



Economic Regulation Authority

Annual Report 2018/19





Economic Regulation Authority

WESTERN AUSTRALIA

STATEMENT OF COMPLIANCE

Hon. Ben Wyatt MLA

Treasurer

11th Floor, Dumas House

Havelock Street

West Perth WA 6005

Dear Treasurer

ECONOMIC REGULATION AUTHORITY 2018/19 ANNUAL REPORT

In accordance with section 61 of the *Financial Management Act 2006*, I hereby submit for your information and presentation to Parliament, the annual report of the Economic Regulation Authority for the financial year ended 30 June 2019.

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.

Yours sincerely,

Nicola Cusworth

Chair





CONTACT DETAILS

Address

Level 4, Albert Facey House
469 Wellington Street, Perth WA 6000

Telephone 08 6557 7900

Email info@erawa.com.au

Website www.erawa.com.au

ACCESSING THE ANNUAL REPORT

The 2018/19 annual report and previous reports are available on the ERA's website:

www.erawa.com.au.

To make the annual report as accessible as possible, we have provided it in the following formats:

- An interactive PDF version, which has external links to relevant content.
- A version with separate chapters to reduce file size and download times.
- A text version that is suitable for use with screen reader software applications.

This report can also be made available in alternative formats on request.

National Relay Service TTY: 13 36 77

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Overview

VALUES

EXCELLENCE: We seek excellence in everything we do.

RESPECT: We treat everyone fairly and show consideration and regard for others and their views.

IMPARTIALITY: Our decisions, analysis and advice are independent and unbiased.

INTEGRITY: We are honest and trustworthy.

PURPOSE

The purpose of the ERA is to promote the interests of Western Australian consumers through independent regulation, analysis and advice, now and into the future.

Chair's report

The Economic Regulation Authority has a mix of functions unique among Australian regulators.

These functions include licensing electricity, gas and water service providers and retailers, regulating access to monopoly rail, electricity and gas networks, monitoring compliance with the rules governing the wholesale electricity and gas markets, reviewing the performance of the electricity sector, and conducting inquiries into matters of economic importance.

Our work requires us to understand and consider many competing interests – network owners and their customers; electricity generators and buyers of wholesale electricity; water, gas and electricity retailers and their customers; and government and its constituents.

The common thread linking our approach to these diverse roles is that the ERA exists to serve the long-term interests of Western Australian consumers. This is one of the objectives written in our legislation and is the principle that guides all our activities.

During 2018/19, the ERA finished a review of financial hardship guidelines for water services customers and started the review process for gas and electricity. This form of customer protection is particularly important at the moment, with indicators of financial hardship rising sharply as more customers struggle to pay their bills.

This year, the ERA concluded a detailed, complex and long-running investigation into the activities of Synergy in the balancing market, which is where short-term electricity supplies are traded. We concluded that Synergy may have broken the market rules, resulting in significant effects on consumers by increasing prices in the wholesale market. We have referred our findings to the Electricity Review Board for determination.

The advent of large-scale renewable energy, rapid uptake of rooftop solar panels and the emergence of battery storage are transforming markets for electricity and gas. This is challenging the business models of many regulated entities, which previously faced predictable demand and little or no competition, and made long-term investments expecting that they would deliver value over many decades.

It is also challenging to the ERA, which must apply rules and regulations mainly designed in the late 1990s and early 2000s to today's markets. The ERA must fulfil its legal and regulatory functions and responsibilities within these rules while recognising the commercial reality in which regulated businesses operate. We seek to address these issues pragmatically, using our discretion within the bounds of regulatory law.

For example, in our decision this year on the access arrangement for the Western Power network, the ERA exercised its regulatory discretion to change the way Western Power can set its prices by making it take on more risk for fluctuations in demand. This was done by changing the price control mechanism.

This strengthened the incentives for Western Power to improve the value of services to its customers and maintain demand at a time when renewable energy and batteries are providing customers with alternatives to staying connected to the network.

If Western Power is able to continue and find new ways to offer consumer value from its network assets, both consumers and Western Power stand to benefit.



Regulatory frameworks will need to adapt if the interests of both consumers and regulated businesses are to be met as the energy sector moves towards distributed energy, increasing use of renewable energy sources and other technological changes.

Fortunately, these challenges are recognised, and the Government's Energy Transformation Strategy provides the opportunity for timely reform of the regulatory framework for the Wholesale Electricity Market to better suit the current and future market.

However, recent high-profile reviews of regulation in other industries have shown that a well-designed regulatory framework is necessary, but not always sufficient, to deliver the best outcomes for consumers.

The findings of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry demonstrated that regulations alone could not preclude every possible misconduct.

The culture and values, not just of the regulator but also the regulated entities, are also important, as is designing incentives to encourage appropriate behaviour.

While the banking industry is different to the markets in which we operate, the Royal Commission contains lessons both for the ERA and industries we regulate.

The effectiveness of regulation is determined not just by rules, but also by conduct: fair and transparent processes, clear communication and a strong understanding by all participants of the roles and responsibilities of each party.

Currently, our regulatory structures encourage a formal and often adversarial relationship between regulators and regulated entities. For example, the use of a propose-respond model requires businesses to prepare lengthy, formal proposals for the regulator to either accept or reject.

While this system provides clear guidance for regulators and businesses on what is and is not allowed and is highly transparent, it may no longer be the best model for changing and unpredictable markets. If the reforms of energy regulation currently under way lead to more flexibility for businesses, and more discretion for regulators, it will be even more important to ensure that our regulatory culture supports the objectives of reform to serve the interests of consumers. The ERA will work with all our stakeholders to make this happen.

I conclude by thanking the ERA's team of dedicated and passionate staff, whose commitment and capability are vital to ensuring that the ERA continues to serve the interests of consumers in changing and challenging circumstances.



Nicky Cusworth

Chair

Executive summary

In 2018/19, the ERA supported the transformation of Western Australia's electricity market to accommodate renewable energy and new technologies.

We completed our first method review since this function was transferred to us when the Independent Market Operator was abolished. Method reviews look at some of the economic and technical elements underpinning the Wholesale Electricity Market.

Our review of the method used to assign credits to renewable generators supplying back-up capacity to the market was released in March 2019. We recommended changing the Wholesale Electricity Market Rules to allow a simpler, more transparent method to be used. This will help to improve power system reliability by providing a more accurate estimate of the capacity of renewable generators, at a time when their share of generation in the South West Interconnected System is growing rapidly.

We also completed a review of Western Power's access arrangement for 2017/18 to 2021/22. This project was delayed by the previous government's proposed changes to the electricity market, which would have transferred regulation of Western Power's network to the Australian Energy Regulator. These changes did not eventuate after the change of government in March 2017.

The review process culminated in the ERA drafting its own access arrangement, which Western Power must comply with to ensure that customers have access to the services they require. Changes included providing stronger incentives to deliver value for customers, and a change in regulated services to assist retailers to deliver better electricity services to their customers.

The ERA evaluates whether the regulations intended to manage any conflicts arising from the merging of generation and retail functions into the State-owned

Synergy business are operating effectively. We also monitor compliance with the rules governing the wholesale electricity and gas markets and investigate possible non-compliances.

In April 2019, we finalised an investigation into Synergy's bidding behaviour in the Wholesale Electricity Market and referred the matter to the Electricity Review Board to decide whether Synergy had breached the Market Rules. This was a highly technical investigation into a matter that we believe has affected many consumers of electricity in Western Australia.

The ERA contributed to the overall improvement of regulation in Western Australia through an inquiry into ways to reform business and occupational licensing, which made recommendations intended to change the culture of regulation to one of continuous improvement.

We were pleased to see the Government's Streamline WA initiative include some of the ERA's recommendations, and have confidence that our final report will be a long-lasting resource for those looking to improve regulation in Western Australia.

In ongoing work, the ERA regularly reviews the licensing schemes and customer protection codes for gas, electricity and water service providers to ensure that licensing continues to both protect customers and reduce regulatory burden on licensees.

Two such projects commenced in 2018/19 – a review of the Gas Marketing Code of Conduct, which is undertaken by a statutory committee, and a review of water licences.

In our annual performance report on energy retailers, released in April 2019, we noted with concern the sharp increase in Western Australian electricity consumers experiencing financial hardship. Western Australia's disconnection rate is now well above those of comparable states.



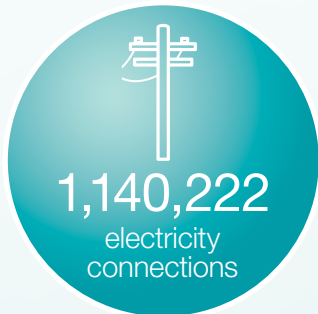
The ERA also began reviewing two access arrangements for gas pipeline networks – the Goldfields Gas Pipeline, and ATCO Gas Australia’s Mid-West and South-West Gas Distribution Systems which covers Perth and major regional centres including Geraldton and Bunbury.

We developed guidelines for the determination of a rate of return for regulated gas networks, which shortly after release became binding on industry following changes to the National Gas Law and National Gas Rules.

Our annual report on how effectively the Wholesale Electricity Market is meeting its objectives found that the market was failing to meet the important objective of minimising the long-term cost of electricity for consumers. We made three recommendations that the Government can implement to keep prices down.

This year, we reviewed the structure and membership of our Consumer Consultative Committee and invited new organisations to join. This has improved the diversity of views represented through the committee and will greatly inform the ERA’s work.

The market we regulate



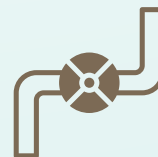
96
utility licences



34
registered customers and 61 generators in the Wholesale Electricity Market



102,441km
of lines: electricity network



14,287km
of mains: gas network



21,236km
of mains: water network

2018/19 highlights

20



performance audits of gas, water and electricity licensees. We granted six licensees a longer audit period in recognition of good performance but reduced the audit period for two licensees.

142

investigations into possible breaches of the gas and electricity market rules; **two warnings** for serious non-compliances; **\$330,000** in incorrect out-of-merit payments recovered by AEMO.



5



new gas, water and electricity licences granted.

770



visits to the consumer pages of our website

87%



of stakeholders think the ERA is improving regulatory compliance.

13



financial hardship policies approved for water services companies

4



new organisations joined the ERA Consumer Consultative Committee improving the diversity of views represented.



82%

of stakeholders think the ERA is managing its regulatory responsibilities for the benefit of consumers.

About the ERA

The ERA is Western Australia's independent economic regulator.

Our role is to regulate the gas, electricity and rail industries, and license providers of gas, electricity and water services. We also conduct inquiries into economic matters referred to us by the Treasurer, provide support to the independent Rule Change Panel, and have a range of regulatory and review roles in the Wholesale Electricity Market and retail gas market.

We aim to ensure that the delivery of water, electricity, gas and rail services in Western Australia is in the long-term interest of consumers. Our functions are designed to maintain a competitive, efficient and fair commercial environment.

We make our decisions independently from industry, government and other interests, and are not subject to government or ministerial direction when carrying out our regulatory functions.

GOVERNANCE FRAMEWORK

The ERA is made up of a three-member Governing Body, supported by a Secretariat. The Governing Body is the decision-making authority and performs the functions of the ERA.

LEGISLATION

The ERA is established by the *Economic Regulation Authority Act 2003*. This Act gives us functions under the following Acts of Parliament:

- *Energy Coordination Act 1994*
- *National Gas Access (WA) Act 2009*
- *Railways (Access) Act 1998*
- *Water Services Act 2012*.

For a complete list of Acts under which we have functions or that affect our operations, see Appendix 1.



RESPONSIBLE MINISTER

Although the ERA functions independently of government, it can receive written directions on financial administration matters from the Treasurer.

The ERA provides reports and analysis to the following ministers:

- The Minister for Energy, on the Wholesale Electricity Market, and electricity and gas licensing.
- The Treasurer, on economic inquiries.
- The Minister for Water, on water licensing.

FUNDING

The ERA's primary functions are funded by industry, with industry contributions making up around 85 per cent of our funding. The State Government provides the rest of our funding, supporting the inquiries and rail functions, as well as our review of Synergy's regulatory scheme.

DANGER
HIGH VOLTAGE
AUTHORISED
PERSONNEL ONLY


HIGH
VOLTAGE

Organisation structure

The ERA Secretariat has three divisions.

Corporate Services provides strategic business planning and executive support to the Governing Body and Secretariat.

The **Regulation and Inquiries** division serves the interest of consumers by administering and monitoring electricity, gas and water licences and monitoring the conduct of these industries' contracts, billing, financial hardship and complaints policies.

This division also regulates third-party access to electricity, gas and rail infrastructure, and conducts inquiries into economic matters as requested by the Treasurer.

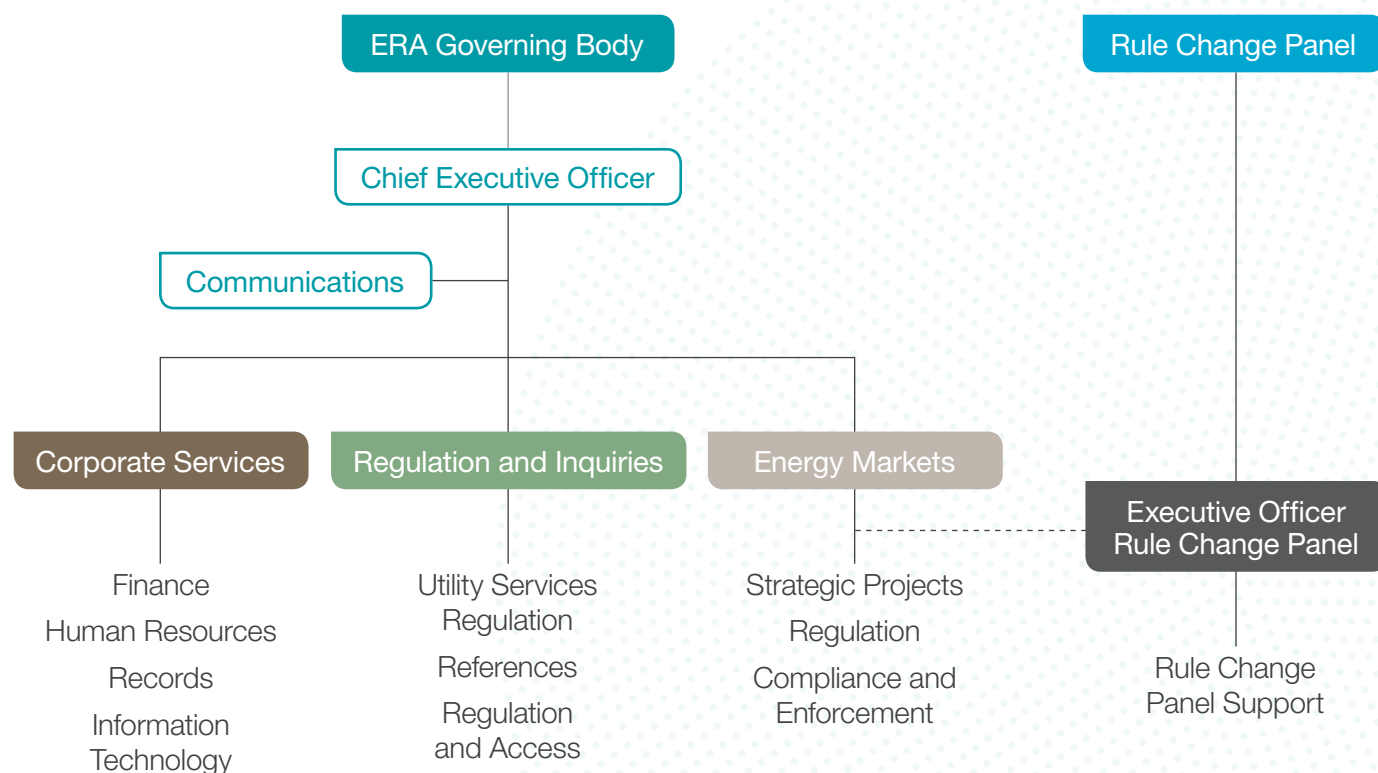
The **Energy Markets** division monitors the electricity market to ensure participants are operating within the Wholesale Electricity Market Rules and ensures compliance with the Gas Services Information Rules.

This division investigates alleged breaches of the rules and enforces compliance and is also responsible for amendments to the Gas Retail Market Scheme.

The ERA also provides support to the independent Rule Change Panel.

The ERA has a Consumer Consultative Committee that meets quarterly and includes representatives from consumer and industry organisations. The Committee greatly assists the ERA's understanding of issues affecting consumers.

ORGANISATIONAL CHART



GOVERNING BODY

The ERA is overseen by a Governing Body that consists of a full-time Chair and two part-time Members.



NICOLA CUSWORTH

Chair

Nicky took up her position as Chair of the ERA in July 2016.

Before joining the ERA, Nicky was Deputy Director General at the former Department of State Development, and previously worked for the Department of Treasury and Finance and Chamber of Commerce and Industry of Western Australia.

Nicky has extensive experience in economic policy and analysis and has participated in projects including the electricity market review and mineral royalty rate analysis.

Nicky has a degree in philosophy, politics and economics from Oxford University.



RAY CHALLEN

Member

Ray joined the Governing Body in August 2017. Prior to that, he was the Coordinator of Energy and head of the Public Utilities Office for five years, during which time he led the electricity market reform program.

Ray has worked for 20 years in the downstream energy and public policy sectors, advising both businesses and governments in regulatory policy and market arrangements.

He has a PhD in economics from the University of Western Australia.



GREG WATKINSON

Member

Greg was appointed as a member of the ERA's Governing Body in July 2017. Prior to this, he was the ERA's Chief Executive Officer since February 2010.

Greg has worked as an economist in the public sector, including at the Department of Treasury and Finance and in the areas of macroeconomics, education and social policy.

He has a master's degree in economics.

EXECUTIVE TEAM

The Secretariat provides support to the Governing Body and is led by the Chief Executive Officer.

JENNESS GARDNER

Chief Executive Officer

Jenness joined the ERA as Chief Executive Officer in November 2017. She has worked extensively in state and commonwealth government, most recently as an Executive Director at the Department of Jobs, Tourism, Science and Innovation. Prior to that she was with the Department of Commerce.

Jenness has significant experience working in the resources sector leading economic policy development, commercial negotiations and large-scale project development for the State.

She has an honours degree in economics.



RAJAT SARAWAT

*Executive Director
Energy Markets*

Rajat joined the ERA in January 2012. He has extensive senior management experience in industry reform and regulation, especially in the energy sector. Prior to joining the ERA, Rajat held various senior positions with the Essential Services Commission of South Australia and the Australian Energy Market Commission.

Rajat has significant experience regulating wholesale electricity markets, implementing and reviewing access arrangements for network businesses and undertaking competition reviews and price regulation in the retail energy industry.

Rajat has a science degree and a master's degree in business administration.



PAUL KELLY

*Executive Director
Regulation and Inquiries*

Paul has been with the ERA since it began in 2004. Prior to his current role, Paul was director of the ERA's water division, and he previously worked at the Office of Water Regulation.

Paul has almost 30 years' experience at senior levels in the public sector. In addition to his role as Executive Director, he also holds the statutory positions of chair of the consultative committees for reviews of the water, electricity and gas marketing codes of conduct.

Paul has a master's degree in social science.



PAM HERBENER

*Director
Corporate Services*

Pam has been with the ERA since it began in 2004 and has worked in access regulation since 1998.

Pam has more than 30 years' management experience across the not-for-profit and local, state and commonwealth government sectors.

She has accrued a breadth of knowledge across finance, compliance, human resources, information technology, recordkeeping and communications.



Performance management framework


RELATIONSHIP TO GOVERNMENT GOALS

The ERA's activities support the government goal of "Better places: A quality environment with liveable and affordable communities and vibrant regions."

Government goal	Better places: A quality environment with liveable and affordable communities and vibrant regions
Desired outcome	The efficient, safe and equitable provision of utility services in Western Australia
Service	Submissions to the ERA Governing Body

SHARED RESPONSIBILITIES WITH OTHER AGENCIES

The ERA did not share any responsibilities with other agencies during 2018/19.

A photograph of a utility pole with power lines against a sunset sky. The sky transitions from a deep blue at the top to a warm orange and yellow near the horizon. A string of small, white, circular lights is strung across the sky, partially obscured by the utility pole and power lines. The foreground is dark, showing the silhouettes of trees and the utility pole.

Agency Performance

Energy Markets

The ERA monitors and regulates the Wholesale Electricity Market (WEM) in Western Australia. The WEM consists of private and government-owned companies that generate and sell electricity and a network operator.

The Australian Energy Market Operator (AEMO) is the market operator and manages the market and power system operations for the WEM.

The Energy Markets division carries out the regulatory functions for the market, which include monitoring whether the market is operating effectively, monitoring and enforcing compliance with the Market Rules and review and approval functions for market parameters.

ANNUAL ELECTRICITY GENERATION AND RETAIL CORPORATION REVIEW

Each year, the ERA reviews the effectiveness of the regulatory scheme put in place to limit the market power of the Electricity Generation and Retail Corporation (trading as Synergy) following the merger of Verve Energy and Synergy on 1 January 2014.

The scheme requires Synergy to separate its generation and retail businesses. The scheme's purpose is to protect third-party retailers and consumers from the possibility of Synergy favouring its retail business over competitors when selling wholesale electricity. As part of the scheme, Synergy must offer standard wholesale contracts (known as standard products) to buy and sell electricity.

Our review of the scheme's operation during 2017 was released in January 2019 following review by the Minister for Energy. We made recommendations to improve the effectiveness of the scheme, including to reduce the spread between the buy and sell prices of standard products from 20 per cent to 10 per cent. As Synergy applies the same method for calculating standard product prices to other contracts, the change would probably flow through to all wholesale electricity contracts, which would ultimately benefit consumers.

On 14 June 2019, the Public Utilities Office announced that the Minister for Energy had accepted some of the ERA's recommendations and proposed to make changes to the regulatory scheme. The changes include reducing the spread between the buy and sell prices of standard products from 20 per cent to 15 per cent during 2020 as a trial. The Minister also approved the ERA conducting its review of Synergy's regulatory scheme every two years, rather than annually. These changes are expected to be in place by September 2019.



ANNUAL REPORT TO THE MINISTER

Each year, the ERA provides a report to the Minister for Energy on how effectively the WEM is meeting its objectives.

These objectives are:

- Promoting the economically efficient, safe and reliable production and supply of electricity and electricity-related services.
- Encouraging competition among generators and retailers, including facilitating the entry of new competitors.
- Avoiding discrimination against particular energy options and technologies.
- Minimising the long-term cost of electricity supplied to customers.
- Encouraging measures to manage the amount of electricity used and when it is used.

In our most recent report released in April 2019, the ERA found that the WEM was failing to meet the market objective of minimising the long-term cost of electricity for customers.

Wholesale electricity prices have increased by more than 20 per cent in the past four years, despite an absence of underlying cost drivers such as high gas prices. The cost of ancillary services – that help ensure stable and secure electricity supplies – is the highest in Australia.

The ERA's recommendations to improve the market's effectiveness were:

1. Synergy's market power needs to be reduced to lower the cost of wholesale electricity. In the absence of structural reform, the government can reduce Synergy's market power by:
 - a. Signalling to the market that Synergy will not replace aging thermal generation plant as that plant is retired.
 - b. Making changes to the regulatory scheme that constrains Synergy's market power, as recommended by the ERA in its [Annual Electricity Generation and Retail Corporation review report](#).
2. Current Market Rules and technical standards are silent on, or prevent, the uptake of some new technologies. These should change to allow for the integration of large-scale batteries into the electricity system.
3. Retail tariff reforms and/or public education programs should be pursued to provide electricity customers with the knowledge and incentives to adjust their electricity consumption in ways that will reduce costs across the market. A review of regulated tariffs for small use electricity customers is urgently needed.

CASE STUDY

REVIEW OF THE CAPACITY METHOD USED FOR RENEWABLE GENERATORS

Because the South West Interconnected System (SWIS) is a small, geographically isolated electricity system, the WEM was designed to have sufficient local generation available to ensure a reliable supply of electricity at all times. AEMO makes sure that sufficient local generation capacity is available by allocating capacity credits to generators. The number of capacity credits awarded recognises how much the generator can contribute to maintaining reliability. This is complex for wind and solar farms, as their capacity varies with the weather.

In 2018, the ERA conducted its first review of the method by which AEMO determines how many capacity credits can be allocated to wind and solar farms. This is called the relevant level method.

The ERA found several shortcomings in the current method. It ignores the relationship between the output of wind and solar farms and demand, all of which are weather-dependent, and only produces reasonable results when there are very low numbers of wind and solar farms present in an electricity system. However, the number of wind and solar farms operating in the SWIS is increasing, making it more likely that the current method will not allocate credits correctly. If left unchanged, this could eventually affect the reliability of electricity supply.

The ERA's proposed method is to use historical data on demand and the output of all generators to forecast a wind or solar farm's contribution to reliability in the SWIS two years ahead. This forecast will determine the number of capacity credits the wind or solar farm will receive. The ERA has begun consulting with industry and developing a rule change proposal to amend the relevant level method to the new method proposed in our final report.

The new method will help to improve power system reliability by ensuring a more accurate representation of the capacity of renewable generators, at a time when their share of generation in the SWIS is growing rapidly.



Albany Wind Farm – Tourism Western Australia

MONITORING AND INVESTIGATIONS

The ERA monitors participant compliance with the Wholesale Electricity Market Rules and Gas Services Information Rules. This includes monitoring prices offered by operators of power stations when offering energy in to the WEM. The purpose of this monitoring is to identify improvements to the market and ensure that market participants are not behaving in a way that results in the market functioning ineffectively. In February 2019, the ERA released guidelines to assist market participants to understand the ERA's approach to monitoring compliance with these rules.

The ERA also investigates other non-compliances, mainly in the areas of generator dispatch, generator outage and availability requirements, and bidding obligations.

During 2018/19, the ERA completed 142 investigations of suspected breaches. The ERA issued warnings to participants for two matters where the non-compliance was considered serious and instructed AEMO to recover approximately \$330,000 of incorrect out-of-merit payments.

Synergy investigation

In April 2019, the ERA completed an investigation into prices offered by Synergy in the WEM's balancing market, which is a spot market for wholesale electrical energy.

The Market Rules prohibit market participants from pricing above their reasonable expectation of the short run marginal cost of producing electricity, when this behaviour relates to market power.

The investigation covered the period from 31 March 2016 to 10 July 2017 and looked at whether:

- Synergy's price-quantity offers exceeded its reasonable expectation of the short run marginal cost of generating the electricity.
- The behaviour was related to market power.

The ERA investigated Synergy's offers in 14,812 30-minute trading intervals.

The ERA calculated that the prices offered by Synergy were above its reasonable expectation of the short run marginal cost of generating the relevant electricity for 12,908 of those trading intervals. The ERA also found that Synergy had market power in the balancing market over the investigation period.

The ERA concluded that Synergy's alleged behaviour was a material breach of the Market Rules and referred the matter to the Electricity Review Board on 31 May 2019.

The ERA's application contains an order seeking a civil penalty. As at 30 June 2019, the Board has not yet been constituted and the application has not been heard.

AEMO'S ALLOWABLE REVENUE AND FORECAST CAPITAL EXPENDITURE

Every three years, AEMO submits proposed allowable revenue and forecast capital expenditure requirements for its Western Australian gas and electricity functions to the ERA for approval. In the electricity market, these include operating the WEM and preparing for and implementing market reforms. The WEM is a small market and it is important to ensure that the costs of running it are efficient.

AEMO submitted its proposal for 2019/20 to 2021/22 on 15 March 2019. The ERA had to make its determination by 14 June 2019.

The ERA approved \$106 million of allowable revenue and \$66 million in forecast capital expenditure for AEMO over the next three years. This included just under \$50 million for the WEM reform program. AEMO recovers the cost of its activities through fees to market participants.

The Government is implementing reforms to the WEM to accommodate the growth of renewable generation from wind and solar farms and rooftop solar systems. AEMO will undertake market design and then procure and implement the information technology and business systems needed to deliver the re-designed WEM by 1 October 2022.

COMPLIANCE WITH THE MARKET RULES

The ERA reports annually to the Minister for Energy on AEMO's compliance with the Wholesale Electricity Market Rules. This year's report, released on 13 February 2019, found 30 matters of non-compliance, most of which were matters of technical compliance with no material consequences or risks.

The report confirmed that AEMO had made significant progress over the previous year addressing power system management risks, including training new control room personnel and engaging resources to develop process documentation.

However, there were some repeated non-compliances in 2017/18. These included failures of old information technology systems that resulted in AEMO dispatching electricity generators from a superseded Balancing Merit Order. These non-compliances could have resulted in the use of generation that was not from the lowest-cost plant at the time, which would have resulted in higher costs to electricity customers. The ERA's subsequent investigation did not find any material consequences for the market or individual participants.

The report covered two further matters of concern to the ERA. The first was the compliance risk of AEMO replacing the reserve capacity settlements system with a new system. Reserve capacity settlements involve financial transactions. There were problems with the interface between the two systems, and this caused some non-compliances. AEMO has now implemented measures to reduce the risk of future non-compliances with these systems.

The second matter concerned some identified shortfalls in ancillary services, which are required to maintain power system security and reliability. AEMO explained that the causes of these shortfalls included increasing variation in generation output because of the greater penetration of renewable resources. The ERA was satisfied that none of the shortfall events threatened the security of the power system.

In November 2018, the ERA provided its annual report to the Minister for Energy on the ERA's own compliance with the Market Rules. An independent auditor confirmed the ERA's compliance and made one recommendation for the ERA to continue its development and implementation of compliance monitoring tools.

RULE CHANGE PANEL SUPPORT

The Rule Change Panel is an independent body established on 24 November 2016 under the *Energy Industry (Rule Change Panel) Regulations 2016*. The Rule Change Panel administers the rule change process and makes decisions on Rule Change Proposals for the Wholesale Electricity Market Rules and Gas Services Information Rules.

The ERA provides secretariat support to the Rule Change Panel, including an executive officer and supporting staff who are the first point of contact for stakeholders. The Rule Change Panel and the ERA are separate entities, and the Rule Change Panel and ERA Governing Body have no involvement in each other's decisions.

The Rule Change Panel publishes its own annual Activities Report, which is [available on its website](#). The Activities Report 2018/19 provides information on:

- The Rule Change Proposals approved in 2018/19, and those still under consideration at the end of the year.
- The consultation processes undertaken during 2018/19.
- The Rule Change Panel's other activities in 2018/19.
- The Rule Change Panel's Key Performance Indicators for 2018/19.

Regulation and Inquiries

The Regulation and Inquiries division administers and monitors electricity, gas and water licences, and protects consumers by monitoring the conduct of these industries' contracts, billing, financial hardship and complaints policies and processes.

The division also regulates third-party access to electricity, gas and rail infrastructure and conducts inquiries into economic matters requested by the Treasurer.

LICENSING

The ERA administers Western Australia's electricity gas and water licensing schemes. This includes assessing applications for new licences and licence amendments, transfers and renewals.

Licensing highlights 2018/19

	New licences	Licence amendments	Licence transfers	Licence surrender
Electricity	<ul style="list-style-type: none"> Bright Energy Investments Warradarge Wind Farm as trustee for the WWF Trust (generation) Yandin WF as trustee for Yandin WF Unit Trust (generation) Alinta Energy Transmission (Chichester) (integrated regional) 	<ul style="list-style-type: none"> Perth Energy (retail) ATCO Power Australia (Karratha) (generation) 	<ul style="list-style-type: none"> Greenough River Solar Farm to SRV GRSF (generation) 	<ul style="list-style-type: none"> Eneabba Gas (generation) Community Electricity (retail)
Gas	Nil	<ul style="list-style-type: none"> Perth Energy (trading) 	Nil	Nil
Water	<ul style="list-style-type: none"> Athena Water Solutions (potable water supply) Moore River Water Services (potable and non-potable water supply, sewerage) 	<ul style="list-style-type: none"> Gascoyne Water Cooperative (irrigation and non-potable water) 	Nil	Nil

Two of the new electricity generation licences granted in 2018/19 were for wind farm projects, highlighting the growth of renewable generation in the Western Australian electricity industry.

In May 2019, the ERA granted a licence to BEI WWF as trustee for the WWF Trust to construct and operate a 180 megawatt wind farm at Warradarge, approximately 260 kilometres north of Perth in the Shire of Coorow.

Also in May 2019, the ERA granted a licence to Yandin WF as trustee for the Yandin WF Unit Trust to construct and operate a 214.2 megawatt wind farm in the Shire of Dandaragan, 150 kilometres north of Perth. The proposed wind farm will consist of 51 wind turbine generators.

Water licence review

The ERA reviews its water licences at least every three years to ensure they protect consumers effectively and meet current legislative requirements. During 2018/19 the ERA commenced the latest review of all water licence templates, in consultation with the public, licensees and other interested parties. The review is an opportunity to reassess whether the licensing scheme is meeting its objectives while minimising the regulatory burden on licensees.

This project is expected to be completed by the end of 2019.

Licence audits and reviews

Licences are an important tool to protect the rights of consumers and ensure that utility service providers deliver safe and reliable services to customers. The ERA requires licensees to conduct regular, independent audits of the performance of their asset management systems and their compliance with licence obligations.

This year the ERA found that, overall, licensees were meeting their obligations and improving their asset management. We granted six licensees a longer period until the next audit or audit and review in recognition of good performance. A deterioration in performance resulted in the ERA reducing the audit period for two licensees.

Location of new licensed utility services



Audits and reviews conducted in 2018/19

	Audits	Asset management reviews
Electricity licences	15	8
Gas licences	2	2
Water licences	3	3
Total	20	13

CONSUMER PROTECTION

The ERA's consumer protection functions ensure that fundamental protections are in place for electricity, gas and water customers.

Financial hardship policies for water services

Financial hardship policies help protect vulnerable customers. Most water licensees are required to have an approved financial hardship policy. In June 2018, the ERA released its revised Financial Hardship Policy Guidelines for Water Services. The revised guidelines will improve assistance to water customers who experience financial hardship by including family and domestic violence as a possible cause of financial hardship.

Following this review, we asked water licensees to review their financial hardship policies against the revised guidelines, and subsequently approved and published 13 amended policies.

Gas Marketing Code of Conduct

The *Gas Marketing Code of Conduct* regulates and controls the conduct of gas retailers and gas marketing agents in Western Australia, with the intent of protecting customers and defining standards of conduct in how gas is marketed to customers.

In late 2018, the ERA started its biennial review of the Code in consultation with the statutory Gas Marketing Code Consultative Committee. On 10 July 2019, the committee commenced public consultation on the ERA's proposed amendments to the Code.

The proposed changes to the Code will benefit consumers by making sure retailers not only tell customers that they may be eligible for concessions but also where customers can find out about their eligibility. The proposed changes also remove duplicated regulatory requirements for licensees to provide some gas safety information to customers.

The review of the Code is expected to be completed in September 2019. The new Gas Marketing Code comes into operation on 1 January 2020.

Energy retailers and distributors reports

Each year, the ERA reports on the performance of electricity and gas retailers and distributors in Western Australia. The most recent reports, which cover the 2017/18 financial year, were published on 12 April 2019.

The energy retailer report showed that the residential electricity disconnection rate had more than doubled over the past two years, to 1.91 per cent. This means that nearly one in every 50 electricity customers was disconnected during the year. Western Australia now has a higher disconnection rate than New South Wales, South Australia and Victoria.

The number of residential electricity customers on instalment plans almost tripled in three years from 24,205 in 2014/15 to 68,687 in 2017/18. Retailers gave several possible reasons for this increase, including changes to the qualification rules for hardship grants, deteriorating economic conditions and increased debt collection activities.

Greater competition in the gas market put downward pressure on bills, through discounts offered by retailers to attract more customers.

The report on energy distributors found that growth in new connections declined for the third year in a row, reflecting an extended flat period for property development and the weakness of the Western Australian economy more generally.

Western Power's reliability performance in urban and rural areas was the best in 10 years, but still did not meet the prescribed service standard. The improved performance was the result of targeted maintenance and network upgrades.

Horizon Power improved its service delivery to customers after replacing its aging electricity meters with smart meters in 2016. It reported receiving fewer customer service complaints and completing all disconnections and reconnections on time.

Destination

Departs in 1 min

Stops: Perth·Leederville
Glendalough·Stirlings·Warwick
Greenwood·Whitfords·Edgewater
Joondalup·Currambine·Clarkson
Then: Clarkson All Stops 7 min



Manurah Platform 2
Perth Platform 1

HIGHLIGHTS – ENERGY RETAILERS AND DISTRIBUTORS REPORTS



Electricity customers

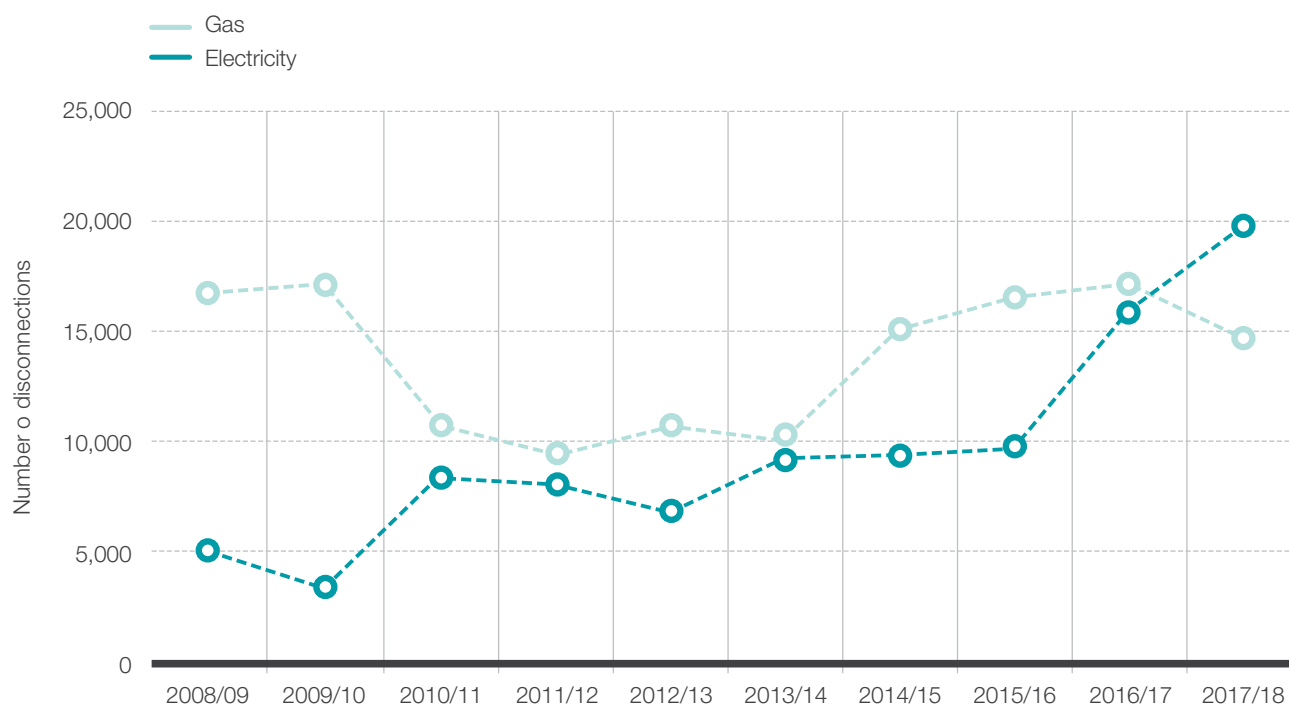
1,140,222 ↑ 2.5%



Gas customers

728,602 ↑ 1.4%

Residential customer disconnections 2009 to 2018



Streetlight faults

80.4%

of **metropolitan** faults repaired on time (within five business days)

80.1%

of **regional** faults repaired on time (within nine business days)

QUICK FACT

Alinta Energy continues to dominate the Western Australian residential gas market with **68.8 per cent of the market**, followed by Kleenheat (27.3 per cent), AGL (2.9 per cent) and Origin (1 per cent).

QUICK FACT

The number of new **electricity connections** declined by **22 per cent** in 2017/18.

ELECTRICITY ACCESS

The ERA regulates third-party access to Western Power's transmission and distribution network. Under the *Electricity Networks Access Code 2004*, Western Power must have an access arrangement approved by the ERA. An access arrangement details the terms and conditions, including prices, that apply to third parties seeking to use regulated electricity networks.

Electricity access arrangement review

During 2018/19, the ERA completed its review of Western Power's access arrangement for the five years to 30 June 2022.

The ERA's final decision, released on 20 September 2018, was to not approve Western Power's proposed revisions to its access arrangement. Western Power then submitted an amended proposal, which we determined still did not adequately comply with 11 of our 66 required amendments. The ERA's further final decision, released on 2 January 2019, was to not approve the proposal.

Consequently, the ERA drafted and published its own access arrangement, which was published on 28 February 2019. The revised access arrangement commenced on 1 July 2019.



CASE STUDY

WESTERN POWER'S ACCESS ARRANGEMENT REVIEW

The preparation and assessment of Western Power's revised access arrangement was delayed by the previous government's proposed changes to the electricity market, which would have transferred regulation of Western Power's network to the Australian Energy Regulator. These changes did not eventuate after the change of government in March 2017.

The ERA's decision keeps network charge increases over the five years to 30 June 2022 broadly in line with the rate of inflation. This is important for Western Australian consumers, as network charges make up around 45 per cent of electricity tariffs for residential customers. The State Government sets the retail price of electricity paid by households and small businesses.

The ERA's decision set the revenue that Western Power can earn around \$500 million lower than the original proposal and reduced Western Power's proposed capital expenditure by about the same amount.

This was the first time that the ERA has rejected Western Power's amended proposed revisions following a final or further final decision, and instead drafted its own access arrangement with which Western Power had to comply.

One reason we did this was to ensure that Western Power's customers had access to the services they required. These included:

- Separating metering services so that users can more easily choose the type of meter reading service they want.
- Services to connect distributed energy resources at a lower cost, where these benefit the network.
- Services that enable direct load control, load limitation and remote connection and disconnection.
- A greater variety of time-of-use services.
- Modified streetlighting services and an LED replacement service.

The ERA's decision also changed the way Western Power can set its prices. This means that Western Power has stronger incentives to improve the value of its services to electricity retailers and customers and maintain demand for services while renewable energy and batteries provide customers with alternatives to staying connected to the network.

We also approved Western Power recovering the costs of innovative approaches to demand and reliability matters, such as the Kalbarri micro-grid and the Perenjori battery system.

GAS ACCESS

The ERA regulates third-party access to gas pipelines in Western Australia. It also enforces and monitors compliance with the information disclosure and arbitration framework for non-scheme gas pipelines in Western Australia.

Gas access arrangement reviews

In 2018/19 the ERA started its assessments of proposed revisions to two access arrangements for gas pipelines in Western Australia.

Mid-West and South-West Gas Distribution Systems

The Mid-West and South-West Gas Distribution Systems are owned by ATCO Gas Australia. ATCO's network is the largest reticulated gas network in Western Australia, reaching the Perth metropolitan area, Mandurah, Geraldton, Eneabba, Bunbury, Busselton, Harvey, Pinjarra, Kemerton and Capel.

ATCO submitted its proposed revisions to the access arrangement for the gas distribution systems in August 2018. On 11 October 2018, the ERA published an issues paper to assist interested parties to prepare submissions on the proposal. On 18 April 2019, the ERA published its draft decision to not approve ATCO's proposal. The ERA required 37 amendments to be addressed, mostly affecting the terms and conditions for reference services, which are services commonly sought by users of the system.

ATCO had proposed a network price increase of 22.4 per cent in real terms for industrial and commercial customers in 2020, followed by an annual increase of 2.3 per cent in real terms. The ERA's draft decision set an increase of 7.56 per cent in 2020, and then annual 2.3 per cent increases for the following years.

ATCO submitted a revised proposal on 12 June 2019. The ERA was still considering this at 30 June 2019. The review is expected to be complete in the second half of 2019.

Goldfields Gas Pipeline

The Goldfields Gas Pipeline is a 1,378 kilometre transmission pipeline that extends from Yarraloola in the Pilbara to Kalgoorlie, serving mainly industrial customers.

Pipeline operator Goldfields Gas Transmission submitted proposed revisions to the access arrangement for the pipeline in December 2018. The ERA published an issues paper to assist interested parties in preparing submissions on 1 March 2019. The ERA was preparing its draft decision on the proposed revisions at 30 June 2019. The review is expected to be complete by the end of 2019.

Non-scheme gas pipeline exemptions

A non-scheme gas pipeline is a transmission or distribution pipeline that was not previously subject to regulatory oversight.

Under part 23 of the National Gas Rules, the ERA is responsible for enforcing and monitoring compliance with the non-scheme gas pipeline information disclosure and arbitration framework in Western Australia.

The rules allow a non-scheme pipeline owner or operator to apply to the ERA for an exemption from sections of the information disclosure and arbitration framework where relevant exemption criteria are satisfied. The ERA must maintain a public register of these exemptions, and any exemptions that are revoked. We approved nine applications for exemptions during 2018/19. No exemptions were revoked, although the ERA did consider and not approve one application to revoke an exemption.

The rules also require the ERA to publish a non-scheme pipeline arbitration guide for arbitrators and any person who may become a party to an access dispute. The ERA published this guide on 6 September 2018. No access disputes were referred to arbitration during 2018/19.

CASE STUDY

GAS RATE OF RETURN GUIDELINES

In December 2018 the ERA completed its first review of the gas rate of return guidelines.

The guidelines are required under the National Gas Rules and set out the method the ERA will use to estimate the allowed rate of return. They set the efficient cost of financing gas transmission and distribution assets.

Western Australia's three major gas pipelines have a combined asset value of approximately \$5 billion and are all regulated by the ERA. The rate of return provides for a return on the regulatory asset base and flows into annual reference tariffs. A 1 per cent change in the rate of return would change annual pipeline revenues by around \$50 million.

Reviewing the guidelines allowed the ERA to assess its approach to setting a rate of return, considering best practice, expert opinion, the national policy framework and stakeholder views.

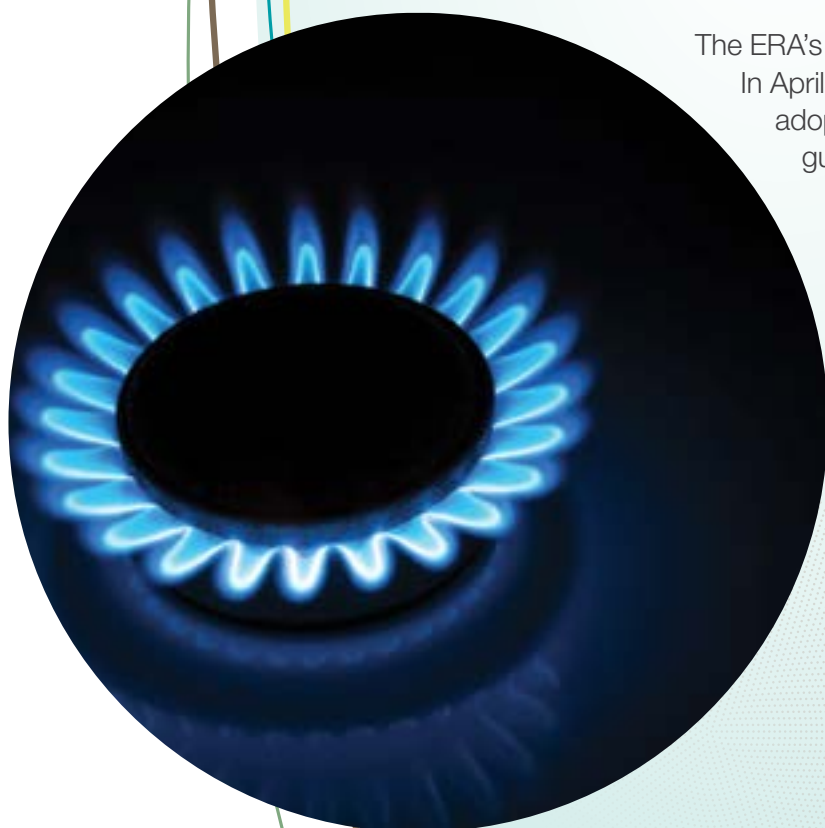
While the review was under way, the Council of Australian Governments was developing a framework for a binding rate of return instrument.

The ERA ensured that the guidelines it was developing would be suitable for use as a binding instrument. This included establishing an Independent Panel to review the draft guidelines. The Independent Panel comprised experts in economics, accounting and consumer affairs. It found that the draft guidelines were supported by sound reasoning and capable of promoting the achievement of the national gas objective.

The ERA's guidelines were finalised in December 2018. In April 2019, the new national framework was adopted in Western Australia and the ERA's guidelines became binding.

This provides more certainty for regulators and regulated entities and lowers volatility and the likelihood of costly legal disputes, reducing the cost of regulation.

The new binding instrument is already being applied to the two gas pipeline access arrangements currently under review. Use of the binding instrument has simplified the review process.





RAIL ACCESS

During 2018/19, the Department of Treasury worked on reforms to the *Railways (Access) Code 2000* and the *Railways (Access) Act 1998*. This follows the ERA's review of the Code, which we completed in February 2016. The ERA's recommendations included the need for railway owners to provide more timely information to those seeking to access the network.

The ERA has worked with Treasury to provide explanation and feedback on some of the proposed reforms, especially where these differ from the ERA's recommendations.

The ERA also consulted on and published a draft determination for the Weighted Average Cost of Capital to apply to railway networks for the year ending 30 June 2018. The determinations for 2018 and 2019 are expected to be finalised during 2019/20.

INQUIRIES

Business licensing inquiry

On 22 February 2019, the ERA completed its inquiry into options to reduce the regulatory burden and other economic costs of state government business and occupational licences in Western Australia.

The Treasurer, the Hon Ben Wyatt MLA, tabled the final report in Parliament on 21 March 2019.

The ERA consulted extensively with government agencies, industry groups, unions and the public during the inquiry. We released a consultation paper in February 2018 and a draft report in October 2018. The ERA received more than 70 submissions to the consultation process, and 42 state government agencies completed questionnaires about the business licensing schemes they administer.

The final report included 15 recommendations intended to create a culture of continuous improvement. The Government is considering the recommendations as part of its broader reform agenda.

CASE STUDY

BUSINESS LICENSING INQUIRY

The ERA sought to identify and address the reasons why reforming licensing schemes was difficult for agencies and legislators, and proposed ways to address those reasons. Despite the risks of poor regulation being well-known, and regular reviews calling for reform, government often struggles to reform or remove unnecessary or harmful licensing schemes.

The ERA found that there was no consistent culture across agencies of actively managing and continuously improving business licensing. Problems are sometimes not identified and addressed until something goes seriously wrong. While legislators and agencies may recognise that review and reform of business licensing could be beneficial, it is seldom a high priority. There is also a lack of transparency outside of agencies about how well schemes are performing, and agencies' approach to engaging with consumers and businesses is inconsistent.

The ERA's recommendations centred on the concept that licensing schemes are public assets just like State-owned infrastructure, and so should be actively managed and maintained as government would manage a road or hospital.

The ERA's recommendations aim to raise the priority given to improving business licensing, create a culture of continuous improvement, and ensure that business licensing schemes are treated as a regulatory portfolio. The recommendations are intended to work together to improve all areas of business licensing in Western Australia, and to work with, rather than add to, existing government structures and processes.

700

licensing schemes identified

20

government agencies consulted

8

industry groups consulted

42

state government agency questionnaires completed

CONSULTATION UNDERTAKEN

10

unions consulted

25

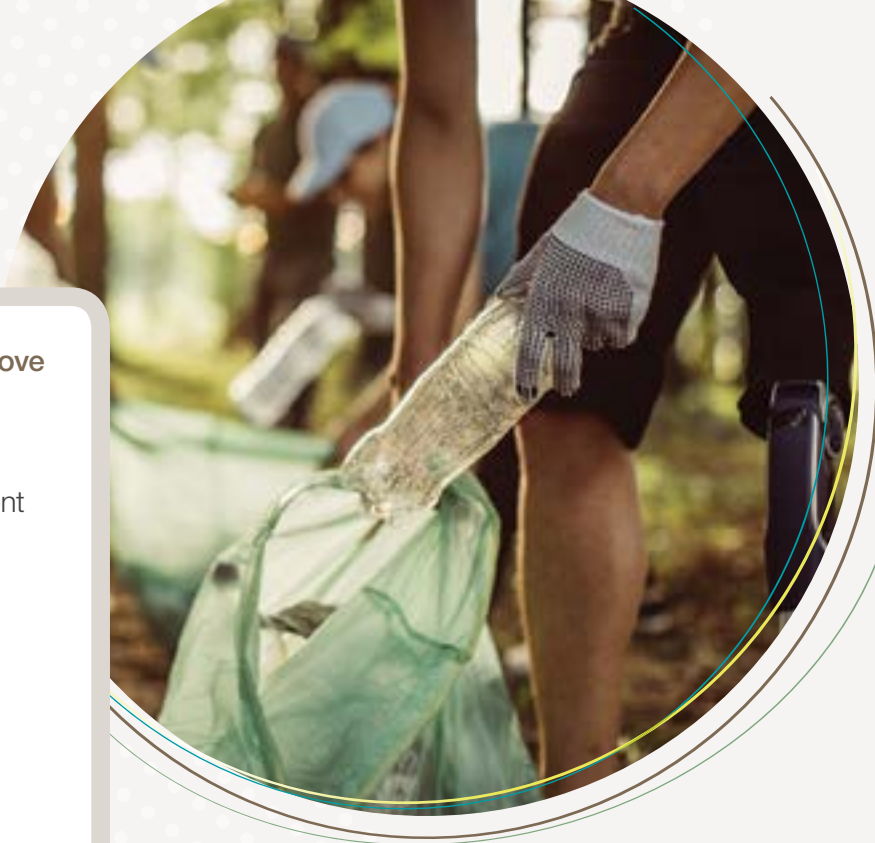
online questionnaires completed

48

public submissions received

1

public forum



The ERA's recommendations to improve business licensing

Leadership

- A senior minister for cross-government licensing policy
- A governance framework
- Direction across government to treat licensing schemes like public assets

Making improvements easier

- Annual omnibus bills and removing unnecessary detail from legislation
- Automatic repeal clauses where suitable
- Funding to digitise licensing processes
- Targeted review of older schemes
- Implementation of existing recommendations

Transparency and accountability

- Annual reporting on performance and improvement
- Regular whole-of-government reporting
- Publication of regulatory impact assessment documents
- Central engagement website for government consultation
- Compliance and enforcement policies on agency websites

Building capability

- Government unit to lead best-practice licensing
- Addressing skill gaps

Container deposits scheme – Price monitoring

On 28 May 2019, the Treasurer asked the ERA to monitor and report on the prices of beverages affected by the introduction of a container deposit scheme in Western Australia. The scheme will allow consumers to take empty beverage containers to a refund point to receive a refund of 10 cents per container.

The container deposit scheme will increase costs for suppliers of beverages in containers. The ERA will be measuring the effect this has on prices for consumers and advising the government on whether it needs to take action to address any unreasonable increase in prices. The scheme is scheduled to commence on 2 June 2020. The [Department of Water and Environmental Regulation](#) is responsible for implementing the scheme.

The ERA will report to the Treasurer on:

- The effect of the scheme on containerised beverage prices.
- The method the ERA used to assess the effect of the scheme on prices.
- Recommendations to address any adverse effects on prices and on whether price monitoring should continue.

The ERA will release a draft report after the scheme has operated for six months and a final report, including recommendations, after the scheme has operated for 12 months.

Corporate Services

The ERA operates in a highly specialised environment so accessing staff with the necessary skills is a challenge. In recognition of this, during 2018/19 we started to review all job descriptions to ensure that they accurately reflected our goals and priorities and attracted the right candidates when positions were advertised.

We also implemented a new performance development and management process, with an increased focus on staff development and alignment with the [ERA's strategic goals](#).

We conducted a preliminary pay equity audit, which assessed the difference between the average remuneration of women and men across the whole organisation. The audit found a 13 per cent gap between the pay of men and women at the ERA. We will continue to monitor this and identify ways to close that gap throughout 2019/20.

ERA CONSUMER CONSULTATIVE COMMITTEE REVIEW

The ERA's Consumer Consultative Committee meets quarterly and includes representatives from consumer and industry organisations. The Committee greatly assists the ERA's understanding of issues affecting Western Australian consumers.

In August 2018, we anonymously surveyed committee members to measure their satisfaction and seek ideas to improve the committee's relevance and operation. The results showed that 64 per cent of members were either satisfied or very satisfied with the committee in its current form. Members suggested groups and organisations that could be invited to join the committee.

In early 2019, we invited all existing members to take up a new, two-year membership term, and invited eight new organisations to join the committee. We received acceptances from the Consumer Credit Legal Service (Western Australia), Ethnic Communities Council (Western Australia), Regional Chambers of Commerce and Industry Western Australia, and UnionsWA.

EMPLOYEE SURVEY

In November 2018, we conducted an employee survey. More than 90 per cent of staff participated in the survey.

Employee survey findings



Overall, the comments suggested that organisational culture and work-life balance were improving and that staff had a strong sense of optimism that further improvement would occur.

The areas where staff identified weaknesses included the need for adequate resourcing, better communication of executive decisions, and ensuring that teams feel equally valued and respected.



Key performance indicators

As the ERA is an independent authority, our key performance indicators are limited to matters of management, including financial management. The ERA has set indicators that measure the administrative performance of the Secretariat.

These key performance indicators are the quantity, quality and timeliness of submissions prepared for the Governing Body, as well as the cost of each submission. These submissions help the Governing Body carry out its functions, including deciding on regulatory matters.

The actual average cost per Governing Body submission was higher than the target due to the number of submissions being lower than budgeted.

The higher cost per submission reflects changes to the format and process for submissions, which were amended between the setting of the budget and the start of 2018/19.

As part of the overall review of the agency and its operations, the Chief Executive Officer implemented a change in the type and format of documents which constituted a submission. In prior years, all documents put before the Governing Body were classified as submissions. From 1 July 2018, only documents seeking the Governing Body's approval or feedback on the approach to the work program to be undertaken were considered as submissions.

Further details on key performance indicators and variances are provided in the Disclosures and legal compliance section.

	2018/19 target	2018/19 actual	Variation
<i>Desired outcome: The efficient, safe and equitable provision of utility services in Western Australia.</i>			
Key effectiveness indicators			
Number of submissions made to the Authority's Governing Body.	300	219	(81)
Rating by the Authority's Governing Body as to the content, accuracy and presentation of these submissions. ^(a)	3	2.98	(0.02)
Number (percentage) of submissions provided by the required deadline.	100	98	(2)
Rating by the Authority's Governing Body as to their perception of the timeliness of submissions. ^(a)	3	2.98	(0.02)
Key efficiency indicator			
Cost per submission made to the Authority's Governing Body.	\$44,976	\$61,237	\$16,261

(a) Performance is rated as follows by the Governing Body: 1 = well below expectations, 2 = below expectations, 3 = satisfactory, 4 = above expectations, 5 = well above expectations.

Financial performance

Regulations and rules allow full cost recovery of the ERA's expenditure for gas and electricity access, Wholesale Electricity Market, gas markets and licensing functions. The Government provides an appropriation to fund the functions of inquiries, rail access, non-scheme gas pipeline and the regulatory scheme relating to the merger of Verve Energy and Synergy. From 1 July 2019, rail access funding will be recovered from regulated entities.

The 2018/19 Government budget estimates allowed expenditure of \$13.493 million. Actual expenditure for 2018/19 was \$13.411 million or 99.4 per cent of the budget estimate.

Included in the total cost of services was a budget of \$410,698 for the independent Rule Change Panel established by the *Energy Industry (Rule Change Panel Regulations) 2016*. The costs of the Rule Change Panel against this budget totalled \$390,837. The ERA recovers these costs from the Australian Energy Market Operator. Any shortfall or surplus is recovered in the next financial year.

The total cost of the ERA's services was on budget, despite the approved salary expense being slightly over budget. Salaries were higher than expected as the recruitment process for additional positions approved for 2019/20 commenced in 2018/19. Historically, these positions have been difficult to fill, and the recruitment process is lengthy. In this instance, the long process was not replicated, and some positions were filled ahead of time in 2018/19.

Further details of the ERA's financial performance are presented in the Disclosures and legal compliance section.

Actual result versus budget targets (\$000)

	2018/19 target	2018/19 actual	Variation
Total cost of services (expense limit)	13,493	13,411	(82)
Net cost of services	2,247	1,504	(743)
Total equity	4,654	5,732	1,078
Approved salary expense level	8,135	8,273	138

The ERA is not required to operate within an agreed working cash limit.

The background of the slide features a sunset sky with a grid of white dots. The sky transitions from a deep blue at the top to a vibrant orange and red near the horizon. In the foreground, the dark silhouettes of several wind turbines are visible against the horizon line. On the left side, there are several curved, overlapping lines in shades of blue, yellow, and green, which appear to be part of a larger graphic design.

Significant issues affecting the agency

Economic, policy and social trends

FINANCIAL HARDSHIP

The ERA observed an increase in some indicators of financial hardship when preparing its annual performance reports for energy distributors and retailers.

This included an increase in the rate of residential disconnections to a six-year high of 1.91 per cent and a 43.8 per cent increase in the number of electricity customers on a hardship program.

Western Australia's disconnection rate was comparatively high even though the average debt per customer was much lower than that of customers in other states.

Electricity price increases, limits on hardship grants and weak economic conditions have made it harder for consumers to pay their energy bills.

In last year's annual report, the ERA noted that the State Government had implemented changes to the Hardship Utility Grants Scheme that tightened eligibility requirements, including limiting access to grants to those with a debt of \$300 or more.

The ERA will continue to monitor an expanded set of hardship indicators in 2019/20, to ensure Government has accurate information about the number of customers in financial distress.

ENERGY MARKETS

Technological change in the Western Australian electricity market is a challenge for policy-makers, regulators and consumers.

Customers are rapidly adopting emerging technologies, including renewable energy, to better manage their energy costs. Cheap energy generated by rooftop residential solar systems continues to reduce daytime peak demand from the network.

The uptake of battery storage systems by consumers is another area of rapid change.

The ERA's functions in the Wholesale Electricity Market are set in legislation and the Market Rules.

These functions include monitoring compliance, investigating possible breaches of the Market Rules and reviewing how effectively the market is meeting its objectives.

Within the defined limits of these functions, the ERA is adapting and improving its processes to better meet the changing needs of industry and other market participants.

The method reviews transferred to the ERA when the Independent Market Operator was abolished in 2016 also provide an opportunity to review, improve and modernise some of the technical structures underpinning the Wholesale Electricity Market.

ACCESS ARRANGEMENTS

The ERA sets the terms and conditions under which third parties can access monopoly electricity, gas and rail networks in Western Australia.

Electricity network and gas network operators are facing challenges that affect their traditional operating structures. For example, electricity networks are facing reduced demand for their traditional, one-way energy transfer due to the rapidly growing number of distributed energy resources. These technologies can create network stability problems for network operators and system operators to ensure a secure and reliable power system.

Gas distribution networks also face challenges of falling household demand for gas.

ERA staff strive to ensure that their industry knowledge is current, and they have a strong understanding of these emerging trends. Getting genuine consumer input into the access process remains a challenge for all regulators given the technical nature of the content.

The ERA administers regulations prepared by policy agencies and is not responsible for developing or making changes to regulation. However, the ERA provides advice and practical insight into government-led reform processes to assist policy-makers to improve the regulatory requirements and achieve better outcomes.

Changes in law and legal matters

SYNERGY INVESTIGATION

As outlined in Agency Performance, in April 2019 the ERA completed its investigation into Synergy's pricing behaviour in the Wholesale Electricity Market and concluded that there was a potential breach of the Market Rules. The ERA has referred the matter to the Electricity Review Board for a determination. This process is expected to take some time.

RAIL ACCESS

In response to the ERA's 2015 review of the Railways (Access) Code 2000, the Department of Treasury is reviewing the rail access regime in Western Australia. This may result in some changes to the operation or application of the regime. The review has been running since July 2017.



Likely developments

ENERGY MARKETS

Energy Transformation Taskforce

In May 2019, Energy Minister the Hon. Bill Johnston MLA announced the formation of the Energy Transformation Taskforce to deliver the State Government's Energy Transformation Strategy.

The Taskforce is working to better accommodate batteries and distributed energy resources, ensure system security and reliability, and implement a constrained network dispatch model.

As part of its work, the Taskforce is expected to develop changes to the regulatory structures underpinning the Wholesale Electricity Market and this is likely to result in some changes to the ERA's energy markets and electricity access functions.

The formation of the Taskforce is an opportunity to make regulations and market structures more flexible and suitable for a changing environment.

Regulation of the North West Interconnected System

The State Government is implementing a light-handed access regime for the North West Interconnected System, which distributes electricity across the Pilbara region.

The Public Utilities Office has carriage of the reforms, which are expected to assign new functions to the ERA. These functions are likely to include:

- Determining the cost of capital for the Alinta and Horizon Power networks for the first pricing period.
- Administering the pool of arbitrators and arbitration regime.
- Approving ring-fencing arrangements.
- Publishing guidelines, such as the financial reporting guideline.



Disclosures and legal compliance

Mundaring Weir dam wall - Tourism Western Australia



Auditor General

INDEPENDENT AUDITOR'S REPORT

To the Parliament of Western Australia

ECONOMIC REGULATION AUTHORITY

Report on the Financial Statements

Opinion

I have audited the financial statements of the Economic Regulation Authority which comprise the Statement of Financial Position as at 30 June 2019, the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows for the year then ended, and Notes comprising a summary of significant accounting policies and other explanatory information.

In my opinion, the financial statements are based on proper accounts and present fairly, in all material respects, the operating results and cash flows of the Economic Regulation Authority for the year ended 30 June 2019 and the financial position at the end of that period. They are in accordance with Australian Accounting Standards, the *Financial Management Act 2006* and the Treasurer's Instructions.

Basis for Opinion

I conducted my audit in accordance with the Australian Auditing Standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Authority in accordance with the *Auditor General Act 2006* and the relevant ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to my audit of the financial statements. I have also fulfilled my other ethical responsibilities in accordance with the Code. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibility of the Authority for the Financial Statements

The Authority is responsible for keeping proper accounts, and the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards, the *Financial Management Act 2006* and the Treasurer's Instructions, and for such internal control as the Authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Authority is responsible for assessing the agency's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Western Australian Government has made policy or funding decisions affecting the continued existence of the Authority.

Auditor's Responsibility for the Audit of the Financial Statements

As required by the *Auditor General Act 2006*, my responsibility is to express an opinion on the financial statements. The objectives of my audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Australian Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Authority.
- Conclude on the appropriateness of the Authority's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the agency's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report on Controls

Opinion

I have undertaken a reasonable assurance engagement on the design and implementation of controls exercised by the Economic Regulation Authority. The controls exercised by the Authority are those policies and procedures established by the Authority to ensure 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 (the overall control objectives).

My opinion has been formed on the basis of the matters outlined in this report.

In my opinion, in all material respects, the controls exercised by the Economic Regulation Authority are sufficiently adequate to 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 during the year ended 30 June 2019.

The Authority's Responsibilities

The Authority is responsible for designing, implementing and maintaining controls to ensure that the receipt, expenditure and investment of money, the acquisition and disposal of property, and the incurring of liabilities are in accordance with the *Financial Management Act 2006*, the Treasurer's Instructions and other relevant written law.

Auditor General's Responsibilities

As required by the *Auditor General Act 2006*, my responsibility as an assurance practitioner is to express an opinion on the suitability of the design of the controls to achieve the overall control objectives and the implementation of the controls as designed. I conducted my engagement in accordance with Standard on Assurance Engagements ASAE 3150 *Assurance Engagements on Controls* issued by the Australian Auditing and Assurance Standards Board. That standard requires that I comply with relevant ethical requirements and plan and perform my procedures to obtain reasonable assurance about whether, in all material respects, the controls are suitably designed to achieve the overall control objectives and the controls, necessary to achieve the overall control objectives, were implemented as designed.

An assurance engagement to report on the design and implementation of controls involves performing procedures to obtain evidence about the suitability of the design of controls to achieve the overall control objectives and the implementation of those controls. The procedures selected depend on my judgement, including the assessment of the risks that controls are not suitably designed or implemented as designed. My procedures included testing the implementation of those controls that I consider necessary to achieve the overall control objectives.

I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Limitations of Controls

Because of the inherent limitations of any internal control structure it is possible that, even if the controls are suitably designed and implemented as designed, once the controls are in operation, the overall control objectives may not be achieved so that fraud, error, or noncompliance with laws and regulations may occur and not be detected. Any projection of the outcome of the evaluation of the suitability of the design of controls to future periods is subject to the risk that the controls may become unsuitable because of changes in conditions.

Report on the Key Performance Indicators**Opinion**

I have undertaken a reasonable assurance engagement on the key performance indicators of the Economic Regulation Authority for the year ended 30 June 2019. The key performance indicators are the key effectiveness indicators and the key efficiency indicators that provide performance information about achieving outcomes and delivering services.

In my opinion, in all material respects, the key performance indicators of the Economic Regulation Authority are relevant and appropriate to assist users to assess the Authority's performance and fairly represent indicated performance for the year ended 30 June 2019.

The Authority's Responsibility for the Key Performance Indicators

The Authority is responsible for the preparation and fair presentation of the key performance indicators in accordance with the *Financial Management Act 2006* and the Treasurer's Instructions and for such internal control as the Authority determines necessary to enable the preparation of key performance indicators that are free from material misstatement, whether due to fraud or error.

In preparing the key performance indicators, the Authority is responsible for identifying key performance indicators that are relevant and appropriate having regard to their purpose in accordance with Treasurer's Instruction 904 *Key Performance Indicators*.

Auditor General's Responsibility

As required by the *Auditor General Act 2006*, my responsibility as an assurance practitioner is to express an opinion on the key performance indicators. The objectives of my engagement are to obtain reasonable assurance about whether the key performance indicators are relevant and appropriate to assist users to assess the agency's performance and whether the key performance indicators are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion.

I conducted my engagement in accordance with Standard on Assurance Engagements ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* issued by the Australian Auditing and Assurance Standards Board. That standard requires that I comply with relevant ethical requirements relating to assurance engagements.

An assurance engagement involves performing procedures to obtain evidence about the amounts and disclosures in the key performance indicators. It also involves evaluating the relevance and appropriateness of the key performance indicators against the criteria and guidance in Treasurer's Instruction 904 for measuring the extent of outcome achievement and the efficiency of service delivery. The procedures selected depend on my judgement, including the assessment of the risks of material misstatement of the key performance indicators. In making these risk assessments I obtain an understanding of internal control relevant to the engagement in order to design procedures that are appropriate in the circumstances.

I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

My Independence and Quality Control Relating to the Reports on Controls and Key Performance Indicators

I have complied with the independence requirements of the *Auditor General Act 2006* and the relevant ethical requirements relating to assurance engagements. In accordance with ASQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements*, the Office of the Auditor General maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Matters Relating to the Electronic Publication of the Audited Financial Statements and Key Performance Indicators

This auditor's report relates to the financial statements and key performance indicators of the Economic Regulation Authority for the year ended 30 June 2019 included on the Authority's website. The Authority's management is responsible for the integrity of the Authority's website. This audit does not provide assurance on the integrity of the Authority's website. The auditor's report refers only to the financial statements and key performance indicators described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements or key performance indicators. If users of the financial statements and key performance indicators are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial statements and key performance indicators to confirm the information contained in this website version of the financial statements and key performance indicators.



SANDRA LABUSCHAGNE
DEPUTY AUDITOR GENERAL
Delegate of the Auditor General for Western Australia
Perth, Western Australia
August 2019

FINANCIAL STATEMENTS

Certification of financial statements

For the reporting period ended 30 June 2019

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 reporting period ended 30 June 2019 and the financial position as at 30 June 2019.

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



Ms Catherine Lewis
Chief Finance Officer

31 July 2019



Ms Nicola Cusworth
Chair of Accountable Authority

31 July 2019



Dr Ray Challen
Member of Accountable Authority

31 July 2019



Mr Greg Watkinson
Member of Accountable Authority

31 July 2019

Statement of Comprehensive Income

For the year ended 30 June 2019

	Note	2019 \$'000	2018 \$'000
COST OF SERVICES			
Expenses			
Employee benefits expense	2.1	9,237	7,996
Supplies and services	2.2	2,962	2,319
Depreciation and amortisation expense	4.1, 4.2	57	57
Accommodation expenses	2.2	1,120	1,081
Other expenses	2.2	35	35
Total cost of services		13,411	11,488
Income			
<i>Revenue</i>			
Regulatory fees	3.1	11,660	8,786
Interest revenue	3.3	51	41
Other revenue	3.3	196	36
Total revenue		11,907	8,863
Total income other than income from State Government		11,907	8,863
NET COST OF SERVICES		(1,504)	(2,625)
Income from State Government			
Service appropriation	3.2	2,056	2,763
Services received free of charge	3.2	288	252
Total income from State Government		2,344	3,015
SURPLUS/(DEFICIT) FOR THE PERIOD		840	390
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		840	390

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

Statement of Financial Position

As at 30 June 2019

	Note	2019 \$'000	2018 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	6.1	4,181	2,859
Restricted cash and cash equivalents	6.1	53	58
Receivables	5.1	3,438	3,485
Amounts receivable for services	5.2	315	-
Other current assets	5.3	210	138
Total current assets		8,197	6,540
Non-current assets			
Restricted cash and cash equivalents	6.1	88	58
Amounts receivable for services	5.2	292	607
Plant and equipment	4.1	53	105
Intangible assets	4.2	4	9
Other non-current assets	5.3	3	3
Total non-current assets		440	782
TOTAL ASSETS		8,637	7,322
LIABILITIES			
Current liabilities			
Payables	5.4	636	391
Provisions	2.1	1,929	1,754
Total current liabilities		2,565	2,145
Non-current liabilities			
Provisions	2.1	340	285
Total non-current liabilities		340	285
TOTAL LIABILITIES		2,905	2,430
NET ASSETS		5,732	4,892
EQUITY			
Contributed equity	8.6	725	725
Accumulated surplus/(deficit)		5,007	4,167
TOTAL EQUITY		5,732	4,892

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

Statement of Changes in Equity

For the year ended 30 June 2019

	Note	Contributed equity \$'000	Reserves \$'000	Accumulated surplus/(deficit) \$'000	Total equity \$'000
Balance at 1 July 2017	8.6	725	-	3,777	4,502
Total comprehensive income for the period		-	-	390	390
Distribution to Owner - Return of unspent capital funds		-	-	-	-
Balance at 30 June 2018		725	-	4,167	4,892
Balance at 1 July 2018	8.6	725	-	4,167	4,892
Total comprehensive income for the period		-	-	840	840
Distribution to Owner - Return of unspent capital funds		-	-	-	-
Balance at 30 June 2019		725	-	5,007	5,732

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

Statement of Cash Flows

For the year ended 30 June 2019

	Note	2019 \$'000	2018 \$'000
CASH FLOWS FROM STATE GOVERNMENT			
Service appropriation		2,056	2,708
Holding account drawdowns		-	-
Net cash provided by State Government		2,056	2,708
Utilised as follows:			
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments			
Employee benefits		(9,042)	(7,988)
Supplies and services		(2,662)	(2,287)
Depreciation and amortisation		-	-
Accommodation		(924)	(885)
GST payments on purchases		(372)	(297)
Other payments		(35)	(35)
Receipts			
Regulatory fees		11,723	8,044
Interest received		51	41
GST receipts on sales		88	50
GST receipts from taxation authority		268	266
Other receipts		196	36
Net cash provided by/(used in) operating activities		(709)	(3,055)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments			
Purchase of non-current physical assets		-	-
Net cash provided by/(used in) investing activities		-	-
Net increase/(decrease) in cash and cash equivalents		1,347	(347)
Cash and cash equivalents at the beginning of the period		2,975	3,322
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	6.1	4,322	2,975

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

Notes to the financial statements

1. BASIS OF PREPARATION

The Economic Regulation Authority is a WA government entity, but is independent of direction or control by the State or any Minister or officer of the State in the performance of its functions. However, pursuant to section 28(2) and 28(3) of the *Economic Regulation Authority Act 2003*, the Minister may give directions in writing to the ERA on administration and financial administration matters. It is a not-for-profit entity (as profit is not its principal objective).

A description of the nature of its operations and its principal activities have been included in the 'Overview' which does not form part of these financial statements.

These financial statements were authorised for issue by the Accountable Authority of the ERA in July 2019.

Statement of compliance

These general purpose financial statements have been prepared in accordance with:

- 1) The *Financial Management Act 2006* (FMA);
- 2) The Treasurer's Instructions (TIs);
- 3) Australian Accounting Standards (AASs) – Reduced Disclosure Requirements;
- 4) Where appropriate, those AAS paragraphs applicable for not-for-profit entities have been applied.

The *Financial Management Act 2006* and the Treasurer's Instructions take precedence over the AASs. Several AASs are modified by TIs to vary application, disclosure format and wording. Where modification is required and has had 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.

Basis of preparation

These financial statements are presented in Australian dollars applying the accrual basis of accounting and using the historical cost convention. Certain balances will apply a different measurement basis (such as the fair value basis). Where this is the case, the different measurement basis is disclosed in the associated note. All values are rounded to the nearest thousand dollars (\$'000).

Judgements and estimates

Judgements, estimates and assumptions are required to be made about financial information being presented. The significant judgements and estimates made in the preparation of these financial statements are disclosed in the notes where amounts affected by those judgements and/or estimates are disclosed. Estimates and associated assumptions are based on professional judgements derived from historical experience and various other factors that are believed to be reasonable under the circumstances.

Contributed equity

AASB Interpretation 1038 *Contributions by Owners Made to Wholly-Owned Public Sector Entities* requires transfers in the nature of equity contributions, other than as a result of a restructure of administrative arrangements, 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 appropriations have been designated as contributions by owners by TI955 *Contributions by Owners made to Wholly Owned Public Sector Entities* and have been credited directly to Contributed Equity.

The transfers of net assets to/from other agencies, other than as a result of a restructure of administrative arrangements, are designated as contributions by owners where the transfers are non-discretionary and non-reciprocal.

2. USE OF OUR FUNDING

Expenses incurred in the delivery of services

This section provides additional information about how the ERA's funding is applied and the accounting policies that are relevant for an understanding of the items recognised in the financial statements. The primary expenses incurred by the ERA in achieving its objectives and the relevant notes are:

	Notes	2019 \$'000	2018 \$'000
Employee benefits expenses	2.1(a)	9,237	7,996
Employee related provisions	2.1(b)	2,269	2,039
Other expenditure	2.2	4,117	3,435

2.1(a) Employee benefits expenses

	2019 \$'000	2018 \$'000
Wages and salaries	8,445	7,215
Termination benefits	-	77
Superannuation – defined contribution plans ^(a)	792	704
Total employee benefit expenses	9,237	7,996

(a) Defined contribution plans include West State Superannuation Scheme (WSS), Gold State Superannuation Scheme (GSS), Government Employees Superannuation Board Schemes (GESBs) and other eligible funds.

Wages and salaries: Employee expenses include all costs related to employment including wages and salaries, fringe benefits tax, and leave entitlements.

Termination benefits: Payable when employment is terminated before normal retirement date, or when an employee accepts an offer of benefits in exchange for the termination of employment. Termination benefits are recognised when the ERA is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

Superannuation: The amount recognised in profit or loss of the Statement of Comprehensive Income comprises employer contributions paid to the GSS (concurrent contributions), the WSS, the GESBs, or other superannuation funds. The employer contribution paid to the Government Employees Superannuation Board (GESB) in respect of the GSS is paid back into the Consolidated Account by the GESB.

GSS (concurrent contributions) is a defined benefit scheme for the purposes of employees and whole of government reporting. It is however, a defined contribution plan for ERA's purposes because the concurrent contributions (defined contributions) made by the ERA to GESB extinguishes the ERA's obligations to the related superannuation liability.

The ERA does not recognise any defined benefit liabilities because it has no legal or constructive obligation to pay future benefits relating to its employees. The liabilities for the unfunded Pension Scheme and the unfunded GSS transfer benefits attributable to members who transferred from the Pension Scheme, are assumed by the Treasurer. All other GSS obligations are funded by concurrent contributions made by the ERA to the GESB.

The GESB and other fund providers administer public sector superannuation arrangements in Western Australia in accordance with legislative requirements. Eligibility criteria for membership in particular schemes for public sector employees vary according to commencement and implementation dates.

2.1(b) Employee related provisions

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave for services rendered up to the reporting date and recorded as an expense during the period the services are delivered.

	2019 \$'000	2018 \$'000
Current		
<i>Employee benefits provisions</i>		
Annual leave ^(a)	665	582
Long service leave ^(b)	1,259	1,167
	1,924	1,749
<i>Other provisions</i>		
Employment on-costs ^(c)	5	5
Total current employee related provisions	1,929	1,754
Non-current		
<i>Employee benefits provisions</i>		
Long service leave ^(b)	339	284
<i>Other provisions</i>		
Employment on-costs ^(c)	1	1
Total non-current employee related provisions	340	285
Total employee related provisions	2,269	2,039

a) **Annual leave liabilities:** Classified as current as there is no unconditional right to defer settlement for at least 12 months after the end of the reporting period

The provision for annual leave is calculated at the present value of expected payments to be made in relation to services provided by employees up to the reporting date.

(b) **Long service leave liabilities:** Unconditional long service leave provisions are classified as current liabilities as the ERA does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Pre-conditional and conditional long service leave provisions are classified as non-current liabilities because the ERA has an unconditional right to defer the settlement of the liability until the employee has completed the requisite years of service.

The provision for long service leave is calculated at present value as the ERA does not expect to wholly settle the amounts within 12 months. The present value is measured taking into account the present value of expected future payments to be made in relation to services provided by employees up to the reporting date. These payments are estimated using the remuneration rate expected to apply at the time of settlement, and discounted using market yields at the end of the reporting period on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

(c) **Employment on-costs:** 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.

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 expenditure, Note 2.2 (apart from the unwinding of the discount (finance cost))' and are not included as part of the ERA's 'employee benefits expense'. The related liability is included in 'Employment on-costs provision'.

	2019 \$'000	2018 \$'000
Employment on-costs provision		
Carrying amount at start of period	6	6
Additional/(reversals of) provisions recognised	-	-
Carrying amount at end of period	6	6

Key sources of estimation uncertainty – long service leave

Key estimates and assumptions concerning the future are based on historical experience and various other factors that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

Several estimates and assumptions are used in calculating the ERA's long service leave provision. These include:

- Expected future salary rates;
- Discount rates;
- Employee retention rates; and
- Expected future payments.

Changes in these estimations and assumptions may impact on the carrying amount of the long service leave provision. Any gain or loss following revaluation of the present value of long service leave liabilities is recognised as employee benefits expense.

2.2 Other expenditure

	2019 \$'000	2018 \$'000
Supplies and services		
Communications	169	159
Consultants and contractors	179	150
Professional services	1,564	962
Other staffing costs	176	123
Consumables	66	66
Legal costs	371	448
Motor vehicle	98	79
Travel	60	47
Other	279	285
Total supplies and services expenses	2,962	2,319
Accommodation expenses		
Lease rentals	1,064	1,048
Repairs and maintenance	56	33
Total accommodation expenses	1,120	1,081
Other		
Audit fee	34	34
Write-offs	-	1
Expected credit losses expense(a)	-	-
Employment on-costs	1	-
Total other expenses	35	35
Total other expenditure	4,117	3,435

(a) Expected credit losses were calculated in accordance with Accounting Standard AASB 9.

Supplies and services:

Supplies and services are recognised as an expense in the reporting period in which they are incurred.

Accommodation expenses:

Operating lease payments are recognised on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern of the benefits derived from the use of the leased asset. [AASB 117.33].

Repairs, maintenance and cleaning costs are recognised as expenses as incurred.

Other:

Other operating expenses generally represent the day-to-day running costs incurred in normal operations.

From 2018, **expected credit losses expense** is recognised as the movement in the allowance for expected credit losses. The allowance for expected credit losses of trade receivables is measured at the lifetime expected credit losses at each reporting date. The ERA has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Please refer to note 5.1 Movement in the allowance for impairment of trade receivables.

Employee on-costs includes workers' compensation insurance and other employment on-costs. The on-costs liability associated with the recognition of annual and long service leave liabilities is included at note 2.1(b) Employee related provisions. Superannuation contributions accrued as part of the provision for leave are employee benefits and are not included in employment on-costs.

3. OUR FUNDING SOURCES

How we obtain our funding

This section provides additional information about how the ERA obtains its funding and the relevant accounting policy notes that govern the recognition and measurement of this funding. The primary income received by the ERA and the relevant notes are:

	Notes	2019 \$'000	2018 \$'000
Regulatory fees	3.1	11,660	8,786
Income from State Government	3.2	2,344	3,015
Other revenue	3.3	247	77

3.1 Regulatory fees

	2019 \$'000	2018 \$'000
Standing charges	5,209	3,864
Specific charges	654	464
Licence fees and charges	316	304
Regulatory market fees	5,254	4,069
Water audit cost recovery	227	85
	11,660	8,786

Regulatory fees are recognised and measured at the fair value of consideration received or receivable. Regulatory fees are recognised for the major business activities as follows:

- Standing charges and Specific charges are recognised at the time the charge is raised on a client. Revenue is raised in accordance with the:

Economic Regulation Authority (National Gas Access Funding) Regulations 2009;

Economic Regulation Authority (Electricity Networks Access Funding) Regulations 2012; and

Economic Regulation Authority (Licensing Funding) Regulations 2014.

- Revenue from annual licence fees is recognised at the time the charge is levied on the licensee. The charges are levied in accordance with the *Economic Regulation Authority (Licensing Funding) Regulations 2014.*
- The ERA also recovers the costs of audits performed under the *Water Services Act 2012*. The revenue is recognised at the time the costs are raised on a licensee.
- Regulatory fees for the recovery of the costs of the ERA in undertaking its Wholesale Electricity Market functions, in accordance with the Wholesale Electricity Market Rules, is recognised on an accrual basis in the accounting period in which the services are rendered.

- Regulatory fees for the recovery of the costs of the ERA in undertaking its Gas Retail Market function, in accordance with the Gas Retail Market Rules, is recognised at the time the costs are raised on a user.
- Regulatory fees for the recovery of the costs of the ERA in undertaking its Gas Services Information function, in accordance with the Gas Services Information Regulations 2012, is recognised at the time the charge is raised.

3.2 Income from State Government

	2019 \$'000	2018 \$'000
Appropriation received during the period:		
Service appropriation ^(a)	2,056	2,763
	2,056	2,763

Services received free of charge from other State Government agencies during the period:

Department of Finance	196	196
State Solicitor's Office	47	56
Department of the Premier and Cabinet	45	-
Total services received	288	252
Total income from State Government	2,344	3,015

(a) Service appropriations are recognised as revenues at fair value in the period in which the ERA gains control of the appropriated funds. The ERA gains control of appropriated funds at the time those funds are deposited in the bank account or credited to the 'Amounts receivable for services' (holding account) held at Treasury.

Service appropriations fund the net cost of services delivered. Appropriation revenue comprises a cash component and a receivable (asset). The receivable (holding account note 5.2) comprises of the budgeted depreciation expense for the year.

3.3 Other revenue

	2019 \$'000	2018 \$'000
Interest - bank	51	41
Government vehicle scheme contributions from staff	26	23
Miscellaneous revenue	170	13
	247	77

The ERA's bank account does not form part of the consolidated fund. Revenue is recognised as the interest accrues.

4. KEY ASSETS

Assets the ERA utilises for economic benefit or service potential

This section includes information regarding the key assets the ERA utilises to gain economic benefits or provide service potential. The section sets out both the key accounting policies and financial information about the performance of these assets:

	Notes	2019 \$'000	2018 \$'000
Plant and equipment	4.1	53	105
Intangibles	4.2	4	9
		57	114

4.1 Plant and equipment

	Computer equipment \$'000	Office equipment \$'000	Total \$'000
Year ended 30 June 2019			
1 July 2018			
Gross carrying amount	375	33	408
Accumulated depreciation	(281)	(22)	(303)
Carrying amount at start of period	94	11	105
Additions	-	-	-
Disposals	-	-	-
Depreciation	(45)	(7)	(52)
Carrying amount at 30 June 2019	49	4	53

Initial recognition

Items of plant and equipment costing \$5,000 or more are measured initially at cost. Where an asset is acquired for no or nominal cost, the cost is valued at its fair value at the date of acquisition. Items of plant and equipment costing less than \$5,000 are immediately expensed direct to the Statement of Comprehensive Income (other than where they form part of a group of similar items which are significant in total).

Subsequent measurement

All plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

4.1.1 Depreciation and impairment

Charge for the period

	2019 \$'000	2018 \$'000
<i>Depreciation</i>		
Computer equipment	45	45
Office equipment	7	7
Total depreciation for the period	52	52

As at 30 June 2019, there were no indications of impairment to plant and equipment.

Please refer to note 4.2 for guidance in relation to the impairment assessment that has been performed for intangible assets.

Finite useful lives

All plant and equipment having a limited useful life is systematically depreciated over their estimated useful lives in a manner that reflects the consumption of their future economic benefits.

Depreciation is generally calculated on a straight line basis at rates that allocate the asset's value, less any estimated residual value, over its estimated useful life. Typical estimated useful lives for the different asset classes for current and prior years are included in the table below:

Asset	Useful life: years
Computer equipment	3 to 5 years
Office equipment	5 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period and adjustments are made if appropriate.

Impairment

Non-financial assets, including items of plant and equipment, are tested for impairment whenever there is an indication that the asset may be impaired. 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.

Where an asset measured at cost is written down to its recoverable amount, an impairment loss is recognised through profit or loss.

Where a previously revalued asset is written down to its recoverable amount, the loss is recognised as a revaluation decrement through other comprehensive income.

If there is an indication that there has been a reversal in impairment, the carrying amount shall be increased to its recoverable amount. However, this reversal should not increase the asset's carrying amount above what would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in prior years.

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 the asset's future economic benefits and to evaluate any impairment risk from declining replacement costs.

4.2 Intangible assets

	Computer software
	\$'000
Year ended 30 June 2019	
1 July 2018	
Gross carrying amount	46
Accumulated amortisation	(37)
Carrying amount at start of period	9
Additions	-
Amortisation expense	(5)
Carrying amount at 30 June 2019	4

Initial recognition

Acquisitions of intangible assets costing \$5,000 or more are capitalised. Costs incurred below \$5,000 are immediately expensed directly to the Statement of Comprehensive Income.

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.

Subsequent measurement

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

4.2.1 Amortisation and impairment

Charge for the period

	2019 \$'000	2018 \$'000
Computer software	5	5
Total amortisation for the period	5	5

As at 30 June 2019, there were no indications of impairment to intangible assets. The ERA held no goodwill or intangible assets with an indefinite useful life during the reporting period. At the end of the reporting period there were no intangible assets not yet available for use.

Amortisation of finite life intangible assets is calculated on a straight line basis at rates that allocate the asset's value over its estimated useful life. All intangible assets controlled by the ERA have a finite useful life and zero residual value. Estimated useful lives are reviewed annually.

The estimated useful life for the ERA's computer software is 3 to 5 years. This software is not integral to the operation of any related hardware.

Impairment of intangible assets

Intangible assets with finite useful lives are tested for impairment annually or when an indication of impairment is identified.

The policy in connection with testing for impairment is outlined in Note 4.1.1.

5. OTHER ASSETS AND LIABILITIES

This section sets out those assets and liabilities that arose from the ERA's controlled operations and includes other assets utilised for economic benefits and liabilities incurred during normal operations:

	Notes	2019 \$'000	2018 \$'000
Receivables	5.1	3,438	3,485
Amounts receivable for services	5.2	607	607
Other assets	5.3	213	141
Payables	5.4	636	391

5.1 Receivables

	2019 \$'000	2018 \$'000
<i>Current</i>		
Trade receivables	1,577	2,093
Allowance for impairment of trade receivables	-	-
Accrued revenue	1,776	1,323
GST receivable	85	69
Total current	3,438	3,485
Total receivables	3,438	3,485

Trade receivables are recognised at original invoice amount less any allowances for uncollectible amounts (i.e. impairment). The carrying amount of net trade receivables is equivalent to fair value as it is due for settlement within 30 days.

5.2 Amounts receivable for services (Holding account)

	2019 \$'000	2018 \$'000
<i>Current</i>	315	-
<i>Non-current</i>	292	607
Balance at end of period	607	607

Amounts receivable for services represent the non-cash component of service appropriations. It is restricted in that it can only be used for asset replacement.

Amounts received for services are considered not impaired (i.e. there is no expected credit loss of the Holding account).

5.3 Other assets

	2019 \$'000	2018 \$'000
<i>Current</i>		
Prepayments	210	138
Total current	210	138
<i>Non-current</i>		
Prepayments	3	3
Total non-current	3	3
Balance at end of period	213	141

Other non-financial assets include prepayments which represent payments in advance of receipt of goods or services or that part of expenditure made in one accounting period covering a term extending beyond that period.

5.4 Payables

	2019 \$'000	2018 \$'000
<i>Current</i>		
Payables	371	66
Other payables	53	58
Accrued expenses	177	197
Accrued salaries	35	70
Total current	636	391
Balance at end of period	636	391

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

Accrued salaries represent the amount due to staff but unpaid at the end of the reporting period. Accrued salaries are settled within a fortnight of the reporting period end. The ERA considers the carrying amount of accrued salaries to be equivalent to its fair value.

The accrued salaries suspense account (see note 6.1 'Restricted cash and cash equivalents') consists of amounts paid annually, from agency appropriations for salaries expense, into a Treasury suspense account to meet the additional cash outflow for employee salary payments in reporting periods with 27 pay days instead of the normal 26. No interest is received on this account.

6. FINANCING

This section sets out the material balances and disclosures associated with the financing and cashflows of the ERA.

	Notes
Cash and cash equivalents	6.1
Commitments	6.2
Non-cancellable operating lease commitments	6.2.1
Other expenditure commitments	6.2.2

6.1 Cash and cash equivalents

	2019 \$'000	2018 \$'000
Cash and cash equivalents	4,181	2,859
Restricted cash and cash equivalents		
• accrued salaries suspense account ^(a)	88	58
• Indian Ocean Territories ^(b)	53	58
Balance at end of period	4,322	2,975

(a) Funds held in the suspense account for the purpose of meeting the 27th pay in a reporting period that occurs every 11th year. This account is classified as non-current for 10 out of 11 years.

(b) Funds provided by the Commonwealth for services undertaken by the ERA in regards to the Indian Ocean Territories.

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

6.2 Commitments

6.2.1 Non-cancellable operating lease commitments

	2019 \$'000	2018 \$'000
Commitments for minimum lease payments are payable as follows:		
Within 1 year	717	722
Later than 1 year and not later than 5 years	2,022	2,739
	<u>2,739</u>	<u>3,461</u>

Operating leases are expensed on a straight line basis over the lease term as this represents the pattern of benefits derived from the leased property.

The ERA has a non-cancellable property lease with a five year term, with rent payable monthly in advance. Contingent rent provisions within the lease agreement require that the rent is to be reviewed every two years, with any new rental to be at the current market annual rental value, but not lower than that payable immediately prior to the rent review date.

6.2.2 Other expenditure commitments

Other expenditure commitments for operational expenditure contracted for at the end of the reporting period but not recognised as liabilities, are payable as follows:

	2019 \$'000	2018 \$'000
Within 1 year	653	656
Later than 1 year and not later than 5 years	62	20
	<u>715</u>	<u>676</u>

The amounts are GST inclusive.

Judgements made by management in applying accounting policies – operating lease commitments

The ERA has entered into a lease for office accommodation. It has been determined that the lessor retains substantially all the risks and rewards incidental to ownership. Accordingly, the lease has been classified as an operating lease.

7. FINANCIAL INSTRUMENTS AND CONTINGENCIES

	Note
Financial instruments	7.1
Contingent assets and liabilities	7.2

7.1 Financial instruments

The carrying amounts of each of the following categories of financial assets and financial liabilities at the end of the reporting period are:

	2019 \$'000	2018 \$'000
<i>Financial assets</i>		
Cash and cash equivalents	4,181	2,859
Restricted cash and cash equivalents	141	116
Receivables ^(a)	3,960	4,023
Total financial assets	<u>8,282</u>	<u>6,998</u>

Financial liabilities

Financial liabilities at amortised cost	636	391
Total financial liability	<u>636</u>	<u>391</u>

(a) The amount of receivables/financial assets at amortised cost excludes GST recoverable from the ATO (statutory receivable).

7.2 Contingent assets and liabilities

Contingent assets and contingent liabilities are not recognised in the statement of financial position but are disclosed and, if quantifiable, are measured at the best estimate. The ERA has no contingent assets or contingent liabilities.

8. OTHER DISCLOSURES

This section includes additional material disclosures required by accounting standards or other pronouncements for the understanding of this financial report.

	Notes
Events occurring after the end of the reporting period	8.1
Initial application of Australian Accounting Standards	8.2
Key management personnel	8.3
Related party transactions	8.4
Remuneration of auditors	8.5
Equity	8.6
Supplementary financial information	8.7
Explanatory statement	8.8

8.1 Events occurring after the end of the reporting period

There were no events occurring after the end of the reporting period.

8.2 Initial application of Australian Accounting Standards

AASB 9 Financial instruments

AASB 9 *Financial instruments* replaces AASB 139 *Financial instruments: Recognition and Measurement* for annual reporting periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The ERA applied AASB 9 prospectively with an initial application date of 1 July 2018. The adoption of AASB 9 has resulted in changes in accounting policies, but no adjustments to amounts recognised in the financial statements. In accordance with AASB 9.7.2.15, the ERA has not restated the comparative information which continues to be reported under AASB 139.

The effect of adopting AASB 9 as at 1 July 2018 was assessed as not material, and so no adjustment was required to be recognised directly in accumulated surplus.

(a) Classification and measurement

Under AASB 9, financial assets are subsequently measured at amortised cost, fair value through other comprehensive income (fair value through OCI) or fair value through profit or loss (fair value through P/L). The classification is based on two criteria: the ERA's business model for managing the assets; and whether the assets' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

The assessment of the ERA's business model was made as of the date of initial application, 1 July 2018. The assessment of whether contractual cash flows on financial assets are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of AASB 9 did not have a significant impact to the ERA. The following are the changes in the classification of the ERA's financial assets:

- Trade receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as financial assets at amortised cost beginning 1 July 2018.
- The ERA did not designate any financial assets as at fair value through Profit and Loss.

In summary, upon the adoption of AASB 9, the ERA had the following required (or elected) reclassifications as at 1 July 2018:

	AASB 9 category			
	Amortised cost	Fair value through OCI	Fair value through P/L	
	\$'000	\$'000	\$'000	
AASB 139 category (\$'000)				
<i>Loans and receivables</i>				
Trade receivables	2,093	2,093	-	-
Accrued revenue	1,323	1,323	-	-
Holding account receivables	607	607	-	-
	4,023	-	-	-

(b) Impairment

The adoption of AASB 9 has fundamentally changed the accounting for impairment losses for financial assets by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

Upon adoption of AASB 9, the effect was not considered to be material, so no adjustment was made.

8.3 Key management personnel

The ERA has determined key management personnel to include cabinet ministers, Governing Body members and senior officers of the ERA. The ERA does not incur expenditure to compensate Ministers and those disclosures may be found in the *Annual Report on State Finances*.

The total fees, salaries, superannuation, non-monetary benefits and other benefits for members of the Governing Body (accountable authority) of the ERA for the reporting period are presented within the following bands:

Compensation band (\$)	2019	2018
130,001 - 140,000	-	1
140,001 - 150,000	2	-
190,001 - 200,000 ^(a)	-	1
470,001 - 480,000	1	-
480,001 - 490,000	-	1

(a) Part of the remuneration for this Governing Body member was for a payout of leave that related to when he was the CEO.

No members of the Governing Body are members of the Pension Scheme.

The total fees, salaries, superannuation, non-monetary benefits and other benefits for senior officers of the ERA for the reporting period are presented within the following bands:

Compensation band (\$)	2019	2018
180,001 - 190,000	1	1
200,001 - 210,000	1	-
210,001 - 220,000	1	-
250,001 - 260,000	1	-
260,001 - 270,000 ^(b)	-	1
270,001 - 280,000	2	-
280,001 - 290,000	-	1
290,001 - 300,000	-	1
380,001 - 390,000	1	-

(b) The employee against this band commenced at the ERA in November 2017

No senior officers are members of the Pension Scheme.

The total employment benefits for the members of the accountable authority and senior officers are:

	2019	2018
	\$'000	\$'000
Total compensation of key management personnel	2,564	1,844

Total compensation includes the superannuation expense incurred by the ERA in respect of the Governing Body and senior officers. Key management personnel numbers have increased from seven in 2018 to ten in 2019 with the addition of a further three senior staff members to the Corporate Executive team.

8.4 Related party transactions

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

Related parties of the ERA include:

- all cabinet ministers and their close family members, and their controlled or jointly controlled entities;
- members of the Governing Body and their close family members, and their controlled or jointly controlled entities;
- all senior officers and their close family members, and their controlled or jointly controlled entities;
- other departments and statutory authorities, including related bodies, that are included in the whole of government consolidated financial statements (i.e. wholly owned public sector entities); and
- the Government Employees Superannuation Board (GESB).

Material transactions with other related parties

Outside of normal citizen type transactions with the ERA, there were no other related party transactions that involved key management personnel and/or their close family members and/or their controlled or jointly controlled entities.

8.5 Remuneration of auditors

Remuneration paid or payable to the Auditor General in respect of the audit for the current financial year is as follows:

	2019 \$'000	2018 \$'000
Auditing the accounts, financial statements, controls and key performance indicators	34	34

8.6 Equity

	2019 \$'000	2018 \$'000
Contributed equity		
Balance at start of period	725	725
<i>Contributions by owners</i>		
Capital appropriation	-	-
Total contributions by owners	725	725
<i>Distributions to owners</i>		
Total contributions to owners	-	-
Balance at end of period	725	725

8.7 Supplementary financial information

(a) Indian Ocean Territories

An agreement between the Treasurer and the ERA provided for the retention of moneys received by the ERA from the Commonwealth in respect of the Indian Ocean Territories. Revenue retained pursuant to this agreement is to be applied to the ERA's services. Money received by the ERA in respect of the services provided are credited to the ERA's operating bank account.

	2019 \$'000	2018 \$'000
Balance at start of period	58	24
Receipts	-	40
Payments	(5)	(6)
Balance at end of period	53	58

(b) Write-offs

During the financial year, the following was written off under the authority of the accountable authority.

	2019 \$'000	2018 \$'000
Minor equipment	1	-
Standing charge	-	1
	1	1

(c) Invoices not raised for minor amounts

During the financial year, invoices were not raised for Standing charges where the amount was less than \$5 or for interest on overdue invoices where the amount was less than \$5.

Invoices not raised for Standing charges in 2017-18 \$56.92
Invoices not raised for Standing charges in 2018-19 \$66.28

Invoices not raised for overdue invoices in 2017-18 \$26.05
Invoices not raised for overdue invoices in 2018-19 \$61.42

(d) Services provided free of charge

During the year, the following services were provided to other agencies free of charge for functions outside the normal operations of the ERA:

	2019 \$'000	2018 \$'000
W.A. Energy Disputes Arbitrator – administrative support	12	12
	12	12

8.8 Explanatory Statement

All variances between estimates (original budget) and actual results for 2019, and between the actual results for 2019 and 2018 are shown below. Narratives are provided for key major variances, which are generally greater than 5% and \$230,000:

8.8.1 Statement of Comprehensive Income variances

	Variance notes	Estimate 2019	Actual 2019	Actual 2018	Variance between estimate and 2019 actual	Variance between actual results for 2019 and 2018
		\$'000	\$'000	\$'000	\$'000	\$'000
Statement of Comprehensive Income						
Expenses						
Employee benefits expense	A	9,243	9,237	7,996	(6)	1,241
Supplies and services	B	2,970	2,962	2,319	(8)	643
Depreciation and amortisation expense		55	57	57	2	-
Accommodation expenses		1,170	1,120	1,081	(50)	39
Other expenses		55	35	35	(20)	-
Total Cost of services		13,493	13,411	11,488		
Income						
<i>Revenue</i>						
Regulatory fees	C	11,163	11,660	8,786	497	2,874
Interest revenue		50	51	41	1	10
Other revenue		33	196	36	163	160
Total revenue		11,246	11,907	8,863		
Total income other than income from State Government		11,246	11,907	8,863		
NET COST OF SERVICES		(2,247)	(1,504)	(2,625)		
Income from State Government						
Service appropriation	D	2,056	2,056	2,763	-	(707)
Services received free of charge		266	288	252	22	36
Total income from State Government		2,322	2,344	3,015		
SURPLUS/(DEFICIT) FOR THE PERIOD		75	840	390		
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		75	840	390		

Budget has been restated for disclosure purposes to align with the format in the Financial Statements.

Major actual (2019) and comparative (2018) variance narratives

- Employee benefits expense was more in 2019 as there has been an increase in staff. Also, in 2018, there was a high staff turnover, and the members of the Rule Change Panel continued to be paid by the Independent Market Operator until April 2018.
- Supplies and services expenditure increased in 2019 in comparison to 2018. In 2018 there was an underspend in the project budgets of ERA's regulatory areas due to lower than expected expenditure on economic and technical consultants.
- Most of the ERA's regulatory fees are raised through the recoup of its costs. This revenue varies from year to year as the fees are based on total expenditure and the staff time spent on industry funded functions. As expenditure was higher in 2019, this resulted in revenue being higher in 2019.
- The ERA service appropriation decreased in 2019. This was mainly because funding was received for the Electricity Generation Retail Scheme in 2018.

8.8.2 Statement of Financial Position variances

All variances between estimates (original budget) and actual results for 2019, and between the actual results for 2019 and 2018 are shown below. Narratives are provided for key major variances, which are generally greater than 5% and \$141,000.

	Variance notes	Estimate 2019	Actual 2019	Actual 2018	Variance between estimate and 2019 actual	Variance between actual results for 2019 and 2018
		\$'000	\$'000	\$'000	\$'000	\$'000
Statement of Financial Position						
ASSETS						
Current assets						
Cash and cash equivalents	1, A	3,267	4,181	2,859	914	1,322
Restricted cash and cash equivalents		12	53	58	41	(5)
Receivables	2	2,797	3,438	3,485	641	(47)
Amounts receivable for services	B	315	315	-	-	315
Other current assets		146	210	138	64	72
Total current assets		6,537	8,197	6,540		
Non-current assets						
Restricted cash and cash equivalents		88	88	58	-	30
Amounts receivable for services	C	292	292	607	-	(315)
Plant and equipment		122	53	105	(69)	(52)
Intangible assets		6	4	9	(2)	(5)
Other non-current assets		25	3	3	(22)	-
Total non-current assets		533	440	782		
TOTAL ASSETS		7,070	8,637	7,322		
LIABILITIES						
Current liabilities						
Payables	3, D	495	636	391	141	245
Provisions	4, E	1,519	1,929	1,754	410	175
Total current liabilities		2,014	2,565	2,145		
Non-current liabilities						
Provisions		402	340	285	(62)	55
Total non-current liabilities		402	340	285	(62)	55
TOTAL LIABILITIES		2,416	2,905	2,430	489	475
NET ASSETS		4,654	5,732	4,892		
EQUITY						
Contributed equity		725	725	725	-	-
Accumulated surplus/(deficit)	5, F	3,929	5,007	4,167	1,078	840
TOTAL EQUITY		4,654	5,732	4,892		

Major estimate and actual (2019) variance narratives

1. Cash is \$914,000 more than the budget. This was mainly due to higher than expected revenue and an underspend in expenses.
2. The amount of receivables varies due to the timing of legislative work that is chargeable to industry, total expenses, and staff allocation against our functions. Expenses were more in the last quarter of the year. This resulted in a higher receivables amount as the ERA recoups most of its expenditure from industry.
3. The amount of payables will vary each year depending on the timing of the ERA's legislative work. In 2019, payables were more than estimated in the budget.
4. The 2019 actual for current provisions was greater than the budget as there was an increase in employees.
5. The accumulated surplus was more than the budget as revenue was more than expected.

Major actual (2019) and comparative (2018) variance narratives

- A. Cash increased by \$1.3 million in 2019. In 2018, the Standing charge invoices for the December 2017 and March 2018 quarters were not issued until June 2018. Several of the invoices were not paid until July 2018.
- B. The ERA will be receiving funds from its holding account at the Department of Treasury for asset replacement in 2019/20.
- C. A transfer of \$315,000 from non current assets to current assets has been recognised in 2019 as the ERA will be receiving funds for asset replacement in 2019/20.
- D. The amount of payables will vary each year depending on the timing of the ERA's legislative work.
- E. The 2019 actual for current provisions was more than the 2018 actual as there was an increase in employees.
- F. The ERA's surplus was \$238,000 more in 2019 than in 2018 as revenue was more than expected.

8.8.3 Statement of Cash Flows variances

All variances between estimates (original budget) and actual results for 2019, and between the actual results for 2019 and 2018 are shown below. Narratives are provided for key major variances, which are generally greater than 5% and \$230,000.

	Variance notes	Estimate 2019	Actual 2019	Actual 2018	Variance between estimate and 2019 actual	Variance between actual results for 2019 and 2018
		\$'000	\$'000	\$'000	\$'000	\$'000
Statement of Cash Flows						
CASH FLOWS FROM STATE GOVERNMENT						
Service appropriation	A	2,056	2,056	2,708	-	(652)
Holding account drawdowns		-	-	-	-	-
Net cash provided by State Government		<u>2,056</u>	<u>2,056</u>	<u>2,708</u>		
Utilised as follows:						
CASH FLOWS FROM OPERATING ACTIVITIES						
Payments						
Employee benefits	B	(9,281)	(9,042)	(7,988)	239	(1,054)
Supplies and services	1, C	(2,899)	(2,662)	(2,287)	237	(375)
Accommodation		(948)	(924)	(885)	24	(39)
GST payments on purchases		(305)	(372)	(297)	(67)	(75)
Other payments		(47)	(35)	(35)	12	-
Receipts						
Regulatory fees	2, D	11,124	11,723	8,044	599	3,679
Interest received		55	51	41	(4)	10
GST receipts on sales		84	88	50	4	38
GST receipts from taxation authority		209	268	266	59	2
Other receipts		18	196	36	178	160
Net cash provided by/(used in) operating activities		<u>(1,990)</u>	<u>(709)</u>	<u>(3,055)</u>		
CASH FLOWS FROM INVESTING ACTIVITIES						
Payments						
Purchase of non-current physical assets		-	-	-	-	-
Net cash provided by/(used in) investing activities		<u>-</u>	<u>-</u>	<u>-</u>		
Net increase/(decrease) in cash and cash equivalents		66	1,347	(347)		
Cash and cash equivalents at the beginning of period		<u>3,301</u>	<u>2,975</u>	<u>3,322</u>		
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD		<u><u>3,367</u></u>	<u><u>4,322</u></u>	<u><u>2,975</u></u>		

Budget has been restated for disclosure purposes to align with the format in the Financial Statements.

Major estimate and actual (2019) variance narratives

1. Supplies and services were less than the estimate as, due to the timing of the ERA's regulatory work, several invoices were not received until late June 2019 and so will not be paid until July 2019.
2. Total expenses and the amount of staff time spent on industry funded functions affects regulatory fees. In 2019, more staff time was spent on industry funded functions than expected.

Major actual (2019) and comparative (2018) variance narratives

- A. The ERA's higher appropriation in 2018 was mainly because funding was received for the Electricity Generation Retail Scheme.
- B. Employee benefits expense was more in 2019 due to an increase in employees. Expenses were also lower in 2018 as there was a high staff turnover, and the members of the Rule Change Panel continued to be paid by the Independent Market Operator until April 2018.
- C. Supplies and services expenditure was higher in 2019. In 2018 there was an underspend in the project budgets of the regulatory areas of the ERA due to lower than expected expenditure on advice from economic and technical consultants.
- D. Most of the ERA's regulatory fees are raised through the recoup of its costs. This revenue varies from year to year as the fees are based on total expenditure and the staff time spent on industry funded functions. As expenditure was higher in 2019, this resulted in revenue being higher in 2019.

CERTIFICATION OF KEY PERFORMANCE INDICATORS

We hereby certify that the key 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 2019.



Ms Catherine Lewis
Chief Finance Officer
29 July 2019



Ms Nicola Cusworth
Chair of Accountable Authority
29 July 2019



Dr Ray Challen
Member of Accountable Authority
29 July 2019



Mr Greg Watkinson
Member of Accountable Authority
29 July 2019

Key performance indicators

The ERA is Western Australia’s independent economic regulator. Our role is to regulate the gas, electricity and rail industries, and license providers of gas, electricity and water services. We also conduct inquiries into economic matters referred to us by the State Government, provide support to the independent Rule Change Panel, and have a range of regulatory and review roles in the Wholesale Electricity Market and retail gas market.

We aim to ensure the delivery of water, electricity, gas and rail services in Western Australia is in the long-term interest of consumers. Our functions are designed to maintain a competitive, efficient and fair commercial environment.

The ERA contributes to the government goal of “Better places: a quality environment with liveable and affordable communities and vibrant regions”. Our desired outcome in support of this goal is “the efficient, safe and equitable provision of utility services in Western Australia.”

Our role means we cannot achieve this outcome directly but can play a part in its achievement. Our contribution to this goal is embedded in our strategic plan, which states that the ERA’s purpose is “to promote the interests of Western Australian consumers through independent regulation, analysis and advice, now and into the future.”

As the ERA is an independent authority, the requirement to prepare performance indicators can only apply to our administration. The ERA Secretariat prepares submissions that are considered by the Governing Body when making a decision. Our performance indicators are therefore the quality, quantity and cost of those submissions.

Key effectiveness indicators

The ERA’s key effectiveness indicators are:

Quantity: number of submissions made to the ERA Governing Body.

Quality: rating by the ERA Governing Body of the content, accuracy and presentation of these submissions.

Timeliness: percentage of submissions provided by the required deadline.

rating by the ERA Governing Body as to their perception of the timeliness of submissions.

2018/19 PERFORMANCE - EFFECTIVENESS

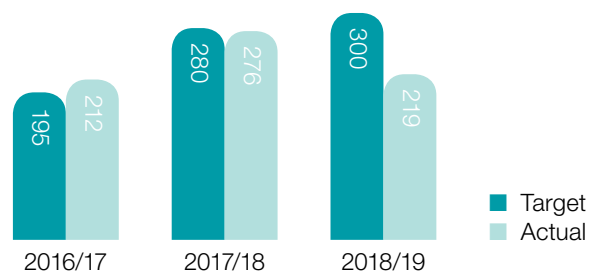
Quantity

The Governing Body considered 219 submissions during 2018/19. The Governing Body met 25 times during the year to consider 130 of the submissions and reviewed 89 submissions electronically out of session.

The total number of submissions was lower than the 2018/19 target of 300. Compared to the previous financial year, there was a 21 per cent decrease in the number of submissions provided to the Governing Body.

The target number of submissions is based on estimates provided by each division at the beginning of the year. The actual and target number of submissions vary on an annual basis in accordance with the cyclical nature of regulation.

Quantity (Submissions)



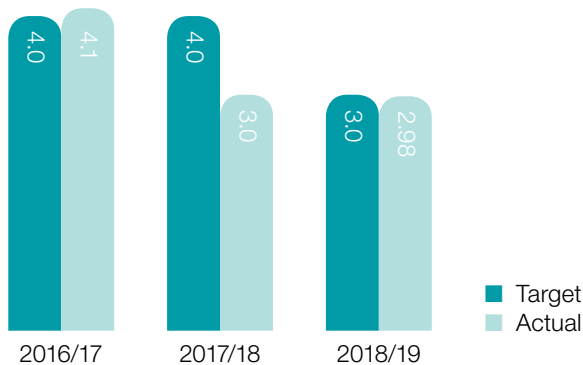
Quality

After each meeting, the Governing Body considers the relevance, accuracy and readability of the Secretariat's submissions and provides an overall rating of their satisfaction using a scale of one to five¹.

The Governing Body rates a submission as 3.0 (satisfactory) if it meets their expectations for quality. The target that was set at the beginning of the year was 3.0.

For 2018/19, the average rating for quality of submissions was 2.98. This was slightly under the target.

Quality (Submissions)



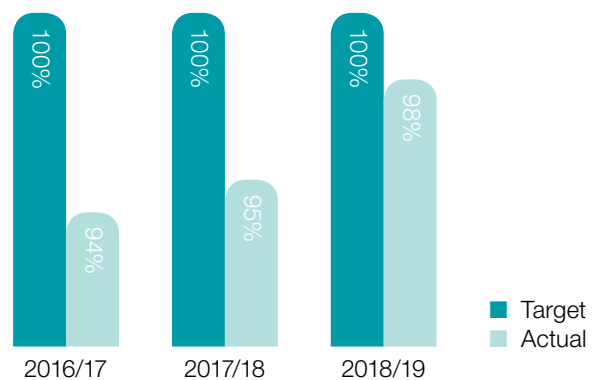
Timeliness – Legislative deadlines achieved

In 2018/19, 43 of the 219 submissions related to decisions with legislative time limits, compared to 40 out of 278 submissions in 2017/18. These time limits were either firm deadlines or timelines within which the ERA, taking all reasonable steps, was required to make its decision.

Forty-two out of the 43 submissions, with legislative deadlines were completed on time (or 98 per cent). This was a slight increase from the 95 per cent of submissions achieved in 2017/18.

The only decision that did not meet its timeline was the 2017/18 Wholesale Electricity Market Effectiveness Report for the Minister for Energy. The report was due by 8 March 2019 and delivered to the Minister on 3 April 2019. The delay in submitting the report was approved by the Minister for Energy.

Timeliness (Legislative Deadline achieved)



Timeliness – Governing Body rating

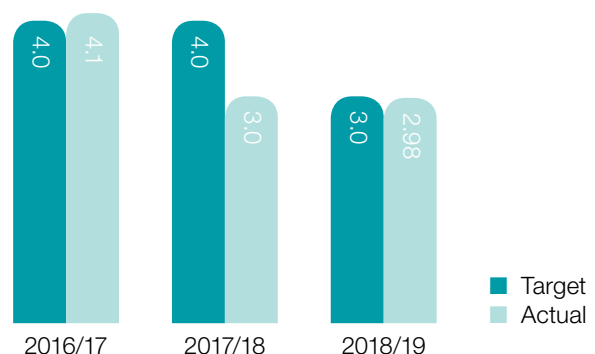
The Secretariat tracks internal deadlines for providing submissions to the Governing Body, in addition to measuring legislative timeframes.

The Governing Body rates each submission for timeliness, using the same scale of one to five used for quality, after each meeting.

The Governing Body rates a submission at 3.0 (satisfactory) if it meets their expectations for timeliness. The target that was set at the beginning of the year was 3.0.

The average rating for timeliness for the year was 2.98, which was slightly under the 2018/19 target of 3.0.

Timeliness – Governing Body rating



¹ one = well below expectations, two = below expectations, three = satisfactory, four = above expectations and five = well above expectations

Key efficiency indicator

The ERA's key efficiency indicator is cost per submission made to the Governing Body. The cost includes staffing costs and any other resources involved in preparing the submission.

2018/19 PERFORMANCE – EFFICIENCY

The total cost of the ERA's operations for 2018/19 was \$13.411 million, compared to an expenditure limit of \$13.493 million published in the budget estimates. There were 219 submissions compared to the target of 300.

The average cost per submission was \$61,237 against the target of \$44,976. The actual average cost per submission was higher than the target due to the number of submissions being lower than budgeted.

The higher cost per submission reflects changes to the format and process for submissions, amended between the setting of the budget and the start of the new financial year.

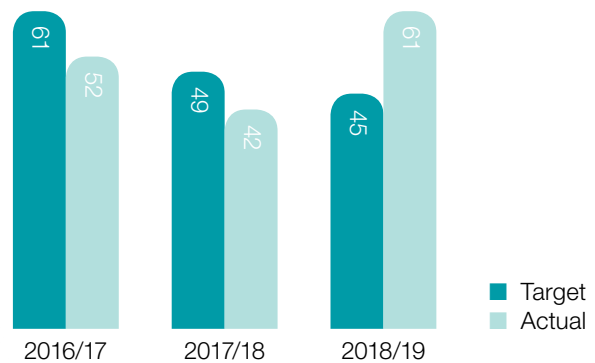


As part of the overall review of the agency and its operations, the Chief Executive Officer implemented a change in the nature of documents which constituted a submission. In prior years, all documents put before the Governing Body were classified as submissions. From 1 July 2018, only documents seeking the Governing Body's approval or feedback on the approach to the work program to be undertaken are considered as submissions.

The Governing Body still reviews all proposals and comments on the work program but these early documents are no longer included in the submissions register. This change in approach is expected to give a more realistic average cost per submission than the previous approach. Therefore, the ERA does not consider the increase in the average cost per submission as an indicator that it is not performing effectively.

	2016/17 Actual	2017/18 Actual	2018/19 Target	2018/19 Actual
Cost of services (\$ millions)	11.108	11.488	13.493	13.411
Number of submissions	212	276	300	219
Average cost of submissions (\$ thousands)	52	42	45	61

Average Cost (Per Submission)



Ministerial directives

The ERA is independent of direction or control by the State, or any Minister or officer of the State, in performing its regulatory functions.

However, under section 28(2) and 28(3) of the *Economic Regulation Authority Act 2003*, the Treasurer may give direction in writing to the ERA on administration matters. No ministerial directives were received during 2018/19.

PRICING POLICIES OF SERVICES PROVIDED

The ERA receives funding from regulated industries. This funding is on a full cost recovery basis.

The following table provides information about the instruments that allow this funding, the types of charges that can be made, and who is to pay.

Instrument	Type of charge	Liability
<i>Economic Regulation Authority (Electricity Networks Access Funding) Regulations 2012</i>	Specific charge Standing charge Document fee Interest fee	Regulated electricity networks
<i>Economic Regulation Authority (Licensing Funding) Regulations 2014</i>	Specific charge Standing charge Annual licence fee Interest charge	Gas licensees Water licensees Electricity licensees
<i>Economic Regulation Authority (National Gas Access Funding) Regulations 2009</i>	Specific charge Standing charge Document fee Meeting admission fee Interest charge	Regulated gas pipelines
Wholesale Electricity Market Rules	Regulator's fee	Market participants
Gas Services Information Rules	Regulator's fee	Market participants
Gas Retail Market Procedures	Regulator's fee	Market participants
<i>Water Services Act 2012</i>	Auditor's fee	Water licensees

- **Specific charge:** Pass through of costs associated with an activity carried out for a particular service provider.
- **Standing charge:** Calculation of costs to recover salaries and overheads that are not directly attributed to a particular service provider.
- **Annual licence fee:** A fee set by the regulations which is charged to a licensee for each licence they hold on the anniversary of the licence grant date.
- **Document fee:** Any cost of producing and providing documents prepared by, or on behalf of, the ERA.
- **Meeting admission fee:** Any charge for admission to a meeting held by the ERA for the purposes of public consultation.
- **Regulator's fee:** Calculation of costs to recover salaries and overhead costs of carrying out our Wholesale Electricity Market Rules and Gas Services Information Rules functions. This fee includes the costs of the independent Rule Change Panel.
- **Auditor's fee:** Recovery of costs relating to engaging an independent auditor to undertake audits and reviews of asset management systems operated by water licensees.
- **Interest charge:** Payable on any amount not paid within the allowed period of 30 days.

Under an agreement with the Commonwealth, the ERA is responsible for licensing water and electricity utilities on the Christmas and Cocos islands. Applications for licenses are yet to be received. Any costs incurred as a result of pre-lodgement negotiations will be recovered from the Commonwealth Government based on an agreed amount.

From 1 July 2019, the *Economic Regulation Authority (Railways Access Funding) Regulations 2019* will allow the ERA to recover the cost of its rail access functions from market participants.

Under the instruments allowing charges on regulated electricity and gas industries and the licensing regime, the ERA must disclose the total amount of standing and specific charges received from each entity in our annual report. This information is provided in the table below.

Service provider	Standing charges \$	Specific charges \$ (inc. GST)
AGL Sales Pty Limited	7,039.00	
Alcoa of Australia Ltd	6,384.87	-
Alinta Co-generation (Pinjarra) Pty Ltd	6,784.68	-
Alinta Co-generation (Wagerup) Pty Ltd	8,505.07	-
Alinta DEWAP Pty Ltd	5,515.86	-
Alinta Energy Transmission (Chichester) Pty Ltd	-	6,562.75
Alinta Energy Transmission (Roy Hill) Pty Ltd	6,825.93	-
Alinta Sales Pty Ltd	169,628.92	-
Amanda Energy Pty Ltd	31.33	-
Aqwest-Bunbury Water Corporation	10,444.46	-
ATCO Gas Australia Pty Ltd	831,667.39	323,281.78
ATCO Power Australia (Karratha) Pty Ltd	2,326.17	-
Athena Water Solutions Pty Ltd	-	8,219.75
BEI WWF Pty Ltd as Trustee for WWF Trust	-	7,704.60
BHP Billiton Nickel West Pty Ltd	120.53	-
Bluewaters Power 1 Pty Ltd	5,556.48	-
Bluewaters Power 2 Pty Ltd	5,556.17	-
Busselton Water Corporation	8,108.36	-
City of Kalgoorlie-Boulder	7,705.16	-
CleanTech Energy Pty Ltd	26.55	-
Collgar Wind Farm Pty Ltd	4,996.43	-
DBNGP (WA) Nominees Pty Ltd	1,087,659.30	-
Emu Downs Wind Farm Joint Venture	1,938.48	-
Energy Developments Ltd	896.55	-
Esperance Gas Distribution Company Pty Ltd	122.98	-
Esperance Power Station Pty Ltd	604.68	-
Gascoyne Water Co-operative Limited	110.65	103.95
Goldfields Gas Transmission Pty Ltd	440,937.07	174,782.62
Goldfields Power Pty Ltd	2,665.56	-
Greenough River Solar farm Pty Ltd	17.99	-
Hamersley Iron Pty Ltd	1,225.82	-
Harvey Water (SWIMCO)	648.12	554.40
Horizon Power	29,500.10	-
Karara Power Pty Ltd	2,057.60	-
Merredin Energy Pty Ltd	1,986.94	-
Merredin Solar Farm Nominee Pty Ltd	2,423.10	-

Service provider	Standing charges \$	Specific charges \$ (inc. GST)
Moore River Water Services Pty Ltd	-	7,079.60
Mumbida Wind Farm Pty Ltd	1,332.70	-
Newgen Neerabup Partnership Pty Ltd	8,010.77	-
Newgen Power Kwinana Pty Ltd	7,942.92	-
Newmont Power Pty Ltd	33.51	-
Ord Irrigation Cooperative Limited	37.32	-
Origin Energy Pty Ltd	2,345.66	-
Pacific Hydro Ltd	3,541.88	-
Perth Energy Pty Ltd	140.84	237.60
Perth Power Partnership	2,968.30	-
RATCH-Aust Kemerton Pty Ltd	7,511.61	-
Robe River Mining Co Pty Ltd	202.80	-
Rottnest Island Authority	173.63	-
South32 Worsley Alumina Pty Ltd	2,907.72	-
Southern Cross Energy Partnership	12,129.77	-
Southern Cross Pipelines Pty Ltd	59,168.67	-
SRV GRSF Pty Ltd	-	477.95
Synergy (Electricity Generation and Retail Corp)	221,123.08	-
TEC Hedland Pty Ltd	3,634.96	-
Tronox Management Pty Ltd	1,090.39	-
Walkaway Wind Power Pty Ltd	2,158.98	-
Water Corporation	720,258.82	-
Wesfarmers Kleenheat Gas Pty Ltd	67,616.56	-
Western Energy Pty Ltd	2,907.72	-
Western Power	1,399,269.34	180,772.25
Wind Portfolio Pty Ltd	3,150.03	-
WR Carpenter No 1 Pty Ltd	2,803.05	-
Yandin WF P/L as T/F Yandin WF Unit Trust	-	6,243.95

Capital works

The ERA did not procure new or replacement assets in 2018/19.

EMPLOYMENT AND INDUSTRIAL RELATIONS

The ERA's staff are employed under the Public Service Award 1992 and the Public Service and Government Officers CSA General Agreement 2017. No industrial disputes were recorded during 2018/19.

At 30 June 2019, the ERA had 58 public sector employees, three Governing Body members, three Rule Change Panel members and a Chief Executive Officer.

Staff numbers by category of employment

Employment category	Number of staff at 30 June 2018	Number of staff at 30 June 2019
Permanent full-time	47	52
Permanent part-time	2	2
Part-time measured on an FTE basis	1.8	2
Fixed term full-time	5	5
Fixed term part-time	1	1
Total employees	55	60
Total FTE	53.8	58

Staff numbers by category of employment

Employment category	Female	Male	Total
Permanent full-time	26	26	52
Permanent part-time	2	0	2
Part-time measured on an FTE basis	2	0	2
Fixed term full-time	2	3	5
Fixed term part-time	1	0	1
Total employees	31	29	60
Total FTE	29	29	58



STAFF DEVELOPMENT

In 2018/19, the ERA offered staff the opportunity to attend specialised technical training in the field of economic regulation, including:

- Economic benchmarking.
- Creating public value through risk-based regulation.
- Ancillary services in the competitive electricity market.
- Managing regulation, enforcement and compliance.

Staff also attended general training including:

- time management
- building and leading high-performance teams
- Certificate IV in investigations
- negotiating with confidence
- generating public value
- stakeholder engagement.

One of our staff was selected to take part in the Committee for Economic Development of Australia's Copland Leadership Program for 2019.

The ERA continued its participation in the successful inter-agency mentoring program coordinated by the Department of Finance, which is now in its 14th year. Eight other agencies take part in the program, including the Departments of Finance, Treasury, Training and Workforce Development, Planning, Lands and Heritage, and Health, as well

as Landgate, Lotterywest and the Mental Health Commission. Eleven ERA staff are participating in the 2019 program, either as mentors or mentees.

All managers were offered the opportunity to participate in a 360-degree feedback process, with 14 staff participating. Additional coaching was offered to five staff with a focus on implementing changes to management style.

In 2018/19, we also developed a new performance development and management program, with an increased focus on staff development and alignment with the ERA's strategic plan.

EMPLOYEE HEALTH AND WELLBEING

The wellbeing of staff is critical to creating a productive and efficient workplace. In 2018/19, human resources staff organised the following initiatives to improve health and wellbeing:

- flu vaccinations
- skin checks
- meditation
- ergonomic assessments
- mental health workshops
- massages
- healthy lunch day.

Employee Assistance Program

The ERA has a contract with PeopleSense to provide confidential counselling to employees and their family members. PeopleSense provided 16 sessions to staff in 2019/20.

WORKERS' COMPENSATION

The ERA complies with the requirements of the *Occupational Safety and Health Act 1984* and the *Workers' Compensation and Injury Management Act 1981*.

There were no workers' compensation claims during 2018/19 and no outstanding workers compensation claims from prior periods. Training in injury management and workers' compensation was provided to line managers. An injury management process is available on the intranet.

COMPLIANCE WITH PUBLIC SECTOR STANDARDS AND ETHICAL CODES

The ERA is committed to promoting integrity in official conduct and achieving high standards of compliance with Public Sector Standards, the Public Sector Code of Ethics and the ERA's Code of Conduct.

Staff undertake mandatory training including:

- Public sector introduction (for staff new to the sector).
- Accountable and ethical decision-making.
- Recordkeeping.
- Equal opportunity law.

A detailed induction program is organised for new staff where the grievance and public interest disclosure processes are explained. New staff are required to declare any conflicts of interest and existing staff are encouraged to review any declared conflicts each year.

Public sector standards compliance issues 2018/19

Compliance issues with public sector standards	0
Compliance issues with the Code of Ethics	0
Compliance issues with the ERA Code of Conduct	1

Following an independent investigation into a breach of the ERA's Code of Conduct, the ERA provided additional training for a member of staff and reviewed the Code.

Governance disclosures

BOARD AND COMMITTEE REMUNERATION

Gross remuneration does not include accruals, travel allowance and/or reimbursements, Fringe Benefits Tax or superannuation.

ERA Governing Body

Position	Name	Type of remuneration	Period of membership	Gross remuneration in 2018/19
Chair	Nicola Cusworth	Annual	01/07/2018 – 30/06/2019	\$370,966
Member	Greg Watkinson	Annual	01/07/2018 – 30/06/2019	\$131,723
Member	Ray Challen	Annual	01/07/2018 – 30/06/2019	\$131,723
Total				\$634,412

Rule Change Panel

Position	Name	Type of remuneration	Period of membership	Gross remuneration in 2018/19
Chair	Peter Kolf	Annual	01/07/2018 – 30/06/2019	\$75,987
Member	Shaun Dennison	Annual	01/07/2018 – 30/06/2019	\$41,792
Member	Roland Sleeman	Annual	01/07/2018 – 30/06/2019	\$41,792
Total				\$159,571

SHARES

At the date of reporting, no senior officers, firms of which senior officers are members, or entities in which senior officers have substantial interests, had any interest in existing or proposed contracts with the ERA other than normal contracts of employment or service.

UNAUTHORISED USE OF CREDIT CARDS

Officers hold corporate credit cards where their functions warrant usage of this facility. Staff are regularly reminded of the obligations to comply with our credit card policy.

In 2018/19, one employee inadvertently used a corporate credit card for personal shopping. This matter was not referred for disciplinary action as the chief finance officer noted the prompt advice and settlement of the personal use amount and that the nature of the expenditure was characteristic of an honest mistake.

	Amount
Aggregate amount of personal use expenditure for the reporting period	\$12.31
Aggregate amount of personal use expenditure settled by the due date (within five working days)	\$12.31
Aggregate amount of personal use expenditure settled after the due date (within five working days)	Nil
Aggregate amount of personal use expenditure outstanding at the end of the reporting period	Nil

Other legal requirements

EXPENDITURE ON ADVERTISING, MARKET RESEARCH, POLLING AND DIRECT MAIL

Under Section 175ZE of the *Electoral Act 1907*, all public sector agencies must disclose any expenditure on advertising, market research, polling and direct mail.

Expenditure	Service provider	Amount
Advertising	State Law Publisher	\$3,156
	Initiative	\$15,443
Market research	Advantage Communications & Marketing	\$4,906
Polling	N/A	Nil
Direct mail	N/A	Nil
Media advertising	N/A	Nil
Total		\$23,505

DISABILITY ACCESS AND INCLUSION PLAN

The ERA has reviewed and updated its disability access and inclusion plan for 2018 to 2022. Staff conducted internal and public consultation processes in accordance with the *Disability Services Act 1993* before finalising the plan. Our plan includes 19 strategies across seven outcomes, all of which the ERA hopes to achieve by 2022. New staff are given an understanding of the plan as part of the induction program.

Disability access and including plan outcomes

People with disability have the same opportunities as other people to access the services of, and any events organised by, the ERA.

People with disability have the same opportunities as other people to access the building and other facilities of the ERA.

People with disability receive information from the ERA in a format that will enable them to access the information as readily as other people are able to access it.

People with disability receive the same level and quality of service from ERA staff as others.

People with disability have the same opportunities as others to make complaints to the ERA.

People with disability have the same opportunities as others to participate in any public consultation by the ERA.

People with disability have the same opportunities as others to obtain and maintain employment with the ERA.

RECORDKEEPING

The ERA's Recordkeeping Plan was scheduled for review in 2018/19. The review was postponed until 2019/20 due to a reassessment of operational priorities.

One-on-one training provided to all new staff continues to prove effective, informing staff of their recordkeeping responsibilities. The efficiency and effectiveness of the ERA's primary recordkeeping system is continually reviewed, especially before and after system modifications.

The ERA continues to maintain compliance with the recordkeeping requirements of the *State Records Act 2000* and Australian Standards, despite a reduction in dedicated resourcing.



COMPLAINTS HANDLING

The ERA may receive complaints in three main areas: the administration of the Secretariat, employment, and its regulatory functions.

Administration and employment-related complaints are dealt with under the Western Australian Public Sector Code of Ethics, and the ERA's Code of Conduct and Conflict of Interest policy.

Our regulatory processes typically provide many opportunities for interested parties to express their views. This includes comprehensive public consultation involving submissions, forums and meetings.

Most submissions are published on our website. Confidentiality is allowed in some circumstances.

The ERA's decisions are ultimately subject to appeal to the Supreme Court on legal matters, and to the Electricity Review Board on matters of merit.

Government policy requirements

SUBSTANTIVE EQUALITY

The ERA recognises that all people are treated fairly and recognised for diversity. More than 60 per cent of the ERA's staff come from culturally diverse backgrounds. Principles of equality are reflected in all ERA policies and processes. Every year, new staff are encouraged to undergo training in equal opportunity law, delivered by officers from the Equal Opportunity Commission.

OCCUPATIONAL SAFETY, HEALTH AND INJURY MANAGEMENT

The ERA's executive team is committed to providing a safe, healthy and accident-free workplace for staff, contractors and visitors, and complying with the *Occupational Safety and Health Act 1984* and *Workers' Compensation and Injury Management Act 1981*.

This year, we established an Occupational Safety and Health (OSH) and wellness committee made up of employee and management representatives. The committee regularly inspects the workplace and presents a report to the executive on issues to be addressed. OSH information is available on a dedicated notice board and the intranet.

The ERA celebrated OSH and Wellness Week from 29 April to 3 May 2019 with flu vaccinations, skin checks and a focus on mental health and wellbeing.

Performance against OSH targets in 2018/19

Indicator	2018/19 target	2018/19 actual
Number of fatalities	0	0
Lost time injury/disease incidence rate	0	0
Lost time injury severity rate	0	0
Percentage of injured workers returned to work within (i) 13 weeks and (ii) 26 weeks	Greater than or equal to 80% return to work within 26 weeks	N/A
Percentage of managers and supervisors training in occupational, safety, health and injury management responsibilities	Greater than or equal to 80%	70%

Appendix 1: Legislation

ESTABLISHING AND FUNCTIONAL LEGISLATION

The ERA was established by the *Economic Regulation Authority Act 2003*.

This Act gives us the function to carry out inquiries and other functions under the following Acts of Parliament:

- *Energy Coordination Act 1994*
- *National Gas Access (WA) Act 2009*
- *Railways (Access) Act 1998*
- *Water Services Act 2012*.

The ERA Act also allows for the ERA to be given functions under other Acts of Parliament. The enactments that have effect as at 30 June 2019 are:

- *Electricity Corporations (Electricity Generation and Retail Corporation) Regulations 2013*
- *Electricity Industry Act 2004*
- *Energy Industry (Rule Change Panel) Regulations 2016*
- *Gas Services Information Act 2012*.

ADMINISTERED LEGISLATION

The ERA administers codes which regulate the conduct of utility service providers:

- *Code of Conduct for the Supply of Electricity to Small Use Customers 2018*
- *Gas Marketing Code of Conduct 2017*
- *Water Services Code of Conduct (Customer Services Standards) 2018*.

LEGISLATION THAT ALLOWS THE ERA TO RECOVER COSTS FROM INDUSTRY

- *Economic Regulation Authority (Electricity Networks Access Funding) Regulations 2012*
- *Economic Regulation Authority (Licensing Funding) Regulations 2014*
- *Economic Regulation Authority (National Gas Access Funding) Regulations 2009*
- *Wholesale Electricity Market Rules (Rule 2.24.5)*
- *Gas Services Information Rules (Rule 110A) Retail Market Procedures (WA) (Procedure 362B)*

OTHER LEGISLATIONS AFFECTING THE ERA'S ACTIVITIES

Gas

- *Energy Coordination Regulations 2004*
- *Energy Coordination (Customer Contracts) Regulations 2004*
- *Energy Coordination (Last Resort Supply) Regulations 2005*
- *Energy Coordination (Ombudsman Scheme) Regulations 2004*
- *Energy Coordination (Retail Market Schemes) Regulations 2004*
- *National Gas Access (WA) (Local Provisions) Regulations 2009*
- *National Gas Access (WA) (Part 3) Regulation 2009*

Electricity

- *Electricity Corporations Act 2005*
- *Electricity Industry (Access Code Enforcement) Regulations 2005*
- *Electricity Industry (Code of Conduct) Regulations 2005*
- *Electricity Industry (Customer Contracts) Regulations 2005*
- *Electricity Industry (Customer Transfer) Code 2016*
- *Electricity Industry (Licence Conditions) Regulations 2005*
- *Electricity Industry (Metering) Code 2012*
- *Electricity Industry (Network Quality and Reliability of Supply) Code 2005*
- *Electricity Industry (Obligation to Connect) Regulations 2005*
- *Electricity Industry (Ombudsman Scheme) Regulations 2005*
- *Electricity Industry (Wholesale Electricity Market) Regulations 2004*
- *Electricity Networks Access Code 2004*

Rail

- *Railways (Access) Code 2000*

Water

- *Water Services Regulations 2013*

Appendix 2: Senior staff

GOVERNING BODY

Nicky Cusworth	Chair
Ray Challen	Member
Greg Watkinson	Member

SECRETARIAT

Jenness Gardner	Chief Executive Officer
Natalie Warnock	Senior Media and Communications Advisor

Regulation and Inquiries

Paul Kelly	Executive Director
Jason Dignard	Principal Regulatory Advisor
Robert Pullella	Principal Advisor
Analena Gilhorne	Assistant Director References
Paul Reid	Assistant Director Utility Services Regulation
Tyson Self	Assistant Director Gas
Boon Tan	Assistant Director Research and Modelling
Jeremy Threlfall	Assistant Director Rail
Duc Vo	Assistant Director Research and Modelling
Elizabeth Walters	Assistant Director Electricity

Energy Markets

Rajat Sarawat	Executive Director
Bruce Layman	Chief Economist
Manuel Arapis	Assistant Director Strategic Projects
Sara O'Connor	Assistant Director Market Regulation
Adrian Theseira	Assistant Director Compliance and Enforcement

Rule Change

Stephen Eliot	Executive Officer
Jenny Laidlaw	Assistant Director Rule Change

Corporate Services

Pam Herbener	Director Corporate Services
Roshan Fernandes	Manager Human Resources
Catherine Lewis	Manager Finance

Destination	Departs in	Platform	Passes
Butler	17 mins	1	1
Butler	17 mins	1	1
Mandurah	18 mins	2	1
Mandurah	18 mins	2	1

10:29



Platform	Line	Distance
8	Midland	390m
9	Midland	390m

Line	Platform
Joondalup	1
Mandurah	2



Gate entry

Conditions of Entry
NO SMOKING
 NO SMOKING ANY PART OF THIS FACILITY





Economic Regulation Authority

Level 4, Albert Facey House, 469–489 Wellington St, Perth WA 6000

www.erawa.com.au | info@erawa.com.au | 08 6557 7900