Appendix E – Cost and Revenue Allocation Method 2010/11

September 2011

Access Arrangement Information for the period 1 July 2012 to 30 June 2017 (AAI)

Cost & Revenue Allocation Method 2010/11

August 2011

Document control

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Distribution list

When this document is updated, the following people must receive a copy of the updated version:

Name	Position / title
Branch Manager	Business Planning & Analysis Branch
Branch Manager	Corporate Accounting & Taxation Branch
Branch Manager	Access Arrangement Development Branch

Document version history

Version	Date	Details
1	Feb 2011	Original version
2	Feb 2011	Updated to reflect organisation restructure changes agreed to from AA, BPA and CAAT Branches
3	Aug 2011	Added new and updated existing cost line items in Appendix A: Cost allocation methods applied
4	Aug 2011	Incorporates Branch Manager updates

Related / referenced documents

Document title	Document ID (DM #)
Guidelines for Access Arrangement Information (6 December 2010)	http://www.erawa.com.au
Chart of Accounts	DM#: 8230049
Indirect Cost Allocation Guidelines	DM#: 4495224
Contributions Policy	DM#: 5012829
2009/10 CRAM	DM#: 7088445
2010/11 Regulatory Financial Statements	DM#: 8176080

Review and authorisation

Internal review of the CRAM is undertaken following the half yearly production of the regulatory financial statements. Internal review includes members of the Business Planning & Analysis Branch (Finance), Corporate Accounting & Taxation Branch (Finance) and Access Arrangement Development Branch (Regulatory).

Approval and sign-off by Branch Managers of the Business Planning & Analysis Branch (BPA) and Access Arrangement Development Branch (AAD) is required to finalise the CRAM.

Name	Role	Document	Date authorised	Next review date
Stephanie Barnes (BPA) and Sally McMahon (AAD)	Branch Managers	DM# 7947494v4	9 August 2011	Following half yearly production of 2011/12 regulatory financial statements

Uncontrolled document when printed. Printed copy expires one week from print date.
Refer to DM for current version

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1 Background

Western Power is a regulated transmission and distribution network business supplying electricity to Western Australian homes and businesses. We are the owner and operator of the Western Power Network (WPN) situated in the south west of Western Australia.

We manage the poles, wires, substations and other infrastructure to deliver electricity from generators to the homes and businesses in the WPN. We are independent of the competing generation and retail segments of the electricity supply chain. Access is provided to all market participants on the network in an equitable and transparent fashion.

Our key business responsibilities are to:

- manage the development, operation and system management of the transmission and distribution networks in the WPN
- operate on a sound commercial basis
- provide even-handed network access for all applicants
- meet and deliver the levels of network performance prescribed by external regulatory bodies
- carry out the above responsibilities safely in accordance with safety and environmental legislation.

We also undertake unregulated services such as supply chain material sales and power training services.

To meet our responsibilities, we must balance the requirements to operate commercially and meet regulatory, government and community expectations for reliability of supply. We report regularly to the market regulators and operators. Our operations are guided by legislation, regulations and codes. These cover almost every aspect of our operation, from performance targets and revenue control to the disposal of waste and the safety of employees and the public.

We are regulated by:

- Economic Regulation Authority (ERA) – an independent body reporting directly to the Western Australian parliament. The ERA regulates us to ensure the delivery of an efficient service at a fair price. This includes approving our Access Arrangement (AA). The 'Electricity Network Access Code 2004' (the Access Code) defines and describes our AA in respect of:
  - network revenue projections and access tariffs, service standards and the supporting capital and operating investment required to meet these standards.
  - the terms and conditions in which users (typically generators and retailers) can obtain access to our network.
- Office of Energy (OoE) – a government agency which established the guiding rules for the ERA and guides energy policy in Western Australia.
- Energy*Safety* – part of Western Australia's Department of Consumer Protection. Energy*Safety* licenses electrical contractors and sets technical guidelines for our network in relation to safety.
- Independent Market Operator (IMO) – an independent organisation funded by industry. The IMO controls the supply and trading of energy and electricity capacity in Western Australia's wholesale electricity market (WEM). A system management function exists as a ring-fenced business segment within our business. The objective of this segment is to ensure sufficient generation capacity, system integrity and configuration to meet the predicted load, and to provide centralised control and access to the network.

2 Purpose and scope of this document

We are regulated by the ERA in accordance with the Access Code. Under the Access Code, we must develop and adhere to an AA that defines the terms and conditions under which users may access our network. The ERA ensures that the AA complies with Access Code requirements and approves revenue and the resulting network tariffs for the regulatory period. The Access Code is supplemented by the 'Guidelines for access arrangement information 2010' (the Guidelines).[1]

Clause 3.5 of the Guidelines details the information requirements regarding the cost allocation applied in preparing the annual regulatory financial statements. We apply the cost allocation methods within this Cost and Revenue Allocation Method (CRAM) to prepare our regulatory financial statements for the ERA in accordance with the Access Code.

2.1 Purpose

The purpose of this document is to present and explain the methods we adopt to allocate costs and revenues to our regulated and unregulated business segments as reported in our regulatory financial statements.

This CRAM sets out:

- the method of cost and revenue allocation applied in preparing our regulatory financial statements (submitted annually to the ERA)
- how we records costs and revenues in Ellipse 6.3.

2.2 Scope

This CRAM provides details on the allocation of:

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

between our business segments and services:

- transmission
- distribution
- IMO-related system management
- unregulated.

[1] Refer to http://www.erawa.com.au/.

3 Responsibilities for implementation and compliance

3.1 Role responsibility

We apply the principles of this CRAM in preparing our annual regulatory financial statements. The statutory financial statements (base accounts) are used as the foundation for this. The CRAM is the instrument applied to derive the regulatory financial statements from the statutory financial statements.

We engage external auditors to audit and review our statutory and regulatory financial statements respectively, including internal controls. The ERA may require a further audit of the regulatory financial statements in accordance with clause 2.7 of the Guidelines.

The information below sets out the relevant responsibilities within our business to ensure the internal monitoring, reporting and application of the CRAM is conducted on an ongoing basis.

3.1.1 Western Power management

- Approve the CRAM.
- Certify that the regulatory financial statements have been prepared in accordance with the CRAM.

3.1.2 Corporate Accounting & Taxation Branch and Business Planning & Analysis Branch (finance branches)

- Ensure compliance with the CRAM.
- Prepare regulatory financial statements and develop supporting working papers in accordance with the CRAM.
- Update the CRAM to ensure that our allocation methods appropriately reflect those used in the production of our regulatory financial statements.

3.1.3 Access Arrangement Development Branch (regulatory branch)

- Advise key stakeholders of changes to the Guidelines and AA which impact the CRAM.
- Support the finance branches in the decisions and implementation of any changes required to account structures, to ensure (or advise on) compliance with the regulatory framework.

3.1.4 All staff

Attribute direct costs and revenue to the transmission, distribution, IMO-related system management and unregulated business segments in accordance with the CRAM using the correct coding on timesheets (labour), account codes, projects and/or work orders.

3.2 Compliance

We monitor the application of the CRAM for accuracy and completeness to ensure that the annual regulatory financial statements reflect the CRAM. An internal review of the CRAM takes place half yearly, during the half yearly production of our regulatory financial statements.

The internal review is undertaken by members of the Business Planning & Analysis Branch (Finance), Corporate Accounting & Taxation Branch (Finance) and Access Arrangement Development Branch (Regulatory). Members of the three branches meet to discuss the outcomes and any issues involved in the production of the regulatory financial statements. The performance and operation of the CRAM is reviewed through this process.

Approval and sign-off by Branch Managers of the Business Planning & Analysis Branch and Access Arrangement Development Branch is required to finalise the CRAM.

4 Organisation structure and services

We are a Government Trading Enterprise (GTE) operating under the *Electricity Corporations Act 2005*. This means that we:

- are ultimately accountable to the state government (via the Minister for Energy) as our owner and sole shareholder
- operate as a corporatised enterprise with the autonomy to make decisions regarding the management and operation of the WPN.

4.1 Corporate structure

Our organisational structure changed from 1 July 2010 in order to support our longer term strategic direction. The following changes in our organisational structure have subsequently been reflected in the CRAM and the regulatory financial statements for 2010/11. Our new organisational structure includes the following divisions:

- Networks
- Operations Divisions (including separate areas for Transmission, Distribution, Customer Service divisions as well as Commercial Performance and Operational Technical Excellence branches)
- Corporate:
    - Corporate Services
    - Regulation and Sustainability
    - Strategy and Finance
    - Enterprise Solutions Partner
    - Legal and Governance
    - General Manager (including Corporate Affairs)
    - System Management (non-IMO related)
    - IMO-related system management (ring fenced).

4.2 Categories of service

Our services fall into one of five categories from a regulatory perspective. These are network access, miscellaneous services, capital works, ring-fenced services (IMO-related system management) and unregulated services. Our categories of service are illustrated in Figure 4.1.

Figure 4.1 Western Power's categories of service

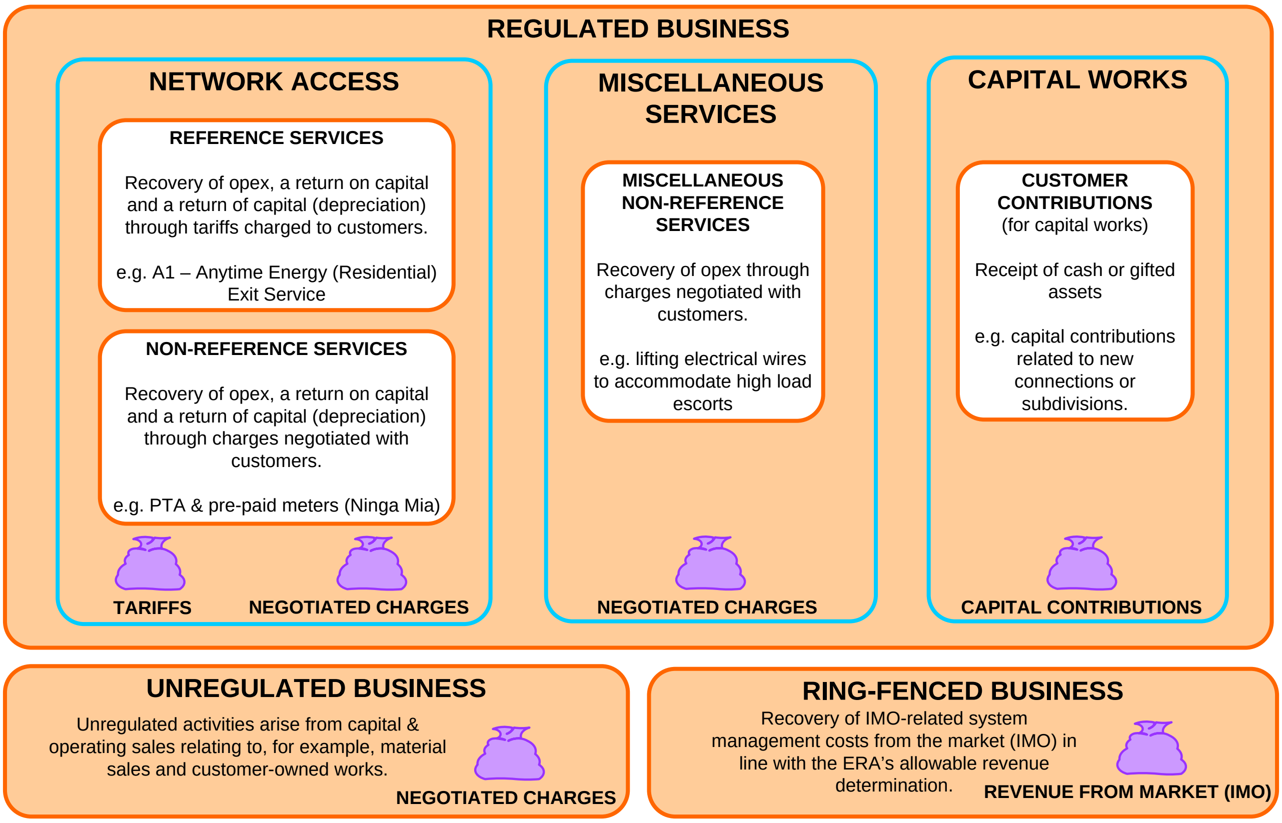

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Table 4.1 identifies the customer types that utilise our services.

Table 4.1 Services provided to customers

Regulated/ Unregulated	Category of service	Type of customers to utilise service
Regulated	Network access: 1. Reference services 2. Non-reference services	Residential and business transmission and distribution customers
	Miscellaneous non-reference services	
	Capital works	
Unregulated	Unregulated services	
Regulated and ring-fenced	IMO-related system management (ring-fenced services)	IMO (service provided to facilitate control, access and sufficiency of generation and the network)

5 Business segments

The Guidelines require that we disaggregate financial information into the following business segments[2]:

- covered (regulated) transmission services
- covered (regulated) distribution services
- IMO-related system management (regulated and ring-fenced)
- unregulated (ring-fenced) services.

This section provides an overview of the categories of services provided by these business segments.

5.1 Reference services

Reference services are provided to generators and retailers in accordance with the terms and conditions of the electricity transfer access contract and are subject to revenue regulation by the ERA.

We currently offer the following reference services:

- two entry services (transmission entry service and distribution entry service)
- 11 exit services
- one bi-directional service.

5.2 Non-reference services

Non-reference services are categorised into:

- non-reference services that relate to network access
- 'miscellaneous' non-reference services that relate to the transportation of electricity by means of a covered (regulated) network.

Non-reference service charges sit outside the ERA's regulated revenue cap. The commercial terms and conditions for non-reference service charges are negotiated between the parties. The Access Code objectives require that these charges be reasonable and negotiated in good faith.

We currently provide:

- non-reference network access services to the Public Transport Authority and Ninga Mia[3] (via pre-paid meters)
- a suite of 'miscellaneous' non-reference services charged to the initiating customer, including customer requested services. These services are restricted to operating expenditure services (e.g. extended metering services and the lifting of electrical wires to transport high loads down freeways and highways) and exclude work that is capitalised.

[2] There are currently no excluded transmission or distribution services in our AA.

[3] Ninga Mia is an aboriginal community near Kalgoorlie with a direct retail arrangement with each premise through the installation of pre-payment meters that allow households to manage their electricity consumption individually.

5.3 IMO-related system management (ring-fenced)

IMO-related system management was established under the WEM rules and is a ring-fenced business segment within our business. Under the WEM rules, IMO-related system management is responsible for ensuring that the power system is operated in a safe, secure and reliable manner through the operation and control of generator facilities, transmission and distribution networks, and large customer retailer supply management including demand side management.

IMO-related system management has a central role in the scheduling of generator and transmission outages, and manages the real-time operation of the network. In order to fulfill this obligation, IMO-related system management controls key technical characteristics of the network such as frequency and voltage through ancillary services.

The ERA determines IMO-related system management expenditure through an allowable revenue determination. Indirect (shared) business support costs are identified, allocated and ring-fenced to IMO-related system management in accordance with this CRAM. These costs are identified and allocated only once. This allocation is consistent with the methodology applied by the ERA in its allowable revenue determination. These costs are fully recovered through IMO-related system management revenue.

5.4 Unregulated services (ring-fenced)

We are not obliged to provide unregulated services because they are capable of being provided on a contestable basis by a range of suppliers. The prices we charge are not regulated by means of our AA as a result. The commercial terms and conditions for unregulated services are negotiated between the parties.

Examples of the unregulated services we provide include the:

- external sale/salvage of supply chain (including undergrounding) materials;
- provision of private vegetation management
- provision of external power training services
- provision of external undergrounding ‘pillar to customer meter’ work.

We identify, allocate and ring-fence the costs associated with unregulated services in accordance with this CRAM.

6 Cost allocation

Costs are allocated to the transmission, distribution, IMO-related system management and unregulated business segments in accordance with the Guidelines.

We broadly categorise the allocation of costs into one of three categories:

- direct (attributable) costs (refer section 6.5)
- indirect (allocatable) costs that relate to our approved works program (AWP) (refer section 6.6)
- corporate (allocatable) costs that relate to business support and other services (refer section 6.7).

This section provides an overview of our cost allocation method.

6.1 Principles and compliance with Guidelines

Clause 3.5 of the Guidelines requires that costs are allocated based on the following principles.

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

6.2 Application of principles

In support of the above, we commit to the following principles:

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

6.3 Cost categories

For cost allocation purposes, we use three categories:

- Direct costs, where the underlying transaction can be directly identified and attributed to a business service. (Refer section 6.5).
- Indirect costs that do not a have direct means of attribution but relate to our AWP. These costs are allocated using the indirect cost allocation method. The use of this method applies to the allocation of costs which have a network or operational service. The allocation of costs across the AWP attributes costs to both regulated and unregulated services. (Refer section 6.6).
- Corporate costs that do not have a direct means of attribution and relate to a business support service or other cost category. These costs are allocated using a method that most appropriately reflects the corporate cost's causal correlation with the underlying transaction. Full time staff equivalents (FTE), property, plant and equipment and intangibles (PPE) and land and buildings (L&B) are the common allocation methods we apply. The allocation of costs using these methods attributes costs to both regulated and unregulated services. (Refer section 6.7).

The remainder of this section explains these cost categories and their methods of allocation in more detail. Readers should refer to Appendix A for a line item description of each cost and the allocation method applied.

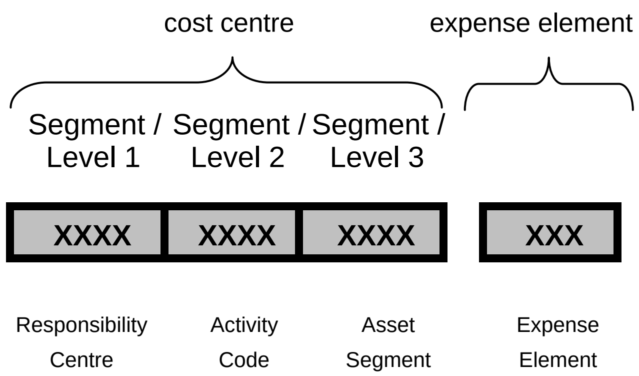
6.4 Western Power's account code structure

All costs are recorded using our financial system via the account code structure[4]. The account code structure enables the production of management, statutory and regulatory reports.

The account code structure comprises 15 characters made up of a 12 character cost centre (refer section 6.5.1) and a three character expense element (refer section 6.5.2). Costs and revenues are differentiated through the use of expense elements for account code reporting.

Figure 6.4 outlines the composition of the account code structure.

Figure 6.4 Western Power's account code structure



[4] DM#: 8230049 provides our account codes with a listing of cost centre segments and expense elements.

6.5 Direct costs (attribution through account code structure)

Our account code structure is used to attribute direct costs (and revenues) within the financial system. Direct costs are primarily comprised of materials, services and labour costs. These costs are booked to an account code (typically using a project and/or work order) to identify and directly attribute their value to a specific service within one of the transmission, distribution, IMO-related system management or unregulated business segments.

6.5.1 Cost centre

A cost centre is assigned to every project and work order. The three segments of the cost centre are explained as follows:

- Responsibility centre: comprises the first group of four characters of the account code. The characters are numeric and are used to identify the various areas within, and/or services offered.
- Activity code: comprises the second group of four characters of the cost centre code. The characters are numeric and are used to identify the service being carried out, e.g. 1@@@ denotes external work, 2@@@ denotes operating work and 3@@@ denotes capital work.
- Asset segment: comprises the third group of four characters of the cost centre code. The characters are numeric and are used to identify the business segment for which the transaction relates, i.e. 1@@@ denotes corporate, 2@@@ denotes transmission, 3@@@ denotes distribution and 4@@@ denotes system management.

6.5.2 Expense element

An expense element is assigned to a cost centre (via a project and/or work order) to form a complete account code when a transaction is recorded within our financial system. The expense element comprises the last three characters of the account code. The characters are numeric and are used to identify the nature of the cost or revenue incurred.

Costs relating to regulated and unregulated services are identified and allocated using the activity code, asset segment and/or expense element of the underlying transaction's account code (via a project and/or work order for example). Unregulated costs are ring-fenced from our other business segments.

6.6 Indirect approved works program costs (allocation through the indirect cost allocation method)

The indirect costs incurred in our network and operational areas (such as training and travel costs and non-timesheet labour) cannot be directly attributed to specific services within the AWP. Instead, these costs are identified in an 'indirect cost pool' and allocated across the AWP, using our indirect cost allocation method.

The AWP is a complete schedule of the operational and capital works that we undertake during a financial year on the construction, operation and maintenance of our network. It includes the construction of new assets, maintenance of existing assets, connecting new customers and enhancing power supply. The AWP includes both regulated and unregulated services.

The indirect cost allocation method allocates the costs within the 'indirect cost pool' to the AWP through two steps. The first step involves allocating the labour related indirect costs using a 'labour time' recovery rate for every internal labour hour charged to a specific service.

The second step allocates the remaining non-labour related indirect costs proportionally across the AWP based on the direct costs incurred by each specific service. The proportional rate at which this occurs (the indirect cost recovery rate) is calculated annually during the budget process and is monitored on a monthly basis to review actual recovery against the works program. Quarterly adjustments are made if the actual recovery of costs through the indirect cost allocation method varies from the actual indirect overheads incurred.

The rationale for this allocation is that the amount of indirect costs incurred by a specific service in the networks and operational areas is likely to be related to the amount of direct costs incurred by the service. This indirect cost allocation method does not differentiate in the method of allocation across capital and operating expenditures. It capitalises the indirect costs that are allocated to capital projects, while the indirect costs allocated to the maintenance program are charged to the profit and loss account (and so treated as operational expenditure).

This allocation method allows us to allocate the indirect costs from our network and operational services to specific works in the AWP. The allocation across the whole AWP ensures a transparent method of allocating indirect costs. This ensures that projects and programs in the AWP receive both the allocation of their direct costs and a fair portion of related indirect costs. The application of the method achieves:

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

Further information on how indirect network and operational costs are allocated can be found in the document titled *Internal Cost Allocation Guidelines*[5]*.*

6.7 Corporate and other costs (allocation methods)

Our *corporate* (business support) costs include common or shared services that support all parts of the business including the transmission, distribution, IMO-related system management and unregulated business segments, but are not directly or indirectly attributed/allocated to the AWP.

Our *other* costs include depreciation and amortisation, bad debts, borrowing costs, the book value on the disposal of fixed assets, taxation as reported in the profit and loss account and capital expenditure that is not yet issued to a service.

We allocate corporate and other costs to the transmission, distribution, IMO-related system management and unregulated business segments using a method that most appropriately reflects the causal correlation of the underlying transaction. FTE, PPE and L&B are the common allocation methods applied to allocate these costs, because a direct means of attribution is not available. These allocation methods are explained as follows:

- FTE is determined by the ratio of FTE within a business segment (i.e. transmission, distribution, IMO-related system management or unregulated) to total business FTE. Allocation on a FTE basis is applied when the underlying transaction has a causal correlation to the consumption of staff/labour.
- PPE is determined by the ratio of PPE in the transmission and distribution asset segments to the total transmission and distribution PPE. Allocation on a PPE basis is applied when the underlying transaction has a causal correlation to our principal responsibilities of:

[5] Refer to: DM#: 4495224 for Western Power's *Internal Cost Allocation Guidelines*.

    - managing the network of poles, wires, substations and other infrastructure
    - delivering electricity from power generation plants to homes and businesses.
- L&B is determined by the ratio of L&B in the transmission and distribution asset segments to the total transmission and distribution L&B. Allocation on a L&B basis is applied when the underlying transaction has a causal correlation to our ownership of land and buildings.

7 Revenue allocation

We allocate revenue to the transmission, distribution, IMO-related system management and unregulated business segments using a similar method to the allocation of costs (refer section 6.3).

Our revenue is categorised into one of two categories:

- direct revenue (refer section 7.1)
- indirect revenue (refer section 7.2).

This section provides an overview of our revenue allocation method.

7.1 Direct revenue

Our account code structure (via a project and/or work order) is used to identify and attribute direct revenue within the financial system. This is in the same manner as direct costs are identified and attributed (refer section 6.5).

The following revenue is directly attributed:

- **Reference services:** Reference services generate covered transmission and distribution network access revenue. This revenue is directly attributed via the activity code (nature of service), asset segment (business segment) and expense element (revenue) of the underlying transaction's account code.
- **Miscellaneous non-reference services:** Miscellaneous non-reference services generate revenue from external works, extended metering services and high load escorts. This revenue is directly attributed via the activity code (nature of service), asset segment (business segment), expense element (revenue) and/or maintenance type (nature of service) of the underlying transaction's account code and/or project.
- **Capital contributions:** Capital works may result in our receipt of capital contributions. A capital contribution is a payment or provision in kind (gifted assets) made, or to be made, by a user in respect of any new facilities investment (or forecast new facilities investment) in required work.

  Capital contributions are calculated in accordance with our contributions policy and are approved by the ERA through our AA. Capital contributions are to be reasonable and negotiated in good faith in line with the Access Code objectives[6].

  Capital contributions received from developers and customers are recognised as revenue by the standards set by the Australian Accounting Standards Board (AASB) (refer section 8.3.1). These contributions are identified via the capital activity code (nature of service), asset segment (business segment) and expense element (revenue) of the underlying transaction's account code. The regulatory category is either:

  1. directly attributed via the parent capital project underlying the contribution
  2. indirectly allocated using the method that most appropriately reflects the causal correlation of the contribution, i.e. capital expenditure category for distribution.

[6] Refer to DM#: 5012829 for Western Power's *Contributions Policy*.

- **Unregulated revenue:** Unregulated revenue is primarily generated from external sales (supply chain materials), external information technology and fleet services, private vegetation management, external power training services and external underground pillar to customer meter work. This revenue is identified and directly attributed via the activity code (nature of service), asset segment (business segment), expense element (revenue) and/or maintenance type (nature of service) of the underlying transaction's account code. This revenue is ring-fenced from our regulated revenue.
- **IMO-related system management revenue:** IMO-related system management revenue is identified via the responsibility centre (System Operations – System Management Market), asset segment (business segment) and expense element (revenue) of the underlying transaction's account code. The IMO-related system management portion is ring-fenced from our other business segments.
- **Proceeds from the disposal of fixed assets:** Proceeds generated from the disposal of fixed assets are identified and recorded in the fixed asset register. The asset segment (business segment), expense element (revenue) and asset profile (regulated) of the underlying transaction's account code/asset is used to identify and directly attribute these proceeds. Where the asset segment and/or asset profile relates to a regulated Corporate fixed asset (such as information technology) the proceeds are indirect and allocated accordingly (refer section 7.2).

7.2 Indirect revenue

Our indirect revenue includes the proceeds from the disposal of regulated Corporate fixed assets (such as information technology), and other revenue. Other revenue includes interest and rent received, and is identified via the activity code (nature of service), asset segment (business segment) and expense element (revenue) of the underlying transaction's account code.

We allocate indirect revenue to the transmission, distribution, IMO-related system management and unregulated business segments using a method that most appropriately reflects the causal correlation of the underlying transaction. PPE (for interest received) and L&B (for rent received) are the allocation methods used because a direct attribution is not available (refer section 6.7).

8 Other regulatory financial statement allocations and adjustments

This section provides an overview of our balance sheet and cash flow allocation methods.

8.1 Balance sheet

We allocate assets and liabilities to the transmission, distribution, IMO-related system management and unregulated business segments based on the substance (and not the legal form) of the underlying transactions. This is typically identified via the corresponding operating and capital transactions, and subsequently attributed/allocated consistent with the related cost and revenue allocation methods (refer sections 6 and 7 respectively).

Assets and liabilities that cannot be directly attributed to the transmission, distribution, IMO-related system management and unregulated business segments (such as integrated/consolidated taxation, receivables, creditors and borrowings), are allocated using the method that most appropriately reflects the causal correlation with the underlying transaction. FTE and PPE are the common allocation methods applied for this purpose as a direct attribution is not available (refer section 6.7).

Readers should refer to Appendix B for a line item description of each asset and liability and the method of allocation applied.

8.2 Cash flow statement

Our cash transactions are recorded collectively in a single bank/general ledger account. For the production of the regulatory cash flow statement, these transactions are allocated to the transmission, distribution, IMO-related system management and unregulated business segments using the method that most appropriately reflects a causal correlation with the underlying transaction. This is typically identified by the corresponding profit and loss, and balance sheet transactions, and allocated consistent with the related cost, revenue and balance sheet allocation methods.

Cash is only allocated to the transmission and distribution business segments when preparing the regulatory balance sheet. PPE is the allocation method applied for this purpose because a direct attribution is not available (refer section 6.7).

Readers should refer to Appendix B for a cash flow line item description and the method of allocation applied.

8.3 Regulatory adjustments

When preparing the regulatory financial statements, we adjust the statutory financial statements (base accounts) for differences in:

- accounting policies – differences between the statutory financial statements and the regulatory accounting policies (refer section 8.3.1)
- accounting disclosures – differences between the statutory financial statements and the current AA submission (refer section 8.3.2)
- capital expenditure – differences between the statutory financial statements and the regulated asset base (RAB) (refer section 8.3.3).

Any tax impact associated with the above, using the tax rate enacted at the reporting date, is also adjusted for.

8.3.1 Accounting policy adjustments

Clause 3.6 of the Guidelines requires that we make adjustments to the regulatory financial statements where the accounting policies differ to those in the statutory financial statements.

We currently report accounting policy adjustments for the following.

- **Capital contributions**: all capital contributions received in the reporting period are recognised as revenue in our regulatory profit and loss account. This differs from the treatment applied in the statutory financial statements, where we only recognise capital contributions as revenue when the associated developers and/or customers are connected to the network. Prior to this, such contributions are deferred to the statutory balance sheet. This is a requirement of *UIG 1017 Developer and Customer Contributions for Connection to a Price-Regulated Network*.

  As a result, adjustments are made to our regulatory financial statements to:

  1. restate contributions in the regulatory profit and loss account for capital contributions received in the reporting period but which were deferred in the statutory balance sheet[7]

  2. remove deferred income (for capital contributions only) from the regulatory balance sheet.

- **Borrowing costs**: All borrowing costs are expensed to our regulatory profit and loss account and are excluded from recovery through regulated revenue.[8] This differs from the treatment applied in the statutory financial statements, where we capitalise borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets[9]. This is a requirement of *AASB 123 Borrowing Costs*.

  Therefore, adjustments are made to our regulatory financial statements to:

  1. restate borrowing costs in the regulatory profit and loss account for those capitalised in the statutory financial statements

  2. remove capitalised borrowing costs from regulated capital additions (per clause 3.8.1 of the Guidelines)

  3. remove capitalised borrowing costs from property, plant and equipment, and intangibles in the regulatory balance sheet

  4. restate operating payments in the regulated cash flow statement for borrowing costs capitalised in the statutory cash flow statement

  5. remove capitalised borrowing costs from investing payments in the regulatory cash flow statements.

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[7] Transmission capital contributions restated in the regulatory profit and loss account are directly attributed to the regulatory categories via the parent capital projects underlying the contributions. Distribution capital contributions are indirectly allocated to the regulatory categories that most appropriately reflect the causal correlation of the contributions, that is, customer driven or underground cables (for our state underground power projects).

[8] This occurs because our regulated revenue cap already includes a *return on* capital component (calculated as the sum of our regulated asset base multiplied by our weighted average cost of capital).

[9] Qualifying assets are defined as assets that take a substantial period of time to prepare for their intended use.

8.3.2 Accounting disclosure adjustments

We currently report accounting disclosure adjustments for the following:

- **Depreciation:** Unregulated fleet depreciation (along with other fleet operating expenses) is charged through internal Business Unit Charges (BUCs) to our regulated business based on vehicle usage. The use of the BUC mechanism ensures that an appropriate amount is charged to regulated operating expenditure.

  This differs from the treatment applied in the statutory financial statements, where the statutory financial statements report depreciation as a depreciation and amortisation expense, with an offsetting credit in Corporate operating expenditure from the BUC recovery.

  Therefore, an adjustment is made to our regulatory financial statements to reclassify depreciation back to operating expenses to offset this credit. This adjustment eliminates a potential double count of both regulated expenditure charged as BUC's and as fleet depreciation. The adjustment (including the adjustment amount) is authorised by the BPA Manager.

8.3.3 Regulated asset base (RAB) adjustments

We currently make adjustments to our regulated asset base (RAB) for the following:

- **Capital write-offs:** the capital expenditure/additions reported in the annual production of our regulatory financial statements are added to our RAB. We adjust the capital expenditure/additions reported here when statutory capital expenditure transactions occur which are inconsistent with the treatment of our RAB. Differences in the regulatory and statutory accounting treatment of cancelled and deferred projects is an example of this.

  Our statutory accounting treatment expenses cancelled and deferred projects where the capital expenditure is unlikely to contribute to an energised asset. However, our regulatory accounting treatment does not automatically follow suit. Our regulatory accounting treatment is to capitalise expenditure on cancelled and deferred projects when it can be demonstrated that our expenditure has met the requirements of the New Facilities Investment Test (NFIT) at section 6.52 of the Access Code.

  Therefore, regulatory adjustments are required to remove statutory capital write-offs from the capital and operating expenditure reported in the annual production of our regulatory financial statements where:

  1. the capital expenditure meets NFIT and qualifies for recognition in the RAB
  2. the capital expenditure has already been written down in the RAB, in a prior AA period.

  This adjustment (including the adjustment amount) is authorised by the Expenditure and Services Manager of the AAD Branch. The register of statutory capital write-offs is maintained by the Senior Business Analyst (Networks) of the BP&A Branch.

9 Maintenance of records

We maintain our accounting records and ensure that our statutory and regulatory financial statements are prepared in accordance with approved accounting standards, legislative requirements and the Guidelines.

Our regulatory financial statements reflect the application of the CRAM. As part of the audit of the statutory and regulatory financial statements, supporting work papers are made available for review by auditors. Each work paper is provided with supporting calculations, where appropriate.

Appendix A: Cost allocation method applied

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

- Operations, e.g. reliability, performance, system control;
- Maintenance, e.g. corrective and preventative;
- Customer service and billing, e.g. call centre and metering (excluding unregulated and extended metering services);
- Corporate, e.g. business support costs; and
- Other, e.g. tariff equalisation contribution, unregulated external services.

Operational expenditure

Operational expenditure includes the costs associated with the operation of the transmission and distribution networks. It includes reliability improvements, network performance planning and monitoring, system control monitoring and switching, and fault investigations.

Unless otherwise stated below, operational expenditure is attributed directly by business segment based on the activity code and asset segment of the underlying transaction's account code.

Table 1: Operational expenditure allocation

Operational Expenditure	Transmission	Distribution	IMO-related System Management	Unregulated
Reliability	Direct	Direct	n/a	n/a
SCADA Communications	Direct	Direct	n/a	n/a
Open Access	Direct	Direct	n/a	n/a
Transmission Line Relocation	Direct	Direct	n/a	n/a
Other Non-Reference Services (e.g. extended metering services & high load escorts)	Direct	Direct	n/a	n/a
Network Operations & SCADA Services (System Management excluding IMO-related functions)	Direct / FTE	Direct / FTE	n/a	n/a
Unregulated Supply Chain External Materials Sale	n/a	n/a	n/a	Direct
State Underground Power Project (SUPP) (*pillar to customer meter* component)	n/a	n/a	n/a	Direct

Maintenance expenditure

Maintenance expenditure refers to the costs associated with maintaining the transmission and distribution networks. It consists of emergency and non-emergency maintenance, including corrective, condition-based and routine maintenance, maintenance project and field support services, and failed/damaged equipment repairs.

Maintenance expenditure is directly attributed by business segment based on the activity code and asset segment of the underlying transaction's account code.

Table 2: Maintenance expenditure allocation

Maintenance Expenditure	Transmission	Distribution	IMO-related System Management	Unregulated
Corrective Deferred	Direct	Direct	n/a	n/a
Corrective Emergency	Direct	Direct	n/a	n/a
Preventative Condition	Direct	Direct	n/a	n/a
Preventative Routine	Direct	Direct	n/a	n/a

Customer service and billing expenditure

Customer service and billing expenditure includes the costs associated with the ongoing operations of the call centre, and provision of metering (excluding unregulated and extended metering services) and connection related services. It is directly attributed by business segment based on the activity code and asset segment of the underlying transaction's account code.

Table 3: Customer service and billing expenditure allocation

Customer Service & Billing Expenditure	Transmission	Distribution	IMO-related System Management	Unregulated
Call Centre [1]	Direct	Direct	n/a	n/a
Regulated Metering (excluding extended metering services)	Direct	Direct	n/a	n/a
Unregulated Power Training Services	n/a	n/a	n/a	Direct

[1] Call centre expenditure is directly attributed to the transmission and distribution business segments because the subject matter of calls are categorised and recorded.

Business support costs (corporate expenditure)

Corporate expenditure is the business support costs associated with the adequate and effective corporate governance of Western Power.

Unless otherwise stated below, business support costs are attributed directly by business segment based on the activity code and asset segment of the underlying transaction's account code.

Table 4: Business support costs allocation

Business Support Costs	Transmission	Distribution	IMO-related System Management	Unregulated
Design Costs Not Proceeding (Activity 5200/5220)	Direct	Direct	n/a	n/a
Extended Outage Payments	Direct	Direct	n/a	n/a
Organisation Restructure Costs (e.g. redundancies)	Direct	Direct	n/a	n/a
Supply Extension Scheme (SES)/ Contributory Extension Scheme (CES)	Direct	Direct	n/a	n/a
Unregulated IT External Services	n/a	n/a	n/a	Direct
Unregulated Metering	n/a	n/a	n/a	Direct
Rental Properties Operating Costs	n/a	n/a	n/a	Direct
Chief Executive Officer	FTE	FTE	FTE	FTE
Corporate Services (excl. Rates & Taxes)	FTE	FTE	FTE	FTE
Enterprise Services/System Platform (ESP)	FTE	FTE	FTE	FTE
Fringe Benefit Tax	FTE	FTE	FTE	FTE
Other operational division costs (e.g. long service leave adjustments)	FTE	FTE	FTE	FTE
Strategy & Finance (excluding IT and Commercial allocated via indirect cost allocation method) [1]	PPE	PPE	n/a	FTE
IT Branch (costs relating to corporate areas) [1]	PPE	PPE	n/a	FTE
Legal & Governance [1]	PPE	PPE	n/a	FTE
Insurance [1]	PPE	PPE	n/a	FTE
Regulation & Sustainability (excl. Tariff Equalisation Contribution, Energy*Safety* Levy and Environmental Management)	PPE	PPE	n/a	n/a
Energy Safety Levy	PPE	PPE	n/a	n/a
Obsolete stock	Inventory	Inventory	n/a	n/a
Rates and Taxes	L&B	L&B	n/a	n/a

[1] Finance, Legal & Governance, IT Branch and insurance costs are allocated in two steps. First, they are allocated to the unregulated business segments on an FTE basis. Second, the remaining regulated costs are indirectly allocated on a PPE basis to the transmission and distribution business segments.

Other operating expenditure

Other operating expenditure refers to the operational costs that are not associated with operational, maintenance, customer services and billing, and business support costs. It includes the tariff equalisation contribution, unregulated external services (fleet and private vegetation management), service level agreements and IMO-related system management.

Unless otherwise stated below, other operating expenditure is attributed directly by business segment based on the activity code and asset segment of the underlying transaction's account code.

Table 5: Other operating expenditure allocation

Other Operating Expenditure	Transmission	Distribution	IMO-related System Management	Unregulated
Non Recurring Operating Expenses [1]	Direct	Direct	n/a	n/a
Solar City Program	Direct	Direct	n/a	n/a
Tariff Equalisation Contribution	n/a	Direct	n/a	n/a
IMO-related System Management	n/a	n/a	Direct	n/a
Private Vegetation Management	n/a	n/a	n/a	Direct
Unregulated Fleet External Services	n/a	n/a	n/a	Direct
All Other External Services (including Service Level Agreements (SLAs))	n/a	n/a	n/a	Direct
Environmental Management	PPE	PPE	n/a	n/a
Toodyay Ex Gratia Payment [2]	PPE	PPE	n/a	n/a

[1] Non recurring operating expenses have occurred in 2010/11. These costs include individual projects specified in the AA2 submission as falling in this category, i.e. field information capture project, alternative funding of training, removal of redundant transmission assets and the research and development expenditure for demand side management and energy solutions projects.

[2] The Toodyay ex gratia payment is a one time item associated with the Toodyay bushfire.

Other expenditure

Other expenditure is presented separately in the profit and loss account and includes depreciation and amortisation, bad debts, borrowing costs, the book value on disposed assets and taxation.

Table 6: Other expenditure allocation

Other Expenditure	Transmission	Distribution	IMO-related System Management	Unregulated
Depreciation and Amortisation [1]	Direct & then PPE for remaining [2]	Direct & then PPE for remaining [2]	Direct	Direct
Bad Debts [3]	Network Services Revenue	Network Services Revenue	n/a	Network Services Revenue
Borrowing Costs	PPE	PPE	n/a	PPE
Book Value on Disposal of Fixed Assets [4]	Direct & then PPE for remaining	Direct & then PPE for remaining	Direct	Direct
Taxation [5]	Earnings before Taxation	Earnings before Taxation	Earnings before Taxation	Earnings before Taxation

1 Depreciation and amortisation are allocated in two steps. First, direct depreciation and amortisation are attributed to the transmission, distribution, IMO-related system management and unregulated business segments. Second, the remaining depreciation and amortisation (e.g. capitalised depreciation, regulated Corporate and unregulated fleet depreciation**) are indirectly allocated on a PPE basis to the transmission and distribution business segments.

2 Unregulated fleet depreciation is allocated to the transmission and distribution business segments consistent with their disclosure as AWP operating expenditure in Western Power's AA2.

3 Network services revenue is generated from reference, non-reference and unregulated services.

4 Book value on the disposal of fixed assets is allocated in two steps. First, direct disposals are attributed to the transmission, distribution, IMO-related system management and unregulated business segments. Second, the remaining disposals (e.g. regulated information technology) are indirectly allocated on a PPE basis to the transmission and distribution business segments.

5 Earnings before taxation refers to profit before tax.

Appendix B: Balance sheet and cash flow allocation methods

Assets and liabilities that cannot be directly attributed to the transmission, distribution, IMO-related system management and unregulated business segments (e.g. integrated/consolidated taxation, receivables, creditors and borrowings) are allocated using the method that most appropriately reflects the causal correlation with the underlying transaction. FTE and PPE are the common allocation methods applied by Western Power for this purpose (refer section 6.7), i.e. a direct attribution is not available.

Balance sheet – current assets

Current assets include cash and cash equivalents, trade and other receivables, prepayments, accrued revenue and inventories. They are allocated as follows:

Table 7: Current assets allocation

Current Assets	Transmission	Distribution	IMO-related System Management	Unregulated
Cash and Cash Equivalents [1]	PPE	PPE	n/a	n/a
Trade and Other Receivables (excluding Open Access & Provision for Doubtful Debts)	Direct & then PPE for remaining	Direct & then PPE for remaining	Direct	Direct
Trade and Other Receivables: Open Access	Accrued Revenue	Accrued Revenue	n/a	n/a
Trade and Other Receivables: Provision for Doubtful Debts [2]	Network Services Revenue	Network Services Revenue	n/a	Network Services Revenue
Prepayments	Direct & then PPE for remaining	Direct & then PPE for remaining	Direct	Direct
Accrued Revenue	Direct	Direct	n/a	n/a
Inventories	Direct	Direct (per internal issues)	n/a	Direct (per external sales)

[1] Cash and cash equivalents are recorded collectively within a single bank/general ledger account, and are indirectly allocated on a PPE basis to the transmission and distribution business segments.

[2] Network services revenue is generated from reference, non-reference and unregulated services.

Balance sheet – non-current assets

Non-current assets include property, plant and equipment, intangibles and trade and other receivables. They are allocated as follows:

Table 8: Non-current assets allocation

Non-Current Assets	Transmission	Distribution	IMO-related System Management	Unregulated
Property, Plant and Equipment, Intangibles [1]	Direct & then PPE for remaining	Direct & then PPE for remaining	Direct	Direct
Trade and Other Receivables	PPE	PPE	n/a	n/a

[1] Property, plant and equipment and intangibles are allocated in two steps. First, direct property, plant and equipment and intangibles are attributed to the transmission, distribution, IMO-related system management and unregulated business segments. Second, the remaining property, plant and equipment and intangibles (e.g. regulated system management and Corporate) are indirectly allocated on a PPE basis to the transmission and distribution business segments. (Regulated work in progress is allocated to the transmission and distribution business segments on the assumption that these projects are typically commissioned within 12 months).

Balance sheet – current liabilities

Current liabilities include trade creditors and accruals, deferred income and provisions. They are allocated as follows:

Table 9: Current liabilities allocation

Current Liabilities	Transmission	Distribution	IMO-related System Management	Unregulated
Trade Creditors and Accruals (excluding Employee Related)	Direct & then PPE for remaining	Direct & then PPE for remaining	Direct	Direct
Trade Creditors and Accruals: Employee Related	FTE	FTE	FTE	FTE
Deferred Income	Direct	Direct	n/a	n/a
Provisions (excluding Dividends) [1]	Direct & then FTE/L&B for remaining	Direct & then FTE/L&B for remaining	Direct & then FTE for remaining	Direct & then FTE for remaining
Provisions: Dividends	Profit after taxation	Profit after taxation	n/a	n/a

[1] Provisions (excluding dividends) are allocated in two steps. First, direct provisions are attributed to the transmission, distribution, IMO-related system management and unregulated business segments. Second, the remaining provisions such as employee entitlement and environmental costs are indirectly allocated on a FTE or L&B basis respectively to the transmission, distribution, IMO-related system management and/or unregulated business segments.

Balance sheet – non-current liabilities

Non-current liabilities include borrowings, retirement benefit obligations, trade creditors and accruals, deferred income and provisions. They are allocated as follows:

Table 10: Non-current liabilities allocation

Non-Current Liabilities	Transmission	Distribution	IMO-related System Management	Unregulated
Borrowings	Net assets (before borrowings)	Net assets (before borrowings)	n/a	Net assets (before borrowings)
Retirement Benefit Obligations	FTE	FTE	FTE	FTE
Trade Creditors and Accruals	Direct & then PPE for remaining	Direct & then PPE for remaining	Direct	Direct
Deferred Income	Direct	Direct	n/a	n/a
Provisions [1]	Direct & then FTE/L&B for remaining	Direct & then FTE/L&B for remaining	Direct & then FTE for remaining	Direct & then FTE for remaining

[1] Provisions are allocated in two steps. First, direct provisions are attributed to the transmission, distribution, IMO-related system management and unregulated business segments. Second, the remaining provisions such as employee entitlement and environmental costs are indirectly allocated on a FTE or L&B basis respectively to the transmission, distribution, IMO-related system management and/or unregulated business segments.

Cash flow statement

Table 11: Cash flow statement allocations

Cash Flow	Transmission	Distribution	IMO-related System Management	Unregulated
Operating Receipts	Total Revenue	Total Revenue	Total Revenue	Total Revenue
Operating Payments	Total Expenses	Total Expenses	Total Expenses	Total Expenses
Investing Receipts	Proceeds from Disposal of Assets	Proceeds from Disposal of Assets	Proceeds from Disposal of Assets	Proceeds from Disposal of Assets
Investing Payments [1]	Capital Cash Additions	Capital Cash Additions	Capital Cash Additions	Capital Cash Additions
Financing Receipts	Borrowings	Borrowings	Borrowings	Borrowings
Financing Payments	Borrowings	Borrowings	Borrowings	Borrowings

[1] Capital cash additions refer to capital expenditure less non-cash items, e.g. gifted assets and movement in capital accruals.

Appendix C: Capital expenditure reporting structure

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

- Growth: capital expenditure for the purposes of increasing the capacity of assets or construction of new assets to meet growth in demand.
- Asset replacement and renewal: capital expenditure for the purposes of replacing assets and maintaining service levels.
- Improvement in service: capital expenditure for the purposes of improving service levels and reliability to meet customer preferences.
- Compliance: capital expenditure for the purposes of meeting regulatory obligations.
- Corporate: capital expenditure for corporate activities.

Western Power's capital expenditure categories by business segment are presented below:

1. Transmission capital expenditure (regulated)

Covered (regulated) transmission includes:

Growth
- Customer driven
- Capacity expansion
- Generation driven

Asset replacement and renewal
- Asset replacement

Improvement in service
- Reliability driven
- SCADA/communications

Compliance
- Regulatory

Corporate
- Information technology & market reform
- Administration & support

2. Distribution capital expenditure (regulated)

Covered (regulated) distribution includes:

Growth
- Customer driven
- Capacity expansion
- Gifted assets

Asset replacement and renewal
- Asset replacement
- Metering
- State Underground Power Project (SUPP)

Improvement in service
- Reliability driven
- Rural Power Improvement Program (RPIP)
- SCADA/communications

Compliance
- Regulatory

Corporate
- Information technology & market reform
- Administration & support

3. Non-approved works program capital expenditure (regulated and unregulated) and IMO-related system management

IMO-related system management and non-AWP capital expenditure includes:

- mobile plant and vehicles – unregulated
- information technology – regulated: strategic program of work (SPOW), business tactical and IT infrastructure) and market reform (IMO-related system management)
- administration and support – regulated and unregulated (fleet).

Unless stated below, capital expenditure is typically attributed directly to the transmission, distribution, IMO-related system management and unregulated business segments based on the activity codes and asset segments of the parent capital projects[10] underlying the transactions:

- the activity code identifies the category associated with the underlying transaction
- the asset segment identifies the business segment associated with the underlying transaction.

The responsibility centre of account codes is also used to directly attribute some capital expenditure to IMO-related system management and non-AWP categories.

Table 12: Non-AWP capital expenditure allocation (regulated) and IMO-related system management

Non-AWP and IMO-related System Management Capital Expenditure	Transmission	Distribution	IMO-related System Management	Unregulated
Corporate Real Estate	PPE	PPE	n/a	n/a
East Perth Control Centre	PPE	PPE	n/a	n/a
Information Technology (SPOW, business tactical (BAU), infrastructure)	PPE	PPE	n/a	n/a
Intellectual Property	PPE	PPE	n/a	n/a
Low Value Assets	PPE	PPE	n/a	n/a
Metering	n/a	Direct	n/a	n/a
Other Plant and Equipment	PPE	PPE	n/a	n/a
IMO-related System Management	n/a	n/a	Direct	n/a

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

Glossary

Term	Description
Australian Accounting Standards Board (**AASB**)	The AASB is responsible for developing, issuing and maintaining Australian accounting standards and related pronouncements.
Access Arrangement (**AA**)	The AA is the legal document that provides the details, terms and conditions that Western Power is to provide access to the Western Power Network. The AA complies with the requirements of the Access Code and is approved by the ERA.
Approved works program (**AWP**)	The AWP is a complete schedule of the operational and capital works Western Power carries out during a financial year on the construction, operation and maintenance of the network.
Business segments	The business segments for Western Power are transmission, distribution, IMO-related system management and unregulated.
Cost and Revenue Allocation Method (**CRAM**)	The CRAM is an authorised document presenting the method adopted by Western Power when allocating costs and revenue to the regulated and unregulated business segments and services in the annual regulatory financial statements.
Covered service	A covered service is the transportation of electricity provided by means of a covered network, e.g. a service provided within the SWIN.
Economic Regulation Authority (**ERA**)	The ERA is the independent economic regulator in Western Australia with responsibility for the regulation of monopoly services in the gas, electricity, rail and water industries.
Electricity Networks Access Code 2004 (**the Access Code**)	The Access Code establishes "a framework for third party access to electricity transmission and distribution networks with the objective of promoting the economically efficient investment in, and operation and use of, networks and services of networks in Western Australia in order to promote competition in markets upstream and downstream of the networks".
Full time equivalents (**FTE**)	FTE is the allocation method applied by Western Power when the underlying transaction has a casual correlation to the consumption of staff/labour. It is generally determined by the ratio of FTE within a business segment to total Western Power FTE.
Government Trading Enterprise (**GTE**)	A GTE is a Government owned body, operating under an Act establishing it with the same functions as a private sector enterprise, e.g. *Electricity Corporations Act 2005*.
Guidelines for Access Arrangement Information Guidelines 2010 (**the Guidelines**)	The Guidelines set out in detail the information required (e.g. annual regulatory financial statements) within the AA for the purposes of informing the ERA, applicants and users. Compliance with the Guidelines is required by the Code.
Independent Market Operator (**IMO**)	The IMO controls the supply and trading of energy and electricity capacity in Western Australia's WEM.
Indirect Cost Allocation Method	The Indirect Cost Allocation Method is the method applied by Western Power when allocating the indirect costs of network or operational service nature to the AWP.
Land and buildings (**L&B**)	L&B is the allocation method applied by Western Power when the underlying transaction has a casual correlation to the ownership of land and buildings. It is determined by the ratio of L&B in the transmission and distribution asset segments to the total transmission and distribution L&B.
Non-reference services	Non-reference services sit outside the ERA's allowable revenue determination, e.g. high load escorts. The commercial terms and conditions for these services are negotiated between the parties.
New Facilities Investment Test (**NFIT**)	The New Facilities Investment Test (NFIT) is described at section 6.52 of the Access Code. The NFIT is the test applied to determine whether investment can be added to the regulated capital base (or RAB).
Office of Energy (**OoE**)	The OoE sets the guiding rules for the ERA and overall energy policy in Western Australia.

Term	Description
Property, plant and equipment and intangibles (**PPE**)	PPE is the allocation method applied by Western Power when the underlying transaction has a casual correlation to the principal responsibilities of managing the network and infrastructure, and/or delivering electricity from power generation plants to homes and businesses. It is determined by the ratio of PPE in the transmission and distribution asset segments to the total transmission and distribution PPE.
Reference services	Reference services are subject to ERA revenue regulation via the AA. They include covered services likely to be sought by a significant number of network users and applicants, or a substantial proportion of the market, e.g. network access.
Regulated asset base (**RAB**)	The regulated capital base used to determine the capital costs (the *return on* and *return of* components) to be recovered through regulated network tariff prices.
Urgent Issues Group (**UIG**)	The former UIG was responsible for issuing interpretations concerning urgent financial reporting issues. Since mid-2006 however, these interpretations have been provided by the AASB.
Western Power Network (**WPN**)	The Western Power Network is the transmission and distribution electricity network situated in the south west of Western Australia that is owned and operated by Western Power.
Wholesale Electricity Market (**WEM**)	The WEM is the wholesale electricity market operating in the SWIN.