- To review the Guide to the Small Use Code of Conduct (**Guide**), first developed by the Office of Energy. The responsibility for updating and publishing a revised Guide was transferred to the Authority along with the responsibility for administering the Small Use Code of Conduct.

The Authority printed and published the new [Guide](#) on 27 June 2008. Approximately 1,500 copies of the Guide were distributed to a range of stakeholders including relevant government agencies, consumer representative organisations and electricity licensees, so that these groups may in turn provide copies to customers and clients.

- To develop a Customer Code for the gas industry. This aims to deliver consistency between the electricity and gas codes. It is planned that, ultimately, there will be a single energy code.

The Authority released the [draft Gas Customer Code](#) for public consultation on 30 May 2008. A total of six submissions were received in response to the draft Code.

The Authority's Performance

Divisional Reports

Licensing, Monitoring and Customer Protection (continued)

The draft Code has been based on the format of the Small Use Code of Conduct and aims to ensure that, as far as is practicable, small use gas customers will receive protection commensurate with electricity consumers and that contract requirements across the energy industry are largely consistent regardless of fuel type.

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

This initiative was delayed until the 2008/09 financial year.

Other Key Outcomes

- On 2 November 2007, the Authority conducted a Utility Consumer Dispute Resolution seminar, in conjunction with the Energy Ombudsman and Department of Consumer and Employment Protection. The event provided attendees with the opportunity to hear from local and eastern states experts in the field of dispute resolution and the opportunity to network with other licensees, consumer representative organisations, regulatory managers and government officers.

It is envisaged that the seminar was the first of a series, with another Utility Consumer Dispute Resolution seminar scheduled to take place in the first half of 2008/09.

- The Authority released the [draft Financial Hardship Policy Guidelines](#) for public consultation on 23 May 2008. The need for a set of Financial Hardship Guidelines was borne out of the review of the Small Use Code of Conduct that was undertaken by the ECCC. The ECCC recommended that the Authority develop voluntary guidelines to assist electricity retailers in the development of a financial hardship policy.
- On 25 June 2008, a new position was created on the Economic Regulation Authority Consumer Consultative Committee (**ERACCC**) for the Department of Indigenous Affairs. Ms Mia Kriznic was appointed to the position. Also, Mr Andrew Canion was appointed as the Chamber of Commerce and Industry's representative on the ERACCC, replacing Ms Jessica Shaw. Further information on the ERACCC is available on the Authority's [web site](#).

The Authority's Performance

Divisional Reports

Licensing, Monitoring and Customer Protection (continued)

Case Study 3

Launch of the Guide to the Code of Conduct for the Supply of Electricity to Small Use Customers – June 2008

[The Guide to the Code of Conduct for the Supply of electricity to Small Use Customers – June 2008](#) was developed by the Authority to help customers understand the basics of the *Code of Conduct for the Supply of Electricity to Small Use Customers 2008 (Small Use Code of Conduct)* which, as a legal document, is quite technical.

The Small Use Code of Conduct was originally developed by the Government to ensure that businesses (marketing agents, retailers and distributors) supplying and selling electricity to small use customers were properly regulated and controlled.

The Small Use Code of Conduct's objectives are to:

- set standards of conduct in supplying and marketing electricity; and
- protect customers from undesirable commercial and/or marketing practices.

The *Electricity Industry Act 2004 (the Act)* enables the Authority to develop or amend the Small Use Code of Conduct in consultation with a committee. In 2006, the Authority appointed the Electricity Code Consultative Committee (**ECCC**) which, as required under the Act, reviewed the Small Use Code of Conduct and presented its recommendations to the Authority in mid-2007. In early 2008, a new Small Use Code of Conduct was issued, which differed from the original in several areas.

Further information about the [Small Use Code of Conduct](#), the [ECCC](#) and the [review](#) is available on the Authority's web site.

Printed copies of the guide to the Small Use Code of Conduct were distributed to all electricity retailers and distributors, a selection of government agencies and relevant community organisations.

The Authority's Performance

Divisional Reports References and Research

Objectives

Under the *Economic Regulation Authority Act 2003*:

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

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

Targets and Outcomes

- To report to the Treasurer by 31 March 2008 on possible competitive enhancements to the delivery of water and wastewater services in Western Australia.

The Authority received the [Terms of Reference](#) for the inquiry on 6 July 2007 and published an [issues paper](#) for public consultation on 20 July 2007.

The purpose of the inquiry was for the Authority to provide advice on possible competitive enhancements for the delivery of water and wastewater services, with a view to making recommendations for providing these services in the most efficient, effective and sustainable way.

After considering [56 submissions](#) to the issues paper, [draft report](#) and [further consultation report](#), the Authority delivered its [final report](#) to the Government on 30 June 2008. The final report was published on 25 July 2008.

- To report to the Treasurer by 31 May 2008 on the most appropriate charging mechanisms and level of charges for the infrastructure costs, such as headworks costs, imposed on the Water Corporation as a result of land development.

The Authority was to also report on the principles that should underpin the recovery of infrastructure costs associated with land development for Government businesses in general.

The Authority received the [Terms of Reference](#) for the inquiry on 17 October 2007 and published an [issues paper](#) for public consultation on 31 October 2007.

The purpose of the inquiry was for the Authority to examine and make recommendations on the most appropriate charging mechanisms for all of the Water Corporation's developer charges and the level of headworks charges that should apply from 1 July 2008, or as soon as practicable thereafter.

After considering [20 submissions](#) in response to both the issues paper and [draft report](#), the Authority delivered its [final report](#) to the Government on 30 June 2008. The final report was published on 25 July 2008.

- To undertake an annual inquiry into the Water Corporation's tariffs, which is a standing reference to review the Water Corporation's tariff proposals for the next financial year and provide advice to the Treasurer.

The Authority received the [Terms of Reference](#) for the annual inquiry on Water Corporation's Tariffs for the 2008/09 financial year on 27 September 2007.

The Authority's Performance

Divisional Reports

References and Research (continued)

The purpose of the annual inquiry was for the Authority to consider and report on the appropriate tariff levels for the Water Corporation's residential and non-residential services and the impact of the recommended tariffs on Water Corporation's customers and the Government's finances.

The Authority delivered the [final report](#) for the annual inquiry on the Water Corporation's tariffs to the Government on 24 December 2007. The final report was published on 17 January 2008.

- Prepare a research paper on best practice economic regulation to ensure that the Authority's statutory functions are implemented in a way that reflects best practice. The paper will provide a discussion on principles of best practice regulation and will aim to advance the debate on economic regulation as per the Authority's Mission.

Progress on this initiative has been delayed until the 2008/09 financial year.

- Undertake any necessary research that will assist other divisions in meeting their planned outputs/deliverables. Prepare a series of research papers to support the Authority's functions, particularly in the operational areas of wholesale electricity market monitoring and in rail access.

The Authority published [discussion](#) and [technical](#) papers to assist wholesale electricity market participants in the understanding of short run marginal cost on 11 January 2008.

Public consultation was undertaken and the Authority, jointly with the Independent Market Operator, held a forum on short run marginal costs on 26 February 2008.

Other Key Outcomes

- The Authority delivered the [final report](#) for the inquiry on School Bus Operators' Charter Bus Operations to the Government on 5 July 2007. The Authority made no recommendations for changes to the service charge model for school bus contractors.
- The Authority published a [draft report](#) for the review of the *Grain Marketing Act 2002* for public consultation on 2 April 2008. The [final report](#) for the review was delivered to the Government on 27 June 2008 and was published on 25 July 2008. The Authority received the [Terms of Reference](#) from the Treasurer on 29 November 2007 and released an [issues paper](#) on 5 December 2007 for public consultation. The purpose of the inquiry was for the Authority to consider and report on issues that could affect grain marketing in the State, including the effectiveness of the Grain Licensing Authority. The inquiry also analysed the net public benefit of the current framework, which included restrictions on the export of 'prescribed grains' (barley, canola and lupins).

The Authority's Performance

Divisional Reports

References and Research (continued)

- The Authority delivered the [final report](#) for the annual inquiry into Bunbury and Busselton water boards' tariffs to the Government on 8 February 2008. The final report was published on 10 March 2008. The Authority received the [Terms of Reference](#) for the inquiry on 30 January 2008.

The Authority was required to make recommendations on the appropriate tariff levels and structures for both water boards. The Authority recommended in its final report that the water boards' pricing structures needed to be reassessed as part of a major review of the water boards' costs and tariffs.

Case Study 4

Diversified inquiries referred by State Government during 2007/08

One of the roles of the Authority is to undertake inquiries referred to it by the Government on matters related to regulated and non-regulated industries. Since its establishment on 1 January 2004, the Authority has undertaken eleven inquiries, with six of those being completed in the 2007/08 financial year.

As well as an increase in the number of inquiries undertaken by the Authority over the years, the matters to which the inquiries have related have expanded beyond dealing solely with the water industry. In 2005/06, for example, the three inquiries were:

- [Inquiry on the Water and Wastewater Pricing of the Water Corporation and the Water Pricing of the Bunbury and Busselton Water Boards](#);
- [Inquiry on Cost of Supplying Bulk Potable Water to Kalgoorlie-Boulder](#); and
- [Inquiry on Country Water and Wastewater Pricing in Western Australia 2006](#).

Similarly in 2006/07 the two inquiries undertaken were:

- [Inquiry on Harvey Water Bulk Water Pricing 2007](#); and
- [Inquiry on the Water Corporation's Tariffs 2007](#).

References referred to the Authority for inquiry were broadened to include an [inquiry on school bus operators' charter bus operations](#), and a [review of the Grain Marketing Act 2002](#). Four further inquiries on the water industry were also completed during 2007/08:

- [Inquiry on the Water Corporation's Tariffs 2008](#);
- [Inquiry into the Bunbury and Busselton Water Boards' Tariffs 2008](#);
- [Inquiry into Competition in the Water and Wastewater Services](#); and
- [Inquiry into Developer Contributions to the Water Corporation](#).

The increasing number of inquiries referred to the Authority and the greater diversity of the inquiries is a reflection that the Government values the independent and professional advice it receives from the Authority.

Significant Issues and Trends

Overview

A prosperous Western Australian community has higher expectations for customer service and environmental standards, including those service standards set and monitored by the Authority. The community also has expectations for improved efficiency in the delivery of services including regulatory services. These factors coupled with anticipated ongoing high levels of economic growth and changing social trends, particularly in relation to environmental sustainability, are expected to place considerable pressure on the Authority in the years ahead.

In its last annual report, the Authority noted particular developments in regulation that have the potential to improve the delivery of services to consumers whilst also improving efficiency through reductions in costs. The Authority considered that a challenge for the future was to identify and define boundaries within which individuals and organisations operate pursuing their own commercial objectives thereby obviating the need for detailed centralised systems of planning and control. This represents a change of emphasis from intrusive and information-intensive regulation and administratively costly systems to decentralised decision-making through market based approaches. Markets can realise the community's higher expectations in customer service, environmental standards and the delivery of efficient regulatory services.

The establishment of the wholesale electricity market in Western Australia is a case in point. The electricity reforms have provided the State with an opportunity to observe and assess the efficiency of market based approaches for application to other areas; particularly natural gas and, at the wholesale level, in sectors such as water.

Of course, some sectors, particularly those with externalities and natural monopoly elements, will still require regulatory

oversight, and given the nature and complexities of the electricity and gas industries, markets in these areas require careful attention to design, operation and control. The challenge is to minimise regulation to those areas of service delivery where markets alone cannot be relied upon to deliver efficient societal outcomes.

The Authority, through its wholesale electricity market surveillance and reporting roles, welcomes the opportunity to report on the effectiveness of the wholesale electricity market and related administrative arrangements with a view to achieving the market's objectives as set out in the market rules. However, it is anticipated that further development of the electricity market and market based approaches in other sectors will allow a reduction in centralised decision making, administration and regulation with consequential improvements in economic efficiency.

The challenge in meeting the community's higher expectations for customer service and environmental standards and the need to achieve improvements in economic efficiency for the benefit of the State has seen the Authority make a number of recommendations for legislative and institutional change. A particular focus of these recommendations is the competitive delivery of services. This approach is particularly evident in the Authority's inquiry function, but has also been a key focus of the Authority in all of its other areas.

Particular examples include the Authority's recommendation to establish an independent procurement entity for water at the wholesale level; the harmonisation of economic licensing arrangements across electricity, gas and water; the harmonisation of customer protection arrangements across electricity and gas; developments for access to rail and port facilities and contributions for improvements in access to electricity and gas infrastructure.

Significant Issues and Trends

Economic and Social Trends

A major impact on the Authority's activities stems from the rapid economic growth experienced over the past few years and the increasing community consciousness on the environment, including global warming.

High levels of economic growth place significant pressure on the demand for new infrastructure and for expansions of existing infrastructure. Continuing high levels of economic growth will impact on the Authority's workload in relation to regulatory and new facilities investment approvals, the licensing of new facilities and the expansion of operating areas. Reduction of carbon emissions will add to costs in sectors that are regulated by the Authority, adding to the regulatory challenge.

Current and anticipated economic circumstances and shifts in social trends are also expected to lead to an increase in the Government's requirement for advice under the Authority's inquiry and reporting roles. As already noted in this report, the Government's requirement for inquiries has steadily increased since the establishment of the Authority in 2004. We anticipate the Government's need for ongoing sound independent advice.

Increases in anticipated workload highlight the need to build regulatory, inquiry and reporting capacity to meet future demands on the Authority. A major challenge for the Authority will be to ensure the future availability of capable staff to manage the increasing workload and complexity of its functions and responsibilities.

Expected Developments in the Authority's Operations

The Authority recently published a new strategic plan for 2008 to 2010 that identifies key challenges and strategic issues that will shape future agency operations. The specific challenges that were identified in the strategic plan relate to the continuing expansion of the Authority's role, the introduction of new legislation impacting on the Authority's functions and the challenges of the changing regulatory environment.

The strategic plan also identified two critical success factors: that the Authority must ensure it is able to attract and retain a well-qualified and committed workforce, and ensure that its work is communicated to stakeholders in a way that is easily understood.

The operations of the Authority will be focussed on achieving strategic goals through initiatives detailed in the strategic plan. A process involving key performance indicators will track the Authority's performance in achieving these goals. In addition, further improvements will be made to the Authority's business planning processes to deliver the best possible outcomes whilst ensuring the most efficient use of resources needed to deliver those outcomes.

Significant Issues and Trends

Legislative Change and the Impact of Judicial Decisions

Economic regulation is relatively new in Australia and is still evolving. Consequently, legislation in this area is undergoing fairly constant change. Judicial reviews have also played an important role in resolving areas of uncertainty, particularly in the case of relatively new legislation.

Recognising the need for quick responses to changing circumstances, legislative structures in regulation have made extensive use of subsidiary legislation such as regulations, codes and rules. One reason for the more extensive use of subsidiary legislation is that it can be amended in a much shorter time frame and in the case of codes and rules, amendments can be made without Parliament's direct involvement.

Significant future legislative change is anticipated in both industry legislation and that which is more specifically concerned with economic regulation. For example, in the water area, a significant review of water legislation has been underway for some time that is expected to update and clarify a legal framework that has become somewhat dated. It is anticipated that changes to water sector legislation will impact on the Authority's licensing function in the water industry.

In the case of gas access legislation, a new National Gas Law has been adopted in jurisdictions other than Western Australia. It is anticipated that the new National Gas Law will be enacted as complementary legislation in Western Australia having essentially the same effect as that enacted as uniform legislation in other Australian jurisdictions. The new National Gas Legislation significantly expands on the Authority's range of functions in respect of third party access to gas pipelines.

Other legislative changes that are being considered include some changes to the *Electricity Industry Act 2004*, which would see the Authority being required to undertake a broader monitoring role with respect to its third party access regulatory functions.

Some minor changes to the *Economic Regulation Authority Act 2003* are also being pursued to clarify some inconsistencies relating to the Authority's status as an independent agency and to provide some additional flexibility in the appointment of members of the Governing Body.

In addition to its regulatory and inquiry role, the Authority also has a number of functions relating to the administration of subsidiary legislation such as codes and rules. This role requires the Authority to administer code change processes or approve code or rule changes recommended by other bodies. While the Authority has been quite active in this area, the prospect is that this workload will continue to increase for some time into the future.

Disclosures and Legal Compliance

Auditor General's Independent Audit Opinion



Auditor General

INDEPENDENT AUDIT OPINION

To the Parliament of Western Australia

ECONOMIC REGULATION AUTHORITY FINANCIAL STATEMENTS AND KEY PERFORMANCE INDICATORS FOR THE YEAR ENDED 30 JUNE 2008

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

The financial statements comprise the Balance Sheet as at 30 June 2008, and the Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year then ended, a summary of significant accounting policies and other explanatory Notes.

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

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

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

Summary of my Role

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

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

**Economic Regulation Authority
Financial Statements and Key Performance Indicators for the year ended 30 June 2008**

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 2008 and its financial performance and cash flows for the year ended on that date. They are in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Treasurer's Instructions;
- (ii) the controls exercised by the Authority provide reasonable assurance that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions; and
- (iii) the key performance indicators of the Authority are relevant and appropriate to help users assess the Authority's performance and fairly represent the indicated performance for the year ended 30 June 2008.



COLIN MURPHY
AUDITOR GENERAL
22 August 2008

Disclosures and Legal Compliance

Financial Statements

Certification of Financial Statements

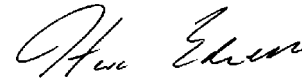
The accompanying financial statements of the Economic Regulation Authority have been prepared in compliance with the provisions of the *Financial Management Act 2006* from proper accounts and records to present fairly the financial transactions for the financial year ending 30 June 2008 and the financial position as at 30 June 2008.

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

1 August 2008



Mr Steve Edwell – Member

1 August 2008



Mr Peter Panegyres AM – Member

1 August 2008



Ms Pam Herbener – Chief Finance Officer

1 August 2008

Disclosures and Legal Compliance

Financial Statements

Income Statement

for the year ended 30 June 2008

| | Note | 2008 \$'000 | 2007 \$'000 |
|--|------|----------------|----------------|
| COST OF SERVICES | | | |
| Expenses | | | |
| Employee benefits expense | 5 | 4,420 | 3,835 |
| Supplies and services | 6 | 2,660 | 3,211 |
| Depreciation expense | 7 | 94 | 87 |
| Accommodation expenses | 8 | 446 | 307 |
| Capital user charge | 9 | - | 51 |
| Other expenses | 10 | 14 | 68 |
| Total cost of services | | 7,634 | 7,559 |
| Income | | | |
| User charges and fees | 11 | 2,171 | 1,776 |
| Interest revenue | 12 | 120 | 126 |
| Other revenue | 13 | 15 | 98 |
| Total income other than income from State Government | | 2,306 | 2,000 |
| NET COST OF SERVICES | | 5,328 | 5,559 |
| INCOME FROM STATE GOVERNMENT | | 14 | |
| Service appropriation | | 6,977 | 5,249 |
| Liabilities assumed by the Treasurer | | 1 | 2 |
| Total income from State Government | | 6,978 | 5,251 |
| SURPLUS/(DEFICIT) FOR THE PERIOD | | 1,650 | (308) |

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

Disclosures and Legal Compliance

Financial Statements

Balance Sheet

as at 30 June 2008

| | Note | 2008 \$'000 | 2007 \$'000 |
|--------------------------------------|------|----------------|----------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and Cash Equivalents | 15 | 2,960 | 1,907 |
| Receivables | 17 | 1,526 | 775 |
| Amounts receivable for services | 18 | 69 | 59 |
| Other assets | 19 | 33 | 14 |
| Total Current Assets | | 4,588 | 2,755 |
| Non-Current Assets | | | |
| Restricted cash and cash equivalents | 16 | 35 | 22 |
| Amounts receivable for services | 18 | 135 | 108 |
| Plant and equipment | 20 | 404 | 494 |
| Intangible Assets | 21 | 5 | 10 |
| Total Non-Current Assets | | 579 | 634 |
| TOTAL ASSETS | | 5,167 | 3,389 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Payables | 23 | 186 | 169 |
| Provisions | 24 | 836 | 670 |
| Other liabilities | 25 | 205 | 292 |
| Total Current Liabilities | | 1,227 | 1,131 |
| Non-Current Liabilities | | | |
| Provisions | 24 | 227 | 195 |
| Total Non-Current Liabilities | | 227 | 195 |

Disclosures and Legal Compliance

Financial Statements

Balance Sheet (continued)

as at 30 June 2008

| | Note | 2008 \$'000 | 2007 \$'000 |
|---------------------|------|----------------|----------------|
| Total Liabilities | | 1,454 | 1,326 |
| NET ASSETS | | 3,713 | 2,063 |
| EQUITY | | | |
| Contributed equity | 26 | 773 | 773 |
| Accumulated surplus | | 2,940 | 1,290 |
| TOTAL EQUITY | | 3,713 | 2,063 |

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

Disclosures and Legal Compliance

Financial Statements

Statement of Changes in Equity

for the year ended 30 June 2008

| | Note | 2008 \$'000 | 2007 \$'000 |
|---|------|----------------|----------------|
| Balance of equity at start of period | 26 | 2,063 | 2,479 |
| CONTRIBUTED EQUITY | | | |
| Balance at start of period | | 733 | 733 |
| Capital contribution | | – | – |
| Balance at end of period | | 773 | 773 |
| ACCUMULATED SURPLUS | | | |
| Balance at start of period | | 1,290 | 1,706 |
| Change in Asset Capitalisation Policy | | – | (108) |
| Surplus/(deficit) for the period | | 1,650 | (308) |
| Balance at end of period | | 2,940 | 1,290 |
| Balance of equity at end of period | | 3,713 | 2,063 |
| Total income and expense for the period (a) | | 1,650 | (308) |

(a) The aggregate net amount attributable to each category of equity is: surplus \$1,650,000 (2007: deficit \$308,000).

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

Disclosures and Legal Compliance

Financial Statements

Cash Flow Statement

for the year ended 30 June 2008

| | Note | 2008 \$'000 | 2007 \$'000 |
|---|-------|----------------|----------------|
| CASH FLOWS FROM STATE GOVERNMENT | | | |
| Service appropriation | | 6,881 | 5,156 |
| Holding account drawdowns | | 59 | 28 |
| Net cash provided by State Government | | 6,940 | 5,184 |
| Utilised as follows: | | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Payments | | | |
| Employee benefits | | (4,204) | (3,681) |
| Supplies and services | | (2,826) | (2,739) |
| Capital User Charge | | - | (51) |
| Accommodation | | (408) | (325) |
| GST payments on purchases | | (376) | (327) |
| GST payments to taxation authority | | (16) | (15) |
| Other payments | | - | (239) |
| Receipts | | | |
| User charges and fees | | 1,216 | 1,435 |
| GST receipts on sales | | 17 | 11 |
| GST receipts from taxation authority | | 397 | 376 |
| Other receipts | | 331 | 243 |
| Net cash used in operating activities | 27(b) | (5,869) | (5,312) |

Disclosures and Legal Compliance

Financial Statements

Cash Flow Statement (continued)

for the year ended 30 June 2008

| | Note | 2008 \$'000 | 2007 \$'000 |
|--|-------|----------------|----------------|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of non-current physical assets | | (5) | (26) |
| Net cash used in investing activities | | (5) | (26) |
| Net increase/(decrease) in cash and cash equivalents | | 1,066 | (154) |
| Cash and cash equivalents at the beginning of period | | 1,929 | 2,083 |
| CASH AND CASH EQUIVALENTS AT THE END OF PERIOD | 27(a) | 2,995 | 1,929 |

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

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements

for the year ended 30 June 2008

1. Australian equivalents to International Financial Reporting Standards

a) General

The Authority's financial statements for the year ended 30 June 2008 have been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), which comprise a Framework for the Preparation and Presentation of Financial Statements (the Framework) and Australian Accounting Standards (including the Australian Accounting Interpretations).

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

b) Early adoption of standards

The Authority cannot early adopt an Australian Accounting Standard or Australian Accounting Interpretation unless specifically permitted by TI 1101 'Application of Australian Accounting Standards and Other Pronouncements'. No Standards and Interpretations that have been issued or amended but are not yet effective have been early adopted by the Authority for the annual reporting period ended 30 June 2008.

2. Summary of significant accounting policies

a) General Statement

The financial statements constitute a general purpose financial report which has been prepared in accordance with the Australian Accounting Standards, the Framework,

Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board as applied by the Treasurer's Instructions. Several of these are modified by the Treasurer's Instructions to vary application, disclosure, format and wording.

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

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

b) Basis of Preparation

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

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

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

c) Reporting Entity

The reporting entity comprises the Economic Regulation Authority.

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements (continued)

for the year ended 30 June 2008

d) Contributed Equity

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

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

e) Income

Revenue Recognition

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

User Charges and Fees

Revenue for Standing Charges and Service Charges, raised in accordance with the *Economic Regulation Authority (Gas Pipelines Access Funding) Regulations 2003*, 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.

Licence fees are raised in accordance with:

- *Electricity Industry (Licensing Fees) Regulations 2005*
- *Energy Coordination (Licensing Fees) Regulations 1999*
- *Water Services Coordination Regulations 1996*

Revenue for the recovery of the costs of the Authority in undertaking its Wholesale Electricity Market (WEM) functions, in accordance with the Wholesale Electricity Market Rules, is recognised on an accruals basis in the accounting period in which the services are rendered.

Sale of goods

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

Rendering of services

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

Interest

Revenue is recognised as the interest accrues.

Service Appropriations

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

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements (continued)

for the year ended 30 June 2008

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.

f) Plant and Equipment

Capitalisation/Expensing of assets

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

Initial recognition and measurement

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

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

Subsequent measurement

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

Depreciation

All non-current assets having a limited useful life are systematically depreciated over their estimated useful lives

in a manner that reflects the consumption of their future economic benefits.

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

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

g) Intangible Assets

Capitalisation/Expensing of assets

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

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

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

Amortisation for intangible assets with finite useful lives is calculated for the period of the expected benefit (estimated useful life) on the straight line basis using rates which are reviewed annually. All intangible assets controlled by the

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements (continued)

for the year ended 30 June 2008

Authority have a finite useful life and zero residual value. The expected life for each class of intangible asset are:

Software (a) 3 to 5 years

(a) Software that is not integral to the operation of any related hardware.

Computer Software

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

h) Impairment of Assets

Property, Plant, equipment and intangible assets are tested for any indication of impairment at each balance sheet date. Where there is an indication of impairment, the recoverable amount is estimated. Where the recoverable amount is less than the carrying amount, the asset is considered impaired and is written down to the recoverable amount and an impairment loss is recognised. As the Authority is a not-for-profit entity, unless an asset has been identified as a surplus asset, the recoverable amount is the higher of an asset's fair value less costs to sell and depreciated replacement cost.

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

to evaluate any impairment risk from falling replacement costs.

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

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

i) Leases

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

j) Financial Instruments

In addition to cash, the Authority has two categories of financial instrument:

- (i) Loans and receivables; and
- (ii) Financial liabilities measured at amortised cost.

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements (continued)

for the year ended 30 June 2008

These have been disaggregated into the following classes:

Financial Assets

- Cash and cash equivalents
- Receivables

Financial Liabilities

- Payables

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

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

k) Cash and Cash Equivalents

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

l) Accrued Salaries

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

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

m) Amounts Receivable for Services (Holding Account)

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

n) Receivables

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

o) Payables

Payables are recognised at the amounts payable when the Authority becomes obliged to make future payments as a result of a purchase of assets or services. The carrying

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements (continued)

for the year ended 30 June 2008

amount is equivalent to fair value, as they are generally settled within 30 days.

p) Provisions

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

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

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

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

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

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.

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements (continued)

for the year ended 30 June 2008

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

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

(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'.

q) 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, the West State Superannuation Scheme (WSS) and GESB Super Scheme (GESBS).

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

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

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements (continued)

for the year ended 30 June 2008

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

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

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

s) **Comparative Figures**

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

3. Disclosure of changes in accounting policy and estimates

Initial application of an Australian Accounting Standard

The Authority has applied the following Australian Accounting Standards and Australian Accounting Interpretations effective for annual reporting periods beginning on or after 1 July 2007 that impacted on the Authority:

1. AASB 7 'Financial Instruments: Disclosures' (including consequential amendments in AASB 2005-10 'Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]'). This Standard requires new disclosure in relation to financial instruments and while there is no financial impact, the changes have resulted in increased disclosures, both quantitative and qualitative, of the Authority's exposure to risks, including enhanced disclosure regarding components of the Authority's financial position and performance, and changes to the way of presenting certain items in the notes to the financial statements.

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements (continued)

for the year ended 30 June 2008

Future impact of Australian Accounting Standards not yet operative

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

| Title | Operative for reporting periods beginning on/after |
|--|--|
| AASB 101 'Presentation of Financial Statements' (September 2007). This Standard has been revised and will change the structure of the financial statements. These changes will require that owner changes in equity are presented separately from nonowner changes in equity. The Authority does not expect any financial impact when the Standard is first applied. | 1 January 2009 |

Changes in Accounting Estimates

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

4. Correction of prior year error

Prior year receivables amount was amended by \$283,000 due to timing of money being received.

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements (continued)

for the year ended 30 June 2008

| | 2008 \$'000 | 2007 \$'000 |
|--|----------------|----------------|
| 5. Employee benefits expense | | |
| Wages and salaries ^(a) | 3,458 | 3,067 |
| Superannuation – defined contribution plans ^(b) | 308 | 299 |
| Superannuation – defined benefit plans ^{(c) (d)} | 1 | 2 |
| Long service leave ^(e) | 174 | 58 |
| Annual Leave ^(e) | 314 | 245 |
| Other related expenses | 165 | 164 |
| | 4,420 | 3,835 |
| | | |
| ^(a) Includes the value of the fringe benefit to the employee plus the fringe benefits tax component. | | |
| ^(b) Defined contribution plans include West State, Gold State and GESB Super Scheme (contributions paid). | | |
| ^(c) Defined benefit plans include Pension scheme and Gold State (pre-transfer benefit). | | |
| ^(d) An equivalent notional income is also recognised (see note 13 'Income from State Government'). | | |
| ^(e) Includes a superannuation contribution component. | | |
| Employment on-costs such as workers' compensation insurance are included at note 9 'Other Expenses'. The employment on-costs liability is included at note 23 'Provisions'. | | |
| | | |
| 6. Supplies and services | | |
| Communications | 52 | 56 |
| Consultants and contractors | 1,738 | 1,937 |
| Consumables | 86 | 82 |
| Insurance | 11 | 31 |
| Legal costs | 316 | 486 |
| Motor vehicles | 197 | 199 |
| Travel | 98 | 182 |
| Other | 162 | 238 |
| | 2,660 | 3,211 |

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements (continued)

for the year ended 30 June 2008

| | 2008 \$'000 | 2007 \$'000 |
|--|----------------|----------------|
| 7. Depreciation and amortisation expense | | |
| Depreciation | | |
| Computer equipment | 22 | 16 |
| Furniture and fittings | 52 | 53 |
| Office equipment | 15 | 15 |
| | 89 | 84 |
| Amortisation | | |
| Intangible Assets | 5 | 3 |
| Total depreciation and amortisation | 94 | 87 |
| 8. Accommodation expenses | | |
| Office accommodation rental | 368 | 265 |
| Other accommodation expenses | 29 | 5 |
| Repairs and maintenance | 38 | 21 |
| Cleaning | 11 | 16 |
| | 446 | 307 |
| 9. Capital User Charge | | |
| Capital user charge | 0 | 51 |
| | 0 | 51 |
| <p>The charge was a levy applied by Government for the use of its capital. The final charge was levied in 2006-07.</p> | | |
| 10. Other expenses | | |
| Employment on-costs ^(a) | 14 | 68 |
| | 14 | 68 |

(a) Includes workers' compensation insurance and other employment on-costs. The on-costs liability associated with the recognition of annual and long service leave liability is included at note 23 'Provisions'. Superannuation contributions accrued as part of the provision for leave are employee benefits and are not included in employment on-costs.

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements (continued)

for the year ended 30 June 2008

| | 2008 \$'000 | 2007 \$'000 |
|---|----------------|----------------|
| 11. User charges and fees | | |
| Standing charges | 648 | 516 |
| Service charges | 10 | 77 |
| Licence fees and charges | 447 | 514 |
| Regulator Fees | 1,066 | 669 |
| | 2,171 | 1,776 |
| 12. Interest revenue | | |
| Interest | 120 | 126 |
| | 120 | 126 |
| 13. Other revenue | | |
| Other | 15 | 98 |
| | 15 | 98 |
| 14. Income from State Government | | |
| Appropriation received during the year: | | |
| Service appropriation: ^(a) | 6,977 | 5,249 |
| | 6,977 | 5,249 |
| The following liabilities have been assumed by the Treasurer during the financial year: | | |
| Superannuation ^(b) | 1 | 2 |
| | 1 | 2 |
| Total income from State Government | 6,978 | 5,251 |

(a) Service appropriations are accrual amounts reflecting the net cost of services delivered. The appropriation revenue comprises a cash component and a receivable (asset). The receivable (holding account) comprises the depreciation expense for the year and any agreed increase in leave liability during the year.

(b) The assumption of the superannuation liability by the Treasurer is a notional income to match the notional superannuation expense reported in respect of current employees who are members of the Pension Scheme and current employees who have a transfer benefit entitlement under the Gold State Superannuation Scheme.

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements (continued)

for the year ended 30 June 2008

| | 2008 \$'000 | 2007 \$'000 |
|--|----------------|----------------|
| 15. Cash and cash equivalents | | |
| Current | | |
| Cash at bank | 2,960 | 1,907 |
| | 2,960 | 1,907 |
| 16. Restricted cash and cash equivalents | | |
| Non-current | | |
| Accrued salaries suspense account | 35 | 22 |
| | 35 | 22 |
| 17. Receivables | | |
| Current | | |
| Accounts receivable | 1,210 | 470 |
| Accrued revenue | 283 | 250 |
| GST receivable | 33 | 55 |
| | 1,526 | 775 |
| <i>Credit risk</i> | | |
| Ageing of receivables past due but not impaired based on the information provided to senior management, at the balance sheet date: | | |
| Not more than 3 months | 1,210 | 470 |
| | 1,210 | 470 |
| 18. Amounts receivable for services | | |
| Current | 69 | 59 |
| Non-current | 135 | 108 |
| | 204 | 167 |
| Represents the non-cash component of service appropriations. It is restricted in that it can only be used for asset replacement or payment of leave liability. | | |
| 19. Other assets | | |
| Current | | |
| Pre-paid expenses | 33 | 14 |
| | 33 | 14 |

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements (continued)

for the year ended 30 June 2008

| | 2008 \$'000 | 2007 \$'000 |
|--|----------------|----------------|
| 20. Property, plant and equipment | | |
| (a) Carrying amounts | | |
| Office equipment | | |
| At cost | 74 | 74 |
| Accumulated depreciation | (48) | (33) |
| | 26 | 41 |
| Furniture and fittings | | |
| At cost | 526 | 526 |
| Accumulated depreciation | (162) | (109) |
| | 364 | 417 |
| Computer equipment | | |
| At cost | 71 | 71 |
| Accumulated depreciation | (57) | (35) |
| | 14 | 36 |
| Total property, plant and equipment | | |
| At cost | 671 | 671 |
| Accumulated depreciation | (267) | (177) |
| | 404 | 494 |

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements (continued)

for the year ended 30 June 2008

(b) Reconciliation of the carrying amounts of property, plant, and equipment at the beginning and end of the reporting period are set out below.

| | Office Equipment \$000 | Furniture and fittings \$000 | Computer equipment \$000 | Leasehold improvements \$000 | Total \$000 |
|----------------------------------|------------------------------|------------------------------------|--------------------------------|------------------------------------|----------------|
| 2008 | | | | | |
| Carrying amount at start of year | 41 | 417 | 36 | - | 494 |
| Depreciation | (15) | (53) | (22) | - | (90) |
| Carrying amount at end of year | 26 | 364 | 14 | - | 404 |
| 2007 | | | | | |
| Carrying amount at start of year | 69 | - | 124 | 469 | 662 |
| Additions | - | - | 23 | - | 23 |
| Disposals | - | - | - | - | - |
| Depreciation | (15) | (52) | (16) | - | (83) |
| Change in Accounting Policy (a) | (13) | - | (95) | - | (108) |
| Transfer to assets | - | 469 | - | (469) | - |
| Carrying amount at end of year | 41 | 417 | 36 | - | 494 |

(a) In 2007, the Authority changed its asset capitalisation policy from \$1000 to \$5000, resulting in assets previously capitalised, now being expensed.

21. Intangible assets

Computer Software

At cost

Accumulated amortisation

Reconciliations:

Computer software

Carrying amount at start of year

Additions

Amortisation expense

Carrying amount at end of year

| | 2008 \$'000 | 2007 \$'000 |
|----------------------------------|----------------|----------------|
| Computer Software | | |
| At cost | 13 | 13 |
| Accumulated amortisation | (8) | (3) |
| | 5 | 10 |
| Reconciliations: | | |
| Computer software | | |
| Carrying amount at start of year | 10 | - |
| Additions | - | 13 |
| Amortisation expense | (5) | (3) |
| Carrying amount at end of year | 5 | 10 |

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements (continued)

for the year ended 30 June 2008

| | 2008 \$'000 | 2007 \$'000 |
|---|----------------|----------------|
| 22. Impairment of assets | | |
| There were no indications of impairment to plant and equipment and intangible assets at 30 June 2008. | | |
| The Authority held no goodwill or intangible assets with an indefinite useful life during the reporting period and at balance sheet date there were no intangible assets not yet available for use. | | |
| 23. Payables | | |
| Current | | |
| Trade payables | 147 | 135 |
| Other payables | 13 | 26 |
| Accrued salaries | 26 | 8 |
| | 186 | 169 |
| 24. Provisions | | |
| Current | | |
| Employee benefits provision | | |
| Annual leave (a) | 382 | 299 |
| Long service leave (b) | 325 | 258 |
| | 707 | 557 |
| Other provisions | | |
| Employment on-costs (c) | 129 | 113 |
| | 129 | 113 |
| Total current provisions | 836 | 670 |
| Non-current | | |
| Employee benefits provision | | |
| Long service leave (b) | 213 | 180 |
| | 213 | 180 |
| Other provisions | | |
| Employment on-costs (c) | 14 | 15 |
| | 14 | 15 |

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements (continued)

for the year ended 30 June 2008

| | 2008 \$'000 | 2007 \$'000 |
|--|----------------|----------------|
| Total non-current provisions | 227 | 195 |
| Total provisions | 1,063 | 865 |
| <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 balance sheet date. Assessments indicate that actual settlement of the liabilities will occur as follows:</p> | | |
| - Within 12 months of balance date | 180 | 170 |
| - More than 12 months after the balance sheet date | 202 | 129 |
| | 382 | 299 |
| <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 balance sheet date. Assessments indicate that actual settlement of the liabilities will occur as follows:</p> | | |
| - Within 12 months of balance sheet date | 220 | 184 |
| - More than 12 months after the balance sheet date | 318 | 254 |
| | 538 | 438 |
| <p>(c) The settlement of annual and long service leave liabilities gives rise to the payment of employment on-costs including workers' compensation insurance. The provision is the present value of expected future payments. The associated expense, apart from the unwinding of the discount (finance cost), is disclosed in note 9 'Other expenses'.</p> | | |
| <p>Movement in other provisions</p> | | |
| <p>Movements in each class of provisions during the financial year, other than employee benefits, are set out below:</p> | | |
| Employment on-cost provision | | |
| Carrying amount at start of year | 128 | 77 |
| Additional provisions recognised | 15 | 51 |
| Carrying amount at end of year | 143 | 128 |

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements (continued)

for the year ended 30 June 2008

| | 2008 \$'000 | 2007 \$'000 |
|---|----------------|----------------|
| 25. Other liabilities | | |
| Current | | |
| Accrued expenses | 205 | 292 |
| | 205 | 292 |
| 26. 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 | 773 | 773 |
| Balance at end of year | 773 | 773 |
| Accumulated surplus | | |
| Balance at start of year | 1,290 | 1,706 |
| Result for the period | 1,650 | (308) |
| Income and expense recognised directly to equity ^(a) | - | (108) |
| Balance at end of year | 2,940 | 1,290 |
| (a) Refer to Note 19 (change in Asset Capitalisation Policy). | | |
| 27. Notes to the Cash Flow Statement | | |
| (a) Reconciliation of cash | | |
| Cash at the end of the financial year as shown in the Cash Flow Statement is reconciled to the related items in the Balance Sheet as follows: | | |
| Cash and cash equivalents | 2,960 | 1,907 |
| Restricted cash and cash equivalents | 35 | 22 |
| | 2,995 | 1,929 |

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements (continued)

for the year ended 30 June 2008

| | 2008 \$'000 | 2007 \$'000 |
|--|----------------|----------------|
| (b) Reconciliation of net cost of services to net cash flows provided by/(used in) operating activities: | | |
| Net cost of services | (5,328) | (5,559) |
| Non-cash items: | | |
| Depreciation and amortisation expense | 94 | 87 |
| (Increase)/decrease in assets: | | |
| Current receivables | (741) | (374) |
| Other current assets | (19) | 5 |
| Amounts receivable for services | - | (41) |
| Increase/(decrease) in liabilities: | | |
| Payables | 16 | 78 |
| Provisions | 197 | 141 |
| Other liabilities | (88) | 231 |
| Net GST receipts/(payments) | 22 | 45 |
| Change in GST in receivables/payables | (22) | 75 |
| Net cash provided by/(used in) operating activities | (5,869) | (5,312) |

28. Commitments

(a) Lease commitments

Commitments in relation to leases contracted for at the balance sheet date but not recognised in the financial statements are payable as follows:

| | | |
|---|------------|------------|
| Within one year | 350 | 313 |
| Later than one year and not later than five years | 40 | 21 |
| | 390 | 334 |

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements (continued)

for the year ended 30 June 2008

| | 2008 \$'000 | 2007 \$'000 |
|--|----------------|----------------|
| Representing: | | |
| Cancellable operating leases | 115 | 17 |
| Non-cancellable operating leases | 276 | 263 |
| | 391 | 334 |
| b) Non-cancellable operating lease commitments | | |
| Commitments for minimum lease payments are payable as follows: | | |
| Within one year | 276 | 263 |
| Later than one year and not later than five years | - | - |
| | 276 | 263 |
| (c) Other expenditure commitments for consultancy fee's in relation to legal, economic and technical advice to assist the Authority. | | |
| Commitments for other expenditure payments are payable as follows | | |
| Within one year | 945 | - |
| Later than one year and not later than five years | - | - |
| | 945 | - |

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements (continued)

for the year ended 30 June 2008

29. 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:

| | 2008 | 2007 |
|------------------|--------|--------|
| \$ | | |
| 0 – 10,000 | 1 | 1 |
| 60,001– 70,000 | 1 | - |
| 130,001– 140,000 | - | 1 |
| 430,001– 440,000 | - | 1 |
| 440,001– 450,000 | 1 | - |
| | \$'000 | \$'000 |

The total remuneration of members of the Accountable Authority is:

512 570

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 is included in a band labelled '\$0 – \$10,000'.

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements (continued)

for the year ended 30 June 2008

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:

| | 2008 | 2007 |
|---|--------|--------|
| \$ | | |
| 120,001 – 130,000 | - | 1 |
| 130,001 – 140,000 | 1 | 2 |
| 140,000 – 150,001 | - | 1 |
| 170,001 – 180,000 | 1 | 1 |
| 180,001 – 190,000 | 1 | - |
| 190,001 – 200,000 | 1 | - |
| 230,001 – 240,000 | 1 | - |
| | \$'000 | \$'000 |
| The total remuneration of Senior Officers is: | 917 | 719 |

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.

30. Remuneration of Auditor

| | 2008 \$'000 | 2007 \$'000 |
|---|----------------|----------------|
| Remuneration payable to the Auditor General for the financial year is as follows: | | |
| Auditing the accounts, financial statements and performance indicators | 25 | 23 |

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements (continued)

for the year ended 30 June 2008

31. Related bodies

The Authority had no related bodies during the financial year.

32. Affiliated bodies

The Authority had no affiliated bodies during the financial year.

33. Contingent liabilities and contingent assets

The Authority has no contingent liabilities or contingent assets as at 30 June 2008.

34. Events occurring after the balance sheet date

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

35. Explanatory statement

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

(a) Significant variances between estimated and actual result for 2008

| | 2008 Actual \$'000 | 2008 Estimate \$'000 | Variance \$'000 |
|-----------------------|--------------------------|----------------------------|--------------------|
| Expenses | | | |
| Supplies and services | 2,660 | 1,528 | 1,132 |
| User Charges and Fees | 2,171 | 1,400 | 771 |

Supplies and Services

The 2007/08 Budget Estimate for expenditure did not reflect the true cost of the Authority carrying out its functions on an annual basis. As a result, the Expenditure Review Committee approved an increase in expenditure limit of \$2.4 million in 2007/08. The variance in supplies and services reflects more accurately the Authority's costs on consultants in carrying out its regulatory functions per annum.

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements (continued)

for the year ended 30 June 2008

User Charges and Fees

The 2007/08 Budget Estimate did not include an estimate of income related to Regulator Fees the Authority receives for its monitoring function of the Wholesale Electricity Market.

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

| | 2008 Actual \$'000 | 2007 Actual \$'000 | Variance \$'000 |
|---------------------------|--------------------------|--------------------------|--------------------|
| Expenses | | | |
| Employee benefits expense | 4,420 | 3,835 | 585 |
| Supplies and services | 2,660 | 3,211 | (551) |
| Accommodation expense | 446 | 307 | 139 |
| User Charges and Fees | 2,171 | 1,776 | 395 |
| Service Appropriation | 6,977 | 5,249 | 1,728 |

Employee benefit expense

The workload of the Authority has necessitated an increase in employees from 42 to 46.

Supplies and Services

This category of expenditure includes the costs of consultants assisting the Authority with its regulatory functions. As these functions are cyclical the costs fluctuate on an annual basis. The variance reflects a decrease in costs associated with putting the electricity licensing regime in place in 2006/07 and additional costs in 2006/07 relating to Appeals before the Energy Review Board.

Accommodation expense

There was a 35% increase in the accommodation lease cost in 2007/08.

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements (continued)

for the year ended 30 June 2008

User Charges and Fees

In 2006/07, the Authority received nine months income as Regulator Fees from the Wholesale Electricity Market as the Market only commenced in September 2006. 2007/08 reflects a full year's fees.

Service Appropriation

During 2007/08, the Expenditure Review Committee approved additional appropriation funding of \$2.2 million for that year.

36. Financial instruments

(a) Financial Risk Management Objectives and Policies

Financial instruments held by the Authority are cash and cash equivalents, restricted 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

Credit risk arises when there is the possibility of the Authority's receivables defaulting on their contractual obligations resulting in financial loss to the Authority. The Authority measures credit risk on a fair value basis and monitors risk on a regular basis.

The maximum exposure to credit risk at balance sheet date in relation to each class of recognised financial assets is the gross carrying amount of those assets inclusive of any provisions for impairment as shown in the table at Note 35 (c).

For receivables other than government, 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.

Based on past experience, current and expected changes in client credit ratings, a Provision for impairment of financial assets has not been provided for.

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements (continued)

for the year ended 30 June 2008

Liquidity risk

The Authority is exposed to liquidity risk through its trading in the normal course of business. Liquidity risk arises when the Authority is unable to meet its financial obligations as they fall due.

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.

Market risk

The Authority does not trade in foreign currency and is not materially exposed to other price risks. Other than as detailed in the Interest rate sensitivity analysis table at Note 35(d), the Authority is not exposed to interest rate risk.

(b) Categories of Financial Instruments

In addition to cash, the carrying amounts of each of the following categories of financial assets and financial liabilities at the balance sheet date are as follows:

| | 2008 | 2007 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| Financial Assets | | |
| Cash and cash equivalents | 2,960 | 1,907 |
| Restricted cash and cash equivalents | 35 | 22 |
| Receivables (a) | 1,562 | 779 |
| Financial Liabilities | | |
| Financial Liabilities measured at amortised cost | 391 | 461 |

(a) The amount of receivables excludes GST recoverable from the ATO (statutory receivable).

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements (continued)

for the year ended 30 June 2008

(c) Financial Instrument Disclosures

Credit Risk, Liquidity Risk and Interest Rate Risk Exposure

The following table details the Authority's exposure to liquidity risk and interest rate risk as at the balance sheet date. The Authority's maximum exposure to credit risk at the balance sheet date is the carrying amount of the financial assets as shown on the following table. The table is based on information provided to senior management of the Authority.

The Authority does not hold any collateral as security or other credit enhancements relating to the financial assets it holds.

The Authority does not hold any financial assets that had to have their terms renegotiated that would have otherwise resulted in them being past due or impaired.

| 2008 | Weighted average effective interest rate % | Variable interest rate \$'000 | Non-Interest Bearing \$'000 | Total \$'000 |
|--------------------------------------|--|-------------------------------------|-----------------------------------|-----------------|
| Financial assets | | | | |
| Cash and cash equivalents | 6.25% | 2,960 | - | 2,960 |
| Restricted Cash and cash equivalents | | | 35 | 35 |
| Receivables (a) | | - | 1,562 | 1,562 |
| Amounts receivable for services | | - | 204 | 204 |
| | | 2,960 | 1,801 | 4,761 |
| Financial Liabilities | | | | |
| Payables | | - | 186 | 186 |
| Accrued Expenses | | - | 205 | 205 |
| | | - | 391 | 391 |

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements (continued)

for the year ended 30 June 2008

| 2007 | Weighted average effective interest rate % | Variable interest rate \$'000 | Non-Interest Bearing \$'000 | Total \$'000 |
|--------------------------------------|--|-------------------------------------|-----------------------------------|-----------------|
| Financial assets | | | | |
| Cash and cash equivalents | 6.08% | 1,907 | - | 1,907 |
| Restricted Cash and cash equivalents | | | 22 | 22 |
| Receivables (a) | | - | 779 | 779 |
| Amounts receivable for services | | - | 167 | 167 |
| | | <u>1,907</u> | <u>968</u> | <u>2,875</u> |
| Financial Liabilities | | | | |
| Payables | | - | 169 | 169 |
| Accrued Expenses | | - | 292 | 292 |
| | | <u>-</u> | <u>461</u> | <u>461</u> |

(a) The amount of receivables excludes GST recoverable from the ATO (statutory receivable).

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements (continued)

for the year ended 30 June 2008

(d) Interest rate sensitivity analysis

The following table represents a summary of the interest rate sensitivity of the Authority's financial assets and liabilities at the balance sheet date on the surplus for the period and equity for a 1% change in interest rates. It is assumed that the change in interest rates is held constant throughout the reporting period.

| | Carrying amount \$'000 | -1% Change Surplus \$'000 | Equity \$'000 | +1% Change Surplus \$'000 | Equity \$'000 |
|---------------------------|------------------------------|------------------------------------|------------------|------------------------------------|------------------|
| 2008 | | | | | |
| Financial assets | | | | | |
| Cash and cash equivalents | 2,960 | (30) | (30) | 30 | 30 |
| Total Increase/(Decrease) | | (30) | (30) | 30 | 30 |
| | | | | | |
| | Carrying amount \$'000 | -1% Change Surplus \$'000 | Equity \$'000 | +1% Change Surplus \$'000 | Equity \$'000 |
| 2007 | | | | | |
| Financial assets | | | | | |
| Cash Assets | 1,907 | (19) | (19) | 19 | 19 |
| Total Increase/(Decrease) | | (19) | (19) | 19 | 19 |

Fair Values

All financial assets and liabilities recognised in the balance sheet, whether they are carried at cost or fair value, are recognised at amounts that represent a reasonable approximation of fair value unless otherwise stated in the applicable notes.

Disclosures and Legal Compliance

Financial Statements

Notes to the Financial Statements (continued)

for the year ended 30 June 2008

37. Indian Ocean Territories

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

| | 2008 \$'000 | 2007 \$'000 |
|----------------------|----------------|----------------|
| Opening balances | 23 | (7) |
| Plus: Gross receipts | 32 | 56 |
| Less Gross payments | 34 | 26 |
| Closing balances | 21 | 23 |

Disclosures and Legal Compliance

Key Performance Indicators

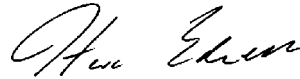
Certification of Key Performance Indicators

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 2008.



Mr Lyndon Rowe – Chairman

1 August 2008



Mr Steve Edwell – Member

1 August 2008



Mr Peter Panegyres AM – Member

1 August 2008



Ms Pam Herbener – Chief Finance Officer

1 August 2008

Disclosures and Legal Compliance

Key Performance Indicators

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.

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

"any requirement under the Treasurer's Instructions (issued under section 78 of the Financial Management Act 2006) that the Authority prepare performance indicators is to be limited to the Authority's management functions (including financial management), and is not to apply to the performance of any other function of the Authority."

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

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

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

Disclosures and Legal Compliance

Key Performance Indicators

Key Effectiveness Indicators

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.

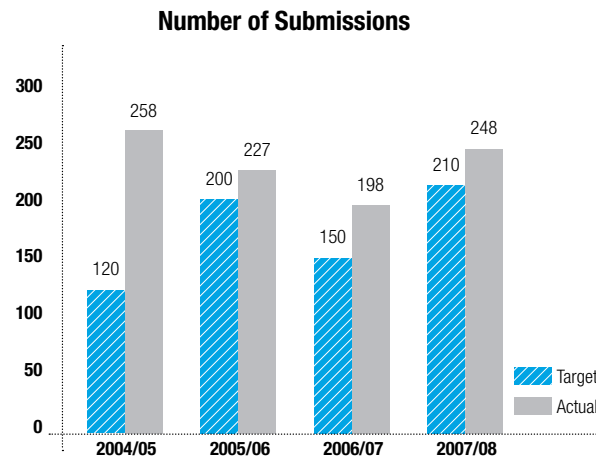
Timeliness

- 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.

2007/08 Performance – Effectiveness

Quantity (Submissions)



The Authority's Governing Body met 40 times during the year to review and discuss submissions. In addition to the meetings, 121 submissions were reviewed by email. The number of submissions exceeded the target as there was a larger than anticipated workload.

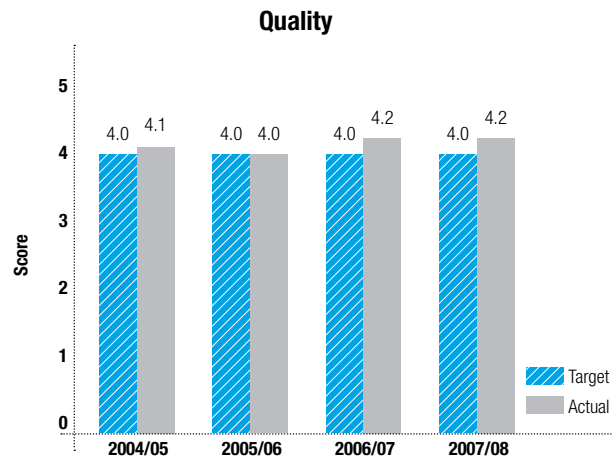
The 2007/08 financial year has seen extensive development by the Authority in the surveillance of the State's new Wholesale Electricity Market; reviews and the development of guidelines in licensing and the monitoring of service providers; and in the development of guidelines for assessments required under the Electricity Code. The financial year has also seen the completion of six inquires referred to the Authority by the Government.

Disclosures and Legal Compliance

Key Performance Indicators

Key Effectiveness Indicators (continued)

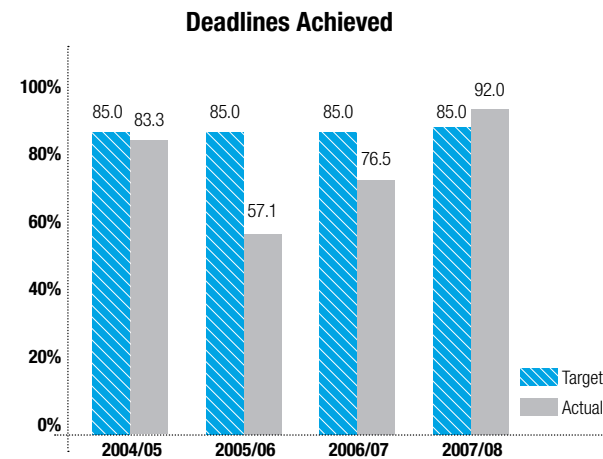
Quality (Submissions)



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

Quality was rated above the expected level of performance, with the average rating for the year being 4.2. This high level of performance was the same as the previous year and an improvement on the two years before that.

Timeliness (Legislative Deadlines Achieved)



Of the 248 submissions reviewed during the year, 25 related to functions that had time limits. The number of submissions with time limits increased modestly on those of the previous year during which 17 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 25 submissions with deadlines, 23 were completed on or before expiry of the prescribed time limit. This equated to 92 per cent of submissions meeting the criteria.

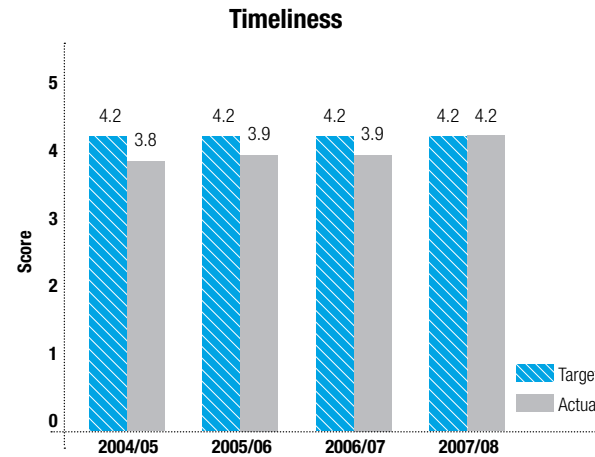
Disclosures and Legal Compliance

Key Performance Indicators

Key Effectiveness Indicators (continued)

An assessment of the two timelines that did not meet the prescribed time limit indicated that one related to two gas licence approvals and the other related to the annual Wholesale Electricity Market (**WEM**) report to the Minister for Energy. The delay in approving the licence applications was mainly due to the need for subsequent follow up over a 20-month period, as the applications lodged were incomplete. In respect of Minister's report, the *Wholesale Electricity Market Rules* require the Authority to provide to the Minister a report on the effectiveness of the WEM at least annually. Since the market commenced operations on 21 September 2006, the first report was due on 21 September 2007. The first WEM report was provided to the Minister on 28 September 2007.

Timeliness (Governing Body Perception)



In addition to measuring the number of submissions that met 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.

The Governing Body's perception of the Secretariat's timeliness in preparing submissions improved significantly on that of previous years.

Disclosures and Legal Compliance

Key Performance Indicators

Key Efficiency Indicators

The Authority's key efficiency indicator is:

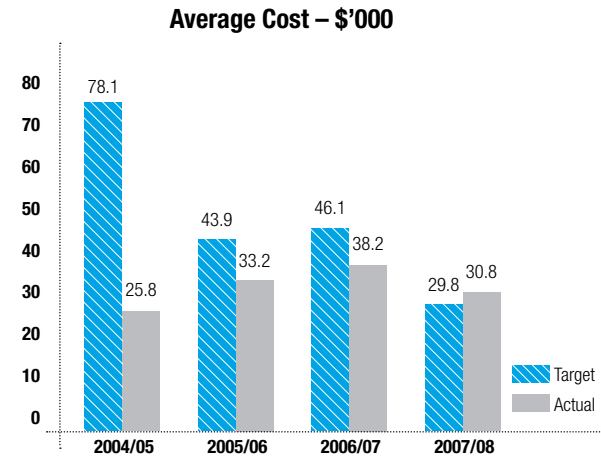
Cost

Average cost per submission.

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

2007/08 Performance – Efficiency

Average Cost (Per Submission)



The total cost of the Authority's operations for the 12 months under review was \$7.634 million, compared to an expenditure limit of \$6.264 million. There were 248 submissions compared to the target of 210. The average cost per submission was \$30,782 against the target \$29,829.

Compared to the previous financial year, the average cost per submission has decreased by \$7,395 due to the increase in the number of submissions (25%) exceeding the increase in costs (1%).

Disclosures and Legal Compliance

Ministerial Directives

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 direction in writing to the Authority on administration and financial administration matters.

No ministerial directives were received from the relevant Minister during 2007/08.

Other Financial Disclosures

Pricing Policies of Services Provided

The Authority currently receives revenue for the following functions:

- Fees and charges payable in respect of licences issued by the Authority. These fees and charges are determined by Regulations created under the *Electricity Industry Act 2004*, the *Energy Coordination Act 1994* and the *Water Services Licensing Act 1995*. The basis for determining the fees charged is the responsibility of the Minister responsible for each Act.
- Under an agreement with the Commonwealth, the Authority is responsible for licensing water and electricity utilities on the Christmas and Cocos Islands. Applications for licences are yet to be received, however any costs incurred in relation to pre-lodgement negotiations are recovered from the Commonwealth Government based on an agreed amount.
- Regulator fees are recovered from the Wholesale Electricity Market (**WEM**) through the Independent Market Operator, under the *Wholesale Electricity Market Rules*. The revenue received is based on full cost recovery for the Authority's surveillance functions of the WEM.
- Fees and charges are 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 (the Regulations)* (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. 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.

Disclosures and Legal Compliance

Other Financial Disclosures

Pricing Policies of Services Provided (continued)

The pipeline operators that are liable for Standing Charges and the percentage allocation of costs between these pipeline operators are set out in Schedule 1 of the Regulations. The Service Charges, payable by pipeline operators, comprise charges levied by the Authority for the functions listed in Schedule 2 of the Regulations.

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

The Regulations require that the Authority's annual report include details of the total amount of Standing Charges, Service Charges and Fees paid by pipeline operators in a financial year. These details for the year ended 30 June 2008 are listed in the table below.

Charges paid by pipeline operators for the year ended 30 June 2008

| SERVICE PROVIDER | STANDING CHARGES (\$) | SERVICE CHARGES (\$) |
|--------------------------------------|-----------------------|----------------------|
| AlintaGas Networks Pty Limited | 112,348 | Nil |
| Goldfields Gas Transmission | 84,313 | Nil |
| Southern Cross Pipelines Pty Limited | 11,314 | Nil |
| DBNGP (WA) Transmission Pty Limited | 271,003 | 4,737 |
| Total | 478,978 | 4,737 |

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

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

No document fees were received in 2007/08.

Interest on outstanding amounts received in 2007/08 amounted to \$215.

Capital Works

There were no major capital works undertaken during 2007/08.

Employment and Industrial Relations

As at 30 June 2008, the Authority had 48 employees working either full or part-time. Most were permanent staff, with seven working on contract. Further temporary contract staff were employed during the financial year to provide short-term support and expertise during periods of staff leave and peak workload.

The Authority is committed to supporting equal opportunity and cultural diversity in the workplace. All staff re-submitted a diversity questionnaire during the year. On the basis of the returned surveys, as at 30 June 2008, 52% of Authority staff members were women, 45% were mature workers and 10% declared they were from a culturally diverse background.

Disclosures and Legal Compliance

Other Financial Disclosures

Employment and Industrial Relations (continued)

The following table provides a breakdown of the categories of employment for staff as at 30 June 2008 compared to 30 June 2007.

| EMPLOYEE CATEGORY | NUMBER OF STAFF AT 30 JUNE 2007 | NUMBER OF STAFF AT 30 JUNE 2008 |
|----------------------|---------------------------------|---------------------------------|
| Permanent full-time | 39 | 36 |
| Permanent part-time | 4 (2.7 FTE) | 5 (3.3 FTE) |
| Fixed term full-time | 0 | 4 |
| Fixed term part-time | 2 (1 FTE) | 3 (2 FTE) |
| Total | 45 (42.7 FTE) | 48 (45.3 FTE) |

As at 30 June 2008, there were seven vacant positions compared with five in the previous year.

In the pursuit of 'being an employer of choice', the Authority has faced numerous challenges in attracting and retaining talented people, which is a priority in an increasingly competitive labour market. As the Authority is often unable to match the private sector in financial incentives, it is important to remain innovative and vigilant in developing attractive recruitment and retention strategies.

The Authority is working towards creating an environment where cultural diversity, substantive equality (by eliminating discrimination in any shape or form) and promoting sensitivity to the different needs of our employees is of the upmost priority.

The Authority empowers, supports and believes in developing its staff by respecting their individuality and diversity, and incorporating those qualities into the work environment. The Authority continues to introduce and investigate strategies with this objective in mind.

Staffing Policies

The Authority has implemented numerous policies to cover a range of human resource management practices. The policies are available to all staff through the Authority's intranet and are included in the induction manual for new staff. The staffing policies, together with other corporate policies, have a planned internal review program to ensure they are up-to-date and relevant. During 2007/08, the Authority commenced an external quality assurance review of all policies and procedures to ensure that they comply with agreed standards.

In order to continue the ongoing process of improving and addressing the needs of our staff and clients, the following human resource initiatives were implemented or formalised during 2007/08:

- vacancies are advertised on the staff intranet;
- improvements to the recruitment and selection process;
- continued encouragement of team development;
- providing a comprehensive induction package for new staff;
- renewed emphasis on leadership and management skills using performance management processes as a tool; and
- providing training to staff to further enhance or develop new skills.

Disclosures and Legal Compliance

Other Financial Disclosures

Employment and Industrial Relations (continued)

Flexible working practices continued to be offered to all staff. During 2007/08, two staff members successfully spent between 33% and 40% of their working week in a work-from-home arrangement. Another two staff members, who returned to work from maternity leave, transitioned back to work by working part-time in the office. Staff also made use of purchased leave arrangements.

Industrial Relations

The Authority's staff are employed under the *Public Service Award 1992* and the *Public Service General Agreement 2006*. No industrial disputes were recorded during the year.

Governance Disclosures

Shares in Statutory Authority

The Authority has no shares for senior officers to hold.

Shares in Subsidiary Bodies

The Authority does not have subsidiary bodies.

Interests in Contracts by Senior Officers

In 2007/08, no senior officers had any interest in existing or proposed contracts (other than employment contracts) with the Authority.

Benefits to Senior Officers through Contracts with the Authority

No senior officers disclosed having received any benefits through contracts held by the Authority in the 2007/08 financial year.

Insurance Premiums

There are no senior officers of the Authority defined as directors under Part 3 of the *Statutory Corporations (Liability of Directors) Act 1996* and therefore is not required to pay an insurance premium to indemnify any senior officer.

Disclosures and Legal Compliance

Other Legal Requirements

Compliance with Public Sector Management Act Section 31(1)

1. In the administration of the Economic Regulation Authority, I have complied with the Public Sector Standards in Human Resource Management, the Western Australian Public Sector Code of Ethics and the Authority's Code of Conduct.
2. I have put in place procedures designed to ensure such compliance and conducted appropriate internal assessments to satisfy myself that the statement made in 1 is correct.
3. The applications made for breach of standards review and the corresponding outcomes for the reporting period are:

Number lodged: Nil

Number of breaches found, including details of multiple breaches per application: Nil

Number still under review: Nil



Mr K Peter Kolf – General Manager
25 September 2008

Advertising

In compliance with section 175ZE of the *Electoral Act 1907*, the Authority reports that it incurred the following expenditure in relation to advertising, market research, polling, direct mail and media advertising.

Total expenditure for the period 1 July 2007 to 30 June 2008 was \$103,180.

| AGENCIES/ORGANISATIONS | EXPENDITURE (\$) |
|---------------------------------|------------------|
| Advertising Agencies | 100,100 |
| Market Research Organisations | 3,080 |
| Polling Organisations | Nil |
| Direct Mail Organisations | Nil |
| Media Advertising Organisations | Nil |
| Total | 103,180 |

Note: Amounts shown are exclusive of GST.

Disclosures and Legal Compliance

Other Legal Requirements

Disability Access and Inclusion Plan Outcomes

The Authority is committed to the inclusion of people with disabilities through improved access to its services, facilities and information. In July 2007, as a requirement of the *Disability Services Act 1993 (the Disability Act)*, the Authority published its [Disability Access and Inclusion Plan \(DAIP\) 2007–2011](#).

The DAIP provides a framework for the identification of access and inclusion barriers and for the development of strategies to address those barriers. The Disability Act stipulates that agencies address six areas for improvement in access by ensuring that people with disabilities:

1. have the same opportunities as other people to access services and events;
2. have the same opportunities as other people to access buildings and facilities;
3. receive information in a format that will enable them to access the information readily;
4. receive the same level and quality of service from the staff as other people receive from the staff;
5. have the same opportunities as others to make complaints; and
6. have the same opportunities as others to participate in any public consultation.

The following provides an illustration of some of the activities undertaken by the Authority to address identified access and inclusion barriers under each of the outcome areas:

Outcome 1

- All Authority event invitations request that people RSVP and identify any specific access requirements to assist in the planning of an accessible event.
- A list of suggested accessible venues, suitable to the Authority's event requirements, was compiled and made available to staff via the Authority's intranet.

Outcome 2

- The location of the building's accessible toilet was included onto the reception user's information sheet. This information sheet is also available to all staff via the Authority's intranet.

Outcome 3

- An accessibility information web page was added to the Authority's web site to improve information access for people with disabilities.

Outcome 4

- A professionally facilitated disability awareness workshop held during June 2008 was attended by almost a third of staff. The objectives of the workshop were to improve staff awareness of disability and access issues and to improve skills so as to provide a good service to people with disabilities.
- A web page was added to the Authority's intranet which contains links to accessibility information relevant to staff. This web page is also made reference to in staff induction material.

Disclosures and Legal Compliance

Other Legal Requirements

Disability Access and Inclusion Plan Outcomes (continued)

Outcome 5

- The Authority introduced a dedicated complaints web page and online form on its web site in June 2008. The complaints web page also describes alternate means for the lodgement of complaints other than completing the online form.

Outcome 6

- Public consultation information on the Authority's web site has been revised to inform people and the disability sector about the available methods for submitting a response to an Authority's call for public submissions.

Compliance with Public Sector Standards and Ethical Codes

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

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

Under section 31 of the *Public Sector Management Act 1994*, the Authority reports the following details of significant action taken to prevent non-compliance:

Public Sector Standards (PSS)

Information about PSS is accessible to Authority staff via its intranet and as part of induction materials for new staff. Ongoing training is provided to grievance officers and persons on recruitment panels to ensure compliance with relevant PSS. Specific reference to PSS is included in all relevant Authority policies.

There were no claims of breach of the PSS during the reporting period.

WA Code of Ethics

WA Code of Ethics material is made available to Authority staff via its intranet. Hard copies of WA Code of Ethics material are also made available to staff as a part of induction materials and signed off via staff declaration at this time. WA Code of Ethics is a standing topic for all Corporate Executive and staff meetings.

There were no reports of non-compliance with the WA Code of Ethics during the reporting period.

Authority's Code of Conduct

The Authority's Code of Conduct was last revised in January 2007. A hard copy of the Authority's Code of Conduct is made available to staff as part of induction materials and is signed off via staff declaration at this time. Consultants working for the Authority are provided with a copy of the Authority's Code of Conduct.

There were no reports of non-compliance with the Authority's Code of Conduct during the reporting period.

Disclosures and Legal Compliance

Other Legal Requirements

Record Keeping Plans

Compliance with the *State Records Act 2000*

The Authority is committed to record keeping by dedicating a project to implement and administer the requirements of the *State Records Act 2000*. The State Records Commission's minimum compliance requirements are:

Requirement 1 – Whether the efficiency and effectiveness of the agency's record keeping systems has been evaluated or alternatively when such an evaluation is proposed.

In April 2008, the Authority undertook a review of its Record Keeping Plan (**Plan**). The Authority sought, and subsequently received, approval from the State Records Commission to submit a revised Plan by April 2009.

The Authority has experienced significant growth in the functions it administers since the Plan was prepared in June 2004. This has required additions to the Authority's business classification scheme, including new keywords to cater for discrete new core business functions. The Plan was created around a hard copy environment. In December 2007, the Authority commissioned the TRIM electronic document management system and is in the process of implementing that system throughout the Authority. As part of the implementation of TRIM, the Authority is conducting a complete review of all hard copy folders, records policies and procedures, business classification scheme, file titling and language control.

Requirement 2 – The nature and extent of the record keeping training program conducted by or for the agency.

The Authority has provided records training to staff to ensure they are aware of their record keeping responsibilities.

During the implementation of the TRIM electronic document management system, staff undertook training in their records management responsibilities. This training was completed by 92% of staff. Internal and external training was also provided to staff on how to manage records in the TRIM environment, with 55% of staff participating in this training. Staff responsible for administering the electronic records system undertook TRIM administration training.

Requirement 3 – Whether the efficiency and effectiveness of the record keeping training program has been reviewed or alternatively when this is planned to be done.

Training on the use of TRIM will continue as an ongoing annual activity for all staff. Currently all records training is provided using external consultants. The Authority is working towards developing an on-line records training and awareness program that will be able to be completed by all staff as a self-paced learning tool.

Requirement 4 – Assurance that the agency's induction program addresses employee roles and responsibilities in regard to their compliance with the agency's record keeping plan.

The Authority's induction program for new staff includes training in the use of TRIM and the business classification system. New staff are advised that all policies and procedures are available on the intranet, which includes records policies and business process procedures.

Disclosures and Legal Compliance

Government Policy Requirements

Corruption Prevention

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

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

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

The Authority has specific obligations concerning the confidentiality of information it receives. These obligations vary depending on the function the Authority is exercising and the particular legislation governing that function. Details on the treatment of confidential information are available on the Authority's [web site](#).

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* where a person 'must not, directly or indirectly, record, disclose or make use of any information obtained in the course of duty' except under the prescribed circumstances. A breach of such obligations may attract a penalty of \$10,000 or 12 months imprisonment.

During 2008/09, a comprehensive review will be undertaken of the Authority's risk register, which includes matters relating to information security, fraud and corruption issues.

Substantive Equality

The Authority is not a Department represented on the Strategic Management Council and does not currently have any obligations under the substantive equality framework. However, the Authority is aware of the intent and substance of the substantive equality framework and seeks to achieve substantive equality by eliminating systemic racial discrimination in the provision of its services and promoting sensitivity to the different needs of people.

Sustainability

During 2007/08, it was intended that the Authority would finalise its Sustainability Action Plan, however this project had not been completed as at 30 June 2008.

Nonetheless, the Authority is committed to the principles in the *Sustainability Code of Practice for Government Agencies and Resource Guide for Implementation (Sustainability Code)*. The following provides details of the Authority's compliance with the Sustainability Code and other sustainability achievements.

Disclosures and Legal Compliance

Government Policy Requirements

Sustainability (continued)

1. Planning, decision making and reporting are conducted in accordance with sustainability principles

- The Authority's Corporate Plan 2005/07, annual Business Plans and Work Programs are aligned to the State Government's September 2006 *Better Planning: Better Futures – A Strategic Management Framework for the Western Australian Public Sector*.

2. Agency operations support sustainability

- Procurement complies with State Supply Commission policies and guidelines.
- The Authority has Memoranda of Understanding with a number of government agencies. It has also established the Economic Regulation Authority Consumer Consultative Committee to forge effective partnerships and consultation processes with industry and community groups.
- The Authority minimises waste through the use of paper recycling bins.

3. Public sector employees are encouraged and empowered to support sustainability

- Staff are encouraged to contribute to energy saving initiatives, such as using recycling bins, switching off unnecessary lighting and using less water.
- The Authority takes an equal opportunity approach in recruitment and staff management. This approach is also encouraged in all dealings with the public.
- Occupational safety and health measures have been implemented as outlined in the following Occupational Safety and Health section.

Occupational Safety and Health

The Authority's Commitment to Occupational Safety and Health and Injury Management

The Authority complies with the requirements of the *Occupational Safety and Health Act 1984* and is committed to managing and improving occupational safety and health (**OSH**) within the agency. The Authority undertakes building evacuation training annually and first aid kits are easily accessible throughout the office and in every fleet vehicle. First aid officers have been trained and appointed and workstations clearly identify where the first aid officers are located.

In the 2007/08 reporting year, several OSH initiatives continued:

- all new staff were provided with the opportunity to have their workstation ergonomically assessed by external ergonomic consultants and regular re-assessments are completed when required;
- the monthly 'corporate massage' program continued for those staff who wished to participate;
- the staff fitness program continued for those who wished to participate;
- the employee assistance program continued to be available to all staff; and
- an annual influenza vaccination and executive health assessment are offered to all staff.

Disclosures and Legal Compliance

Government Policy Requirements

Occupational Safety and Health (continued)

Consultation with Employees on Occupational Safety and Health Matters

The Authority's Occupational Safety and Health Committee is integral to OSH arrangements in the Authority. The Committee members' appointment, location and details are communicated to all employees and are available on the Authority's intranet. The members are accessible and effectively utilised by both management and employees in the discussion and resolution of OSH issues.

The OSH Committee meets quarterly to discuss and resolve OSH issues and review any hazard and incident reports.

Staff meetings are used as a focal point for members of the OSH Committee to inform staff of any relevant policies or updates.

Compliance with the Injury Management Requirements of the *Workers' Compensation and Injury Management Act 1981*

The 'Injury Management System and Return to Work Policy and Procedures' were adopted in February 2008. This policy outlines how the Authority manages workers' compensation claims in a fair, equitable and efficient manner in conjunction with its insurers, in order to reduce the human and economic costs for all parties involved. The Authority is committed to providing injury management support to all of its employees who sustain a work related injury or illness with a focus on safe and early return to meaningful work in accordance with the *Workers' Compensation and Injury Management Act 1981*.

The table below details the Authority's performance against targets:

| INDICATOR | TARGET 2007/08 | ACTUAL 2007/08 |
|--|--|----------------|
| Number of fatalities | Zero | Zero |
| Lost time injury/ diseases incident rate | Zero or 10% reduction on previous year | Zero |
| Lost time injury severity rate | Zero or 10% reduction on previous year | Zero |

Workers' Compensation Claims

The Authority complies with the requirements of the *Occupational Safety and Health Act 1984*. There were no incident reports or workers compensation claims submitted during the reporting year. There were also no outstanding claims from a prior period.

Other Disclosures

Boards and Committees

From time to time the Authority appoints committees to assist in the performance of its functions. During 2007/08, the Authority was responsible for a number of committees. Details of these committees, and the independently constituted committees in which the Authority were involved, are outlined below.

Authority Committees

Economic Regulation Authority Consumer Consultative Committee

The [Economic Regulation Authority Consumer Consultative Committee \(ERACCC\)](#) was established by the Authority in 2005 to facilitate the exchange of information between the Authority and consumers on regulatory issues in the gas, electricity, rail and water industries.

The ERACCC was established for the purposes of providing:

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

During 2007/08, the ERACCC conducted three half-day meetings. The ERACCC heard from a broad range of guest speakers on a variety of topics, including the Department of Water, Office of Energy and the Energy Ombudsman.

Membership of the ERACCC during 2007/08 included:

- Ms Alison Pidgeon – Consumer Credit Legal Service (WA) Inc;

- Mr Andrew Canion (replaced Ms Jessica Shaw, June 2008) – Chamber of Commerce and Industry of WA;
- Mr Damian Stone – Property Council of Australia;
- Mr Gary Newcombe – Department of Consumer and Employment Protection (Observer);
- Mrs Genette Keating – Consumers Association of Western Australia;
- Ms Irina Cattalini – WA Council of Social Service - Consumer Utilities Project;
- Ms Lisa Baker – WA Council of Social Service;
- Ms Mia Kriznic – Department of Indigenous Affairs (appointed June 2008);
- Mr Paul Hynch – Chamber of Minerals and Energy of WA (Inc);
- Cr Pauline O'Connor – WA Local Government Association (vacated October 2007);
- Mr Peter Bligh – WA Farmers Federation;
- Mr Slade Brockman – Pastoralists and Graziers Association of WA (Inc); and
- Mr Wayne Mann – Energy Ombudsman's Office (Observer).

Following an independent evaluation of the ERACCC by Asset Research in June 2007, the Authority endorsed new streamlined terms of reference for the ERACCC.

The role of a member is outlined in the [Members' Terms of Appointment](#) document. The role of an observer is outlined in the [Observers' Terms of Appointment](#) document.

Other Disclosures

Boards and Committees

Authority Committees (continued)

The ERACCC is chaired by the Authority's Chairman, Mr Lyndon Rowe and provided with executive support by the Authority's Secretariat.

During the year, the ERACCC and the Authority joined with the Energy Ombudsman and the Department of Consumer and Employment Protection on 2 November 2007 to host a seminar entitled 'Utility Consumer Disputes Resolution'. The seminar attracted approximately 60 participants from a broad range of organisations including licensees, consumer representative organisations and government agencies.

Keynote speakers included:

- Mr Charlie Trkulja, Head of Customer Feedback and Resolutions – National Australia Bank;
- Ms Deirdre O'Donnell – Telecommunications Industry Ombudsman;
- Mr Denis Nelthorpe – General Insurance Code of Practice Compliance Committee;
- Mr Gerard Brody, Director Policy and Campaigns - Consumer Action Law Centre; and
- Mr Paul Clark, General Manager Customer and Stakeholder Relations – Country Energy.

Gas Marketing Code Consultative Committee

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

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

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

The GMCCC was not required to meet during 2007/08.

Committees Observed

Electricity Code Consultative Committee

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

A full review of the Small Use Code of Conduct was undertaken by the ECCC during 2006/07. After offering interested parties the opportunity to comment on proposed revisions to the Small Use Code of Conduct, the ECCC provided its final advice to the Authority on 3 September 2007. The Authority released its decision approving the revised Small Use Code of Conduct on 2 October 2007. The new Small Use Code of Conduct was gazetted and came into force on 8 January 2008.

Other Disclosures

Boards and Committees

Committees Observed (continued)

Membership of the ECCC during 2007/08 included:

- Mr Paul Kelly – Economic Regulation Authority (Chairman);
- Ms Alison Pidgeon – Consumer Credit Legal Service (Consumer Representative);
- Mr Andrew Canion (replaced Ms Jessica Shaw, June 2008) – Chamber of Commerce and Industry of WA (Industry Representative);
- Mr France Radford – Geraldton Resource Centre (Consumer Representative);
- Mr Gerald Milford – Department of Consumer and Employment Protection (Government Agency Representative);
- Mr Grant Stacy – Horizon Power (Industry Representative);
- Ms Irina Cattalini – WA Council of Social Service (Consumer Representative);
- Mr Ron Geritson – Office of Energy (Government Agency Representative); and
- Mr Simon Thackray – Synergy (Industry Representative).

In June 2008, the Authority published the Guide to the *Code of Conduct for the Supply of Electricity to Small Use Customers (Guide)*, which aims to help customers understand the customer protection safeguards and more general provisions contained within the Small Use Code of Conduct.

Approximately 1,500 copies of the Guide were distributed to a range of stakeholders including relevant government agencies, consumer representative organisations and electricity licensees, so that these groups may in turn provide copies to customers and clients.

Complaints Handling

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

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

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

One complaint was lodged during the year relating to the Authority's administrative and employment related functions. On the basis of its investigations into the material provided, the Authority was satisfied that no further action was required. There were no outstanding complaints from a previous period.

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

Complaints relating to regulatory matters are handled through comprehensive public consultation involving submissions, public forums, specific-purpose conferences and meetings with the Authority or Secretariat.

Other Disclosures

Complaints Handling

Submissions may be made on either a public or confidential basis. Public submissions are published on the Authority's web site.

In the event that parties are unable to resolve a dispute, several avenues are available for review. Specific decisions by the Authority under the *Gas Pipelines Access (Western Australia) Act 1998* and the *Electricity Industry Act 2004* may be referred to the Western Australian Energy (Gas) Review Board.

No new appeals under the National Gas Access Code were lodged with the Western Australian Gas Review Board during the 2007/08 financial year. During the year, Application Numbers 3 of 2004 and 1 of 2005 were current. Final orders were made by the Gas Review Board in February 2008, allowing both applications to be withdrawn. Therefore, as at 30 June 2008, there were no applications for review before the Gas Review Board.

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

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

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

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

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

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

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

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

Other Disclosures

Corporate Support

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

Planning and Executive Support Division

The Planning and Executive Support Division is a small team with responsibilities that include: providing executive support to the Governing Body; providing strategic, business planning, and corporate communications services to the Governing Body and Secretariat; and overseeing the preparation of the Authority's corporate reports, plans and programs.

Finance and Administration Division

Corporate services relating to human resources, records management, information technology and financial services are managed by the Finance and Administration Division.

Most corporate support work is internally resourced, although some work relating to human resources is outsourced through a service level agreement with the Western Australian Department of Treasury and Finance and finance services are outsourced through a service level agreement with the Shared Services Centre of that Department.

The 2007/08 financial year was the first full year that the Authority received financial services from the Department of Treasury and Finance Shared Services Centre (**Shared Services**). The Authority rolled into Shared Services in December 2006 and since that time has refined its business processes to ensure adequate controls are in place in relation to accounts payable, accounts receivable, asset management, financial reporting and budgeting.

During the year the Authority also revised its Financial Management Manual to cover the business processes associated with receiving financial services through Shared Services.

From the time of rolling in to Shared Services, that agency had been providing the services of a Chief Finance Officer (**CFO**). In June 2007, advice was received from the Department of Treasury and Finance that continuing to use the services of the Shared Services Centre to discharge the responsibilities of the CFO was not considered appropriate, in view of the potential conflict of interest that could arise between the role of Shared Services and the responsibilities of the CFO.

In December 2007, the Authority sought exemption from Treasurer's Instruction 824, which requires that the substantive occupant of the position of Chief Finance Officer be 'suitably qualified'. This exemption was approved on 25 February 2008 for the current incumbent of the position of Manager, Finance and Administration, Ms Pam Herbener. Ms Herbener has occupied this position since March 2007 and is supported in the role of CFO by Mr Bruce Donald FCPA, from 2020 Global.

Other Disclosures

Memoranda of Understanding

For the duration of the 2007/08 financial year, the Authority had Memoranda of Understanding in effect with the following organisations:

Office of Energy

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

Independent Market Operator

The Authority signed a [Memorandum of Understanding with the Independent Market Operator](#) on 9 January 2007. The purpose of the Memorandum of Understanding is to establish an agreed framework for mutual cooperation between the Independent Market Operator and the Authority in relation to functions relevant to both agencies. In the Memorandum of Understanding, the Authority and the Independent Market Operator agreed to mutually assist each other in relation to the exchange of information, expert advice, appropriate referral of matters and cooperation more generally, consistent with legislation. In addition, an operational protocol has been agreed between the two agencies to deal with operational matters.

Department of Water

The Authority signed a [Memorandum of Understanding with the Department of Water](#) on 12 December 2006. The purpose of this Memorandum of Understanding is to ensure efficient and effective decision-making and advisory processes of both agencies in relation to the water service industry.

The Memorandum of Understanding also promotes best practice regulation and monitoring of compliance under the *Water Services Licensing Act 1995* and other relevant legislation.

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

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

Energy Ombudsman Western Australia

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

Other Disclosures

Risk Management and Audit Program

During the year, seven internal audits were undertaken as compared to six in the previous year. As 2007/08 was the last year of a three-year Strategic Audit Plan, a major review of the Authority's Risk Management Program commenced during the year.

The following table summarises the audit activity undertaken during the three-year Strategic Audit Plan.

| AUDIT NUMBER | AUDIT ACTIVITY |
|--------------|---|
| 2008-01 | Incoming Mail Responses |
| 2008-02 | Corporate Governance |
| 2008-03 | Budgeting and Management Reporting |
| 2008-04 | HR and Payroll |
| 2008-05 | Financial Management |
| 2008-06 | Information Security |
| 2008-07 | Web site Management |
| 2007-01 | Pipeline Recoveries |
| 2007-02 | Consultants Expenditure |
| 2007-03 | Data Conversion – Shared Services |
| 2007-04 | Financial Management |
| 2007-05 | Incoming Mail |
| 2007-06 | Web site Management |
| 2006-01 | Financial Management |
| 2006-02 | HR and Payroll |
| 2006-03 | Information Security – Security and Integrity |

The Authority's internal auditor for the duration of the 2005/06 to 2007/08 Strategic Audit Plan was Quantum Consulting. During the three years, Quantum made twenty recommendations to improve the Authority's internal controls. As at 30 June 2008, nine of the recommendations had been implemented, four of the recommendations were in progress and seven of the recommendations were not due to be implemented until 2008/09.

Other Disclosures

Stakeholder and Public Communication

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

The Authority has adopted various approaches to public consultation including:

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

Publications

The Authority issued 108 publications during 2007/08, all of which are available on the Authority's [web site](#).

Glossary of Terms

Below is a glossary of terms used in this annual report:

- **Access Arrangement** – An access arrangement sets out terms and conditions (including prices) for access by third parties to regulated infrastructure. The Authority is responsible for the assessment and approval of access arrangements under the *Gas Pipelines Access (Western Australia) Act 1998* and the *Electricity Networks Access Code 2004* (**Electricity Access Code**).
- **Augmentation** – In the context of a covered network, augmentation means an increase in the capability of the covered network to provide services, including the development, construction, acquisition or commissioning of new network assets.
- **Australian Energy Regulator (AER)** – The AER performs economic regulation of the electricity and gas transmission and distribution networks and the Wholesale Electricity Market in the National Electricity Market, and enforcement of the National Electricity Law and National Electricity Rules.
- **Costing Principles** – Part of the rail regulatory instruments, see Part 5 instruments.
- **Energy Price Limits** – The Energy price limits are the minimum and maximum wholesale prices generators can offer their electricity in the short term energy market or balancing market in a trading interval and, in conjunction with the capacity market, are designed to protect participants against price spikes in any constrained market situation.
- **Independent Market Operator (IMO)** – The IMO is an independent statutory corporation established on 1 December 2004 pursuant to the *Electricity Industry (Independent Market Operator) Regulations 2004*.

The IMO is responsible for the administration and monitoring of the Western Australian wholesale electricity market.
- **Mandatory Link Criteria** – Mandatory link criteria deal with the communication links required for metering installations so as to enable meters to be read from a remote location via a telecommunication network. The *Electricity Industry Metering Code 2005* (**Metering Code**) provides that an electricity network operator may require the installation of a communications link in accordance with the approved mandatory link criteria.
- **Maximum Reserve Capacity Price (MRCP)** – The MRCP is the price cap determined by the IMO for the Reserve Capacity Auction. If it is necessary for the IMO to run a Reserve Capacity Auction, participants who wish to enter the auction are able to bid any price between zero and the Maximum Reserve Capacity Price (i.e. the MRCP is the ‘cap’). However, if a Reserve Capacity Auction is not held because enough capacity has been secured through bilateral trade nominations, the *Wholesale Electricity Market Rules* (**Market Rules**) set the price of all Capacity Credits at 85% of the MRCP, as well as using a scale which takes into account any oversupply of Capacity Credits above the required level.
- **Megawatt Hour (MWh)** – Megawatt hour is a unit of energy. Energy delivered by electric utilities is usually expressed and charged for in kilowatt hours (kWh). The kilowatt hour is a convenient unit for domestic and commercial electrical billing purposes. Megawatt hours are used for metering larger amounts of electrical energy.
- **Metrology Procedure** – The metrology procedure sets out the obligations and duties of network operators in regard to meters, metering installations and the

Glossary of Terms

provision of energy data imposed by the Metering Code, including the connection of metering installations to the telecommunications network. The metrology procedure provides guidance on the correct provision, installation and maintenance of metering installations in line with the principles set out in the Metering Code and provides guidance to interested third parties, such as metering manufacturers, on the requirements for metering within the Western Australian electricity system.

- **Model Service Level Agreements** – A model service level agreement specifies the metering services an electricity network operator is required to prepare and provide to Metering Code participants on request (pursuant to Part 6 of the Metering Code). It provides a detailed description of the metering services. Metering Code participants include the network operator, retailers, generators, metering data agents, users that have network access contracts, the IMO and the Authority.
- **MWh** – See Megawatt Hour.
- **Non-Covered Network** – The service provider of the non-covered network is not subject to section 4.1 of the Electricity Access Code, that is, the service provider is not required to have an approved access arrangement for its network.
- **Over-Payment Rules** – Part of the rail regulatory instruments, see Part 5 instruments.
- **Part 5 Instruments** – There are four regulatory requirements on railway owners defined in Part 5 of the *Railways (Access) Code 2000 (Railways Code)* which are referred to collectively as the 'Part 5 instruments'. The railway owner must prepare documents outlining their proposed arrangements for each of these instruments with

the Railways Code requirements, and submit these to the Authority for approval. The four regulatory instruments are the Train Path Policy, the Train Management Guidelines, the Costing Principles and the Over-Payment Rules.

- **Regulatory Test** – The regulatory test is an assessment under chapter 9 of the Electricity Access Code of whether a proposed major augmentation to a covered network maximises the net benefit to those who generate, transport and consume electricity after considering alternative options.
- **Retail Energy Market Company Limited (REMCo)** – REMCo 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 (RMS)** – The RMS is a scheme that enables a Retail Market Administrator to manage the gas market. A gas retailer must be a member of an approved 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. The Minister for Energy has approved the RMS that covers all of the Alinta Gas Networks distribution systems. The Retail Market Administrator for this RMS is REMCo.
- **Ring Fencing** – The separation of an infrastructure owner/operator's functions and business of providing access to the infrastructure from its other functions and business.
- **Short Run Marginal Cost (SRMC)** – The marginal concept in economics refers to the rate at which one quantity changes with respect to extremely small increases in another quantity. It follows therefore that SRMC is

Glossary of Terms

simply defined as the change in short run total cost for an extremely small change in output. Rules pertaining to the Western Australian wholesale electricity market are, in part, designed to replicate the outcomes of a competitive market. Specifically, generators are required to offer electricity at the SRMC of production.

- **Short Term Energy Market (STEM)** – A forward market operated under chapter 6 of the Market Rules in which market participants can purchase electricity from, or sell electricity to, the IMO.
- **Small Use Customer** – Customers who use no more than 160MWh of electricity per year.
- **South West Interconnected System (SWIS)** – The SWIS consists of nearly 88,000 kilometres of powerlines stretching from Kalbarri in the north to Kalgoorlie in the east and south to Albany. The SWIS is the largest interconnected network in Western Australia.
- **Technical Rules** – Technical rules are the rules applying from time to time to the electricity network under chapter 12 of the Electricity Access Code.
- **Train Management Guidelines** – Part of the rail regulatory instruments, see Part 5 instruments.
- **Train Path Policy** – Part of the rail regulatory instruments, see Part 5 instruments.
- **Vesting Contract** – Synergy and Verve Energy have a vesting contract (**VC**) administered by the Office of Energy (**OOE**) which governs, among other things, the commercial arrangements between these two government owned market participants for the trading of electricity in the

wholesale electricity market. The objectives of the VC are set out in an OOE document entitled 'Overview of the Vesting Arrangements', September 2006.

- **Weighted Average Cost of Capital (WACC)** – In relation to rail access, the WACC is the interest rate that is applied to the asset value of infrastructure. The WACC is used in the determination of the return on capital, which is one of the building blocks for determining the revenue and tariffs for regulated infrastructure. It is also used in the determination of the floor and ceiling costs to be applied to the relevant routes on the railway networks covered by the Railways Code.

The WACC calculation takes into account both the debt and equity components of the cost of capital. WACC also applies to electricity and is defined in the Electricity Access Code as 'in relation to a covered network, is expressed as a percentage and means a weighted average of the cost of debt and the cost of equity'.



Western Australia

A full copy of this document is available from the Economic Regulation Authority web site at www.era.wa.gov.au.

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