

THE OFFICE OF THE ARBITRATOR IS ESTABLISHED UNDER THE GAS PIPELINES ACCESS (WESTERN AUSTRALIA) ACT 1998 TO RESOLVE DISPUTES THAT MAY ARISE BETWEEN PROVIDERS OF GAS PIPELINE SERVICES AND PROSPECTIVE USERS OF GAS PIPELINES. Under the Electricity Industry Act 2004 the Arbitrator also has responsibility for resolving disputes between users and operators of regulated electricity networks.



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

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LETTER OF TRANSMISSION TO THE MINISTER FOR ENERGY

**Hon. Francis M Logan, BA (Hons) MLA Minister
for Energy**

In accordance with section 66 of the *Financial Administration and Audit Act 1985*, I hereby submit the Western Australian Gas Disputes Arbitrator Annual Report for the year ended 30 June 2006 for your information and presentation to Parliament.

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

A handwritten signature in black ink, appearing to read "Laurie James".

LAURIE JAMES LLB Hons.

22 September 2006



Executive Summary

This report describes the functions and operations of the Western Australian Gas Disputes Arbitrator including the activities of the Gas Review Board for the year ended 30 June 2006.

The position of Gas Disputes Arbitrator was established to resolve disputes between providers of gas pipeline services and other parties seeking access to gas pipelines covered by the *National Third Party Access Code for Natural Gas Pipeline Systems*.

Mr Laurie James was appointed as Western Australia's Gas Disputes Arbitrator in 1999 and was re-appointed in April 2003 for a further five years.

The Gas Review Board is an appeals body which is formed from time to time to make determinations and review decisions under the *Electricity Industry Act 2004* and the *Gas Pipelines Access (Western Australia) Act 1998*.

During the year:

- the Arbitrator provided support to the Gas Review Board, which had four applications for review. Two were lodged during previous financial years and two were lodged in December 2005. Support services were provided to the review boards to ensure the effective administration of the appeals.
- a Customer Satisfaction Survey of Board Members, conducted for the Arbitrator by independent consultants, showed that Board Members were satisfied with the administrative services provided and saw no need for any additional assistance.

In the coming year there is expected to be an increase in the Arbitrator's role of providing support to the Gas Review Board. Following the start of the Wholesale Electricity Market, the Board's role will be expanded and it will perform certain determination and appeals functions relating to the conduct of market participants.

About the Arbitrator

The Role of the Arbitrator

The office of the Arbitrator is established under the *Gas Pipelines Access (Western Australia) Act 1998* to resolve disputes that may arise between providers of gas pipeline services and prospective users of gas pipelines. The Act is part of a national scheme that provides for the regulation of “covered” gas pipeline systems, including arbitration of disputes in relation to the terms and conditions for gas transportation services.

The Arbitrator also provides administrative support to the Gas Review Board, which functions as an appeals body under the *National Third Party Access Code for Natural Gas Pipeline Systems* and the *Electricity Industry Act 2004*.

Once there is an approved access arrangement in place for Western Power’s South West Interconnected Network, the Arbitrator will also have responsibility for resolving access disputes between prospective users of this network and Western Power. The approval is expected mid 2006-07.

The Arbitrator is also responsible for dispute resolution for the “Top-Up-and-Spill” (TUAS) market for electricity that commenced in July

2004. The TUAS market was established to allow members to purchase “top-up” energy from Western Power (in its capacity as the system manager) when their production is below the level of their customer demand, and to sell “spill” energy to Western Power when their production exceeds demand. This market operates as an alternative to, and is an extension of, the existing electricity balancing arrangements under the *Electricity Transmission Regulations 1996* and the *Electricity Distribution Regulations 1997*. The interim TUAS market has provided an important step towards the implementation of the wholesale electricity market.

The TUAS market – and the Arbitrator’s role – will cease with the start of the balancing and trading arrangements for the wholesale electricity market scheduled for 21 September 2006.

Information relating to the services of the Arbitrator is maintained on the Economic Regulation Authority website www.era.wa.gov.au.

Clients

The Arbitrator’s clients are the:

- gas transmission and distribution pipeline owners and users; and
- electricity transmission and distribution network owners and users.

Support

The Arbitrator does not employ staff but may, by agreement, make use of government staff. At present, these administrative services are provided by the Economic Regulation Authority and the Department of Treasury and Finance.

The Arbitrator also provides support to the Gas Review Board when constituted.



The Gas Review Board

Section 50(1) of the *Gas Pipelines Access (Western Australia) Act 1998* established the Gas Review Board as an appeals body. The Board comprises:

- a presiding member, chosen by the Attorney General from a panel of legal practitioners; and
- two experts, chosen by the presiding member from a panel of experts.

The Board may be separately constituted to hear and determine different appeals. Under section 56 of the Act, the Arbitrator is to provide the Board with the staff and services it needs.

The Board will also assume a number of appeal functions relating to the electricity market, under the *Electricity Industry Act 2004*.

Following the start of the Wholesale Electricity Market in September 2006, the Board will also perform some determination and appeals functions relating to the conduct of market participants.

The process for the Board hearing disputes under the *Electricity Industry Act 2004* will largely reflect the procedures set out in the *Gas Pipelines Access (Western Australia) Act 1998*.

Responsible Minister

The Minister responsible for administering the *Gas Pipelines Access (Western Australia) Act 1998* and the *Electricity Industry Act 2004* is the Hon. Francis Logan MLA, Minister for Energy in Western Australia.



The Arbitrator's Overview

While I have not been asked to arbitrate on any matters over the past year there has, nevertheless, been a relatively high level of activity associated with the work of the Gas Review Board.

The Board is responsible for reviewing specific decisions by the Minister for Energy and the Economic Regulation Authority. In relation to such reviews, I am responsible for ensuring that appropriate services are available to the Board.

At the beginning of this financial year, two applications for reviews remained afoot. One of these was discontinued on 8 July 2005, while the other still remained active at the end of the financial year.

There were two new applications for reviews of a decision by the Economic Regulation Authority. The Board has progressed these reviews, and expects to complete them in the 2006-07 financial year. Details of these reviews are posted on the Economic Regulation Authority website www.era.wa.gov.au.

In my principal role as Arbitrator, I may be called upon to adjudicate the terms, conditions and prices that should apply where there is a dispute between parties seeking access to electricity or gas infrastructure and the owners of such infrastructure. That there have not been any disputes is a desirable outcome indicating that the regulatory regime is working.

I have also been responsible for resolving disputes in the electricity market for the "Top-Up-and-Spill" balancing service. This service is an interim measure designed to cease once the new Wholesale Electricity Market comes into being. No disputes were notified in respect of this function over the year ending 30 June 2006.

The forthcoming financial year is scheduled to see further changes to legislation that are expected to impact on my functions as Arbitrator and those of the Gas Review Board. These changes are associated with the review of the Gas Access Regime being implemented by the Ministerial Council

on Energy at the national level following a review of the Gas Access Regime by the Productivity Commission. Details of likely changes are not yet available, however, there has been considerable public consultation and possible changes have been signalled.

Following the start of the Wholesale Electricity Market, the Board will perform certain determination and appeals functions relating to the conduct of market participants.

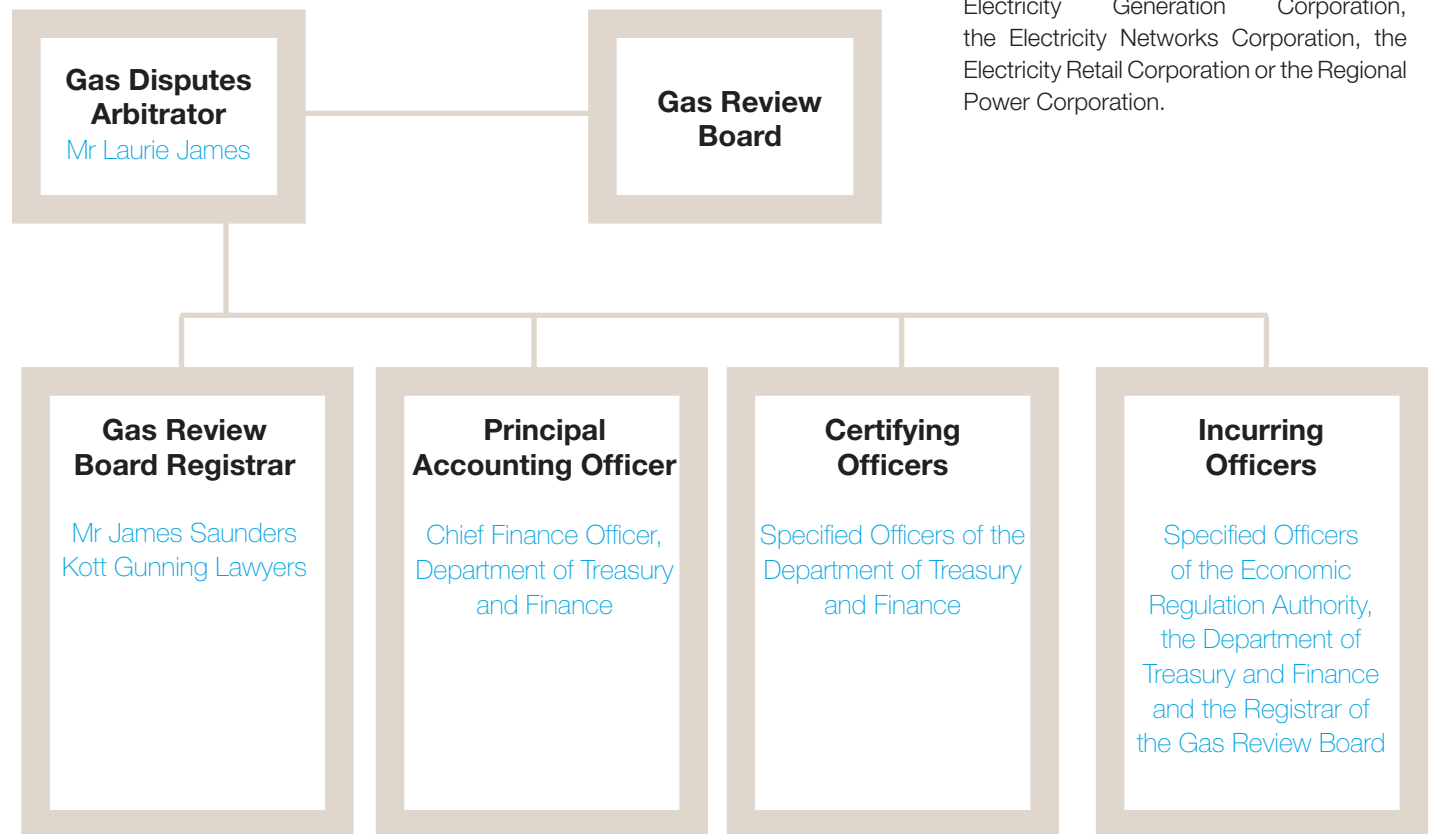
The commencement of the Wholesale Electricity Market will see the functions of the Gas Review Board expanded and correspondingly impact on my role as a provider of support to the Gas Review Board.

Finally, I would like to express my appreciation to the Registrar for the Gas Review Board, the Economic Regulation Authority and the Department of Treasury and Finance for their ongoing support.

LAURIE JAMES LLB Hons.
 GAS DISPUTES ARBITRATOR

Organisational Arrangements

Organisational Structure and Appointments at 30 June 2006



The office of the Arbitrator was established in February 1999.

The Arbitrator has no supporting organisation, but may, by arrangement, make use of facilities and staff of other government departments and agencies other than employees of the Electricity Generation Corporation, the Electricity Networks Corporation, the Electricity Retail Corporation or the Regional Power Corporation.

The Economic Regulation Authority continues to provide support to the Arbitrator where there is no conflict of interest. Where conflicts have arisen, support has either been contracted to independent service providers or been provided by the Department of Treasury and Finance.

Vision, Mission and Values

Vision: The Arbitrator’s vision is to achieve vigorously competitive energy markets in Western Australia with minimal regulatory oversight.

Mission

The mission of the Arbitrator is to promote competition in energy markets by seeking the effective and efficient resolution of disputes and facilitating reviews of regulatory decisions relating to energy infrastructure in Western Australia at the lowest practical regulatory cost.

Objectives

The Arbitrator’s principal objectives are to:

- promote a competitive market for energy in which customers may choose suppliers, including producers, retailers and traders;
- prevent abuse of monopoly power;
- provide for resolution of disputes;
- provide rights of access to regulated energy infrastructure on conditions that are fair and reasonable for the owners and operators of those assets and persons wishing to use the services provided by the assets; and
- facilitate the development and operation of a market for energy in Western Australia.

Relevant Legislation

The Office of the Arbitrator is governed by several different sources of legislation.

Enabling Legislation

The role of Arbitrator is established under section 62 of the *Gas Pipelines Access (Western Australia) Act 1998*.

The Arbitrator is also required to comply with relevant provisions of the *Electricity Industry Act 2004*.

Gas Industry

The national regulatory framework, under which the gas activities of the Arbitrator fall, is established by uniform legislation enacted by Australian governments and is referred to as the Gas Pipelines Access Law (included as schedules 1 and 2 of the *Gas Pipelines Access (Western Australia) Act 1998*).

Schedule 2 of the *Gas Pipelines Access (Western Australia) Act 1998* is known as the *National Third Party Access Code for Natural Gas Pipeline Systems*, and it establishes the regulatory regime. Section 6 of the Gas Code outlines many of the functions of the Arbitrator.

The Board may review a decision of:

- the Economic Regulation Authority to not approve an access arrangement submitted under the *National Third Party Access Code for Natural Gas Pipeline Systems*; and
- the Minister for Energy on coverage for a gas pipeline under the *National Third Party Access Code for Natural Gas Pipeline Systems*.

Electricity Industry

The *Electricity Industry Act 2004* has resulted in the Arbitrator taking on additional functions in relation to the electricity industry. These functions, which commenced on 1 January 2005, involve providing services and support to the Board to hear and determine matters related to the electricity industry.

The Board may review a decision of the Economic Regulation Authority:

- concerning the granting, amendment or transfer of an electricity supply licence;
- on the terms and conditions to include in an electricity supply licence;
- refusing to approve proposed standard form contracts for electricity supply licensees;
- to not approve an access arrangement submitted under the *Electricity Networks Access Code 2004*; and
- on ring fencing obligations of a network service provider.

The Board may also review a decision of:

- the Minister for Energy on whether an electricity network is to be “covered” under the *Electricity Networks Access Code 2004*; and
- the Independent Market Operator on matters under the Wholesale Electricity Market Rules.

The process for the Board hearing applications for review of decisions by the Economic Regulation Authority and the Minister under the *Electricity Industry Act 2004* reflects the process set out in the *Gas Pipelines Access (Western Australia) Act 1998*.

Independence of Direction

Section 75 of the *Gas Pipelines Access (Western Australia) Act 1998* specifies that the Arbitrator is independent of direction or control by the Crown or any Minister or officer of the Crown in the performance of his functions. The Minister of Energy can only direct the Arbitrator in respect of general policies to be followed by the Arbitrator with regards to administration and financial administration.



Report on Operations

A number of applications to the Board were carried forward from the 2004-05 period:

- Appeal No. 5 of 2004 was an application by Southern Cross Pipelines Australia Pty Ltd for a review of the Minister for Energy's decision not to revoke coverage of the Goldfields Gas Pipeline. The appeal was scheduled to be heard on 31 October 2005 but the applicant withdrew the matter before the hearing and the appeal was discontinued. Subsequently, on 22 February 2006, the Gas Review Board determined not to make orders requiring the parties to contribute towards the Board's own costs. The application for review was thereby concluded.
- Appeal No. 3 of 2004 related to Western Power Corporation's (Verve Energy's) appeal of the Independent Gas Pipelines Access Regulator's decision on 30 December 2003 not to approve the access arrangement for the Dampier to Bunbury Natural Gas Pipeline (DBNGP).

On 28 July 2006, the Board heard an application by the Economic Regulation Authority on whether the appeal should be struck out. The hearing concluded with the Board reserving its decision.

During 2005-06, two new applications for review were lodged with the Board. These applications related to the Economic Regulation Authority's decision of 15 December 2005 on the new access arrangement for the DBNGP. The first application was lodged by Verve Energy on 28 December 2005 and the second application was made by DBNGP (WA) Nominees Pty Ltd and DBNGP (WA) Transmission Pty Ltd on 29 December 2005.

A Board was appointed to hear and determine these applications. The Members were:

- Presiding Member, Mr Robert Edel, appointed 17 January 2006;
- Expert Member, Dr Frank Harman, appointed 16 March 2006; and
- Expert Member, Mr Edward Woodley, also appointed 16 March 2006.

The applications were dealt with at a preliminary level at a directions hearing before the Presiding Member on 24 April 2006. Hearings were scheduled to start in February 2007.

Regulated Infrastructure

The infrastructure that the Arbitrator's functions relate to are wholly located in Western Australia - Western Power's electricity networks in the South West Interconnected System and the regulated natural gas pipelines in the State.

Natural gas pipelines are regulated (covered) under the *National Third Party Access Code for Natural Gas Pipeline Systems* and electricity networks are regulated under the *Electricity Networks Access Code 2004*.

At 30 June 2006, there were four regulated pipelines in Western Australia:

- Dampier to Bunbury Natural Gas Pipeline;
- Goldfields Gas Pipeline;
- Kalgoorlie to Kambalda Pipeline; and
- Mid-West and South-West Gas Distribution Systems.

The owners of the Tubridgi Pipeline System successfully applied to have coverage of the Griffin and Tubridgi Pipelines revoked, effective from 1 May 2006.

Premises

The lease of the Board's temporary hearing rooms at London House, 216 St George's Terrace, Perth, which commenced on 15 September 2004, for the purpose of hearing previous appeals, expired on 15 September 2005.

For the purpose of current hearings, the Gas Review Board has been sharing the hearing rooms and facilities at the Western Australian Industrial Relations Commission, which are situated at 111 St George's Terrace, Perth.

Outcomes and Services

The desired outcome for the Arbitrator is the effective and efficient resolution of disputes and provision of administrative services to the Board for the review of decisions.

The programs to arbitrate disputes and provide administrative services to the Board are facilitated by maintaining a state of readiness: administrative procedures need to be in place to deal with disputes and reviews in the shortest possible time consistent with a high degree of cost efficiency.

These procedures are reviewed on an ongoing basis so that improvements can be made. Information on services is regularly updated on the Economic Regulation Authority website.

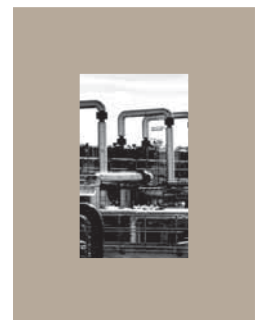
Key Activities and Achievements

Achievements

Four applications were with the Gas Review Board for review during the year. Two applications were lodged during previous financial years. In Appeal No. 5 of 2004, the Gas Review Board determined not to make orders requiring the parties to contribute towards the Board's own costs and the application for review was thereby concluded. In Appeal No. 3 of 2004, the hearing concluded with the Board reserving its decision. Two applications were lodged at the end of December 2005 and the hearings are scheduled for February 2007. In each of the applications, support services were provided by the Arbitrator to ensure their effective administration.

Methods of Achievement

The legislation that specifies the functions of the Arbitrator also governs the methods to be used, which are to be carried out in accordance with industry best practice. Likewise, the review function of the Board is to be carried out in accordance with normal court procedures.



Performance

Customer Satisfaction Survey

To assess satisfaction with the administrative services provided by the Arbitrator to the Gas Review Board, members of two Boards active during the year were invited to respond to a questionnaire.

Survey Results

Satisfaction with Venues and Facilities

Very Satisfied	25%
Satisfied	75%
Neither Satisfied nor Dissatisfied	0%
Dissatisfied	0%
Very Dissatisfied	0%

Satisfaction with the Timeliness of Services provided

Very Satisfied	50%
Satisfied	50%
Neither Satisfied nor Dissatisfied	0%
Dissatisfied	0%
Very Dissatisfied	0%

Comparison to Customer Satisfaction Survey 2004-05

The results of the 2005-06 survey indicate no major changes in Board Members' satisfaction with the performance of the Arbitrator since the previous year's survey. Overall, Board Members were satisfied with the administrative services provided to the Gas Review Board by the Arbitrator.

Administrative Services Overall

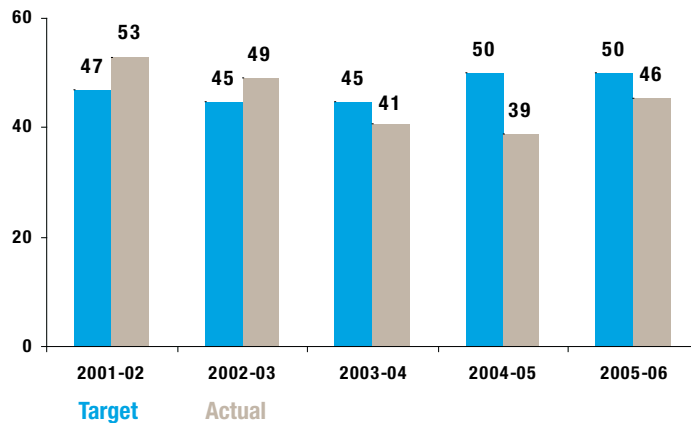
Very Satisfied	50%
Satisfied	50%
Neither Satisfied nor Dissatisfied	0%
Dissatisfied	0%
Very Dissatisfied	0%

Arbitrator's Costs

The cost of the Arbitrator's oversighting role for regulated infrastructure in Western Australia has increased from \$38,846 in 2004-05 to \$45,510 in 2005-06. This indicates that costs, although slightly increasing, are being maintained within expected budget forecasts.

The Arbitrator is able to recover \$25,000 of this cost from operators of regulated pipelines in the State.

Arbitrator Costs in \$'000

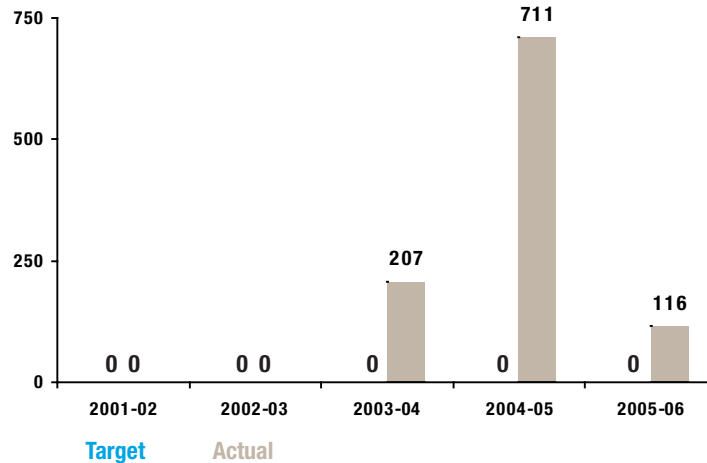


Gas Review Board Costs

The costs of the Gas Review Board are directly proportional to its level of activity. The total cost of the four appeals during the financial year was \$116,342.

This is significantly below the costs in 2004-05 which reflected the costs of preparing for the hearing of five appeals.

Gas Review Board Costs in \$'000

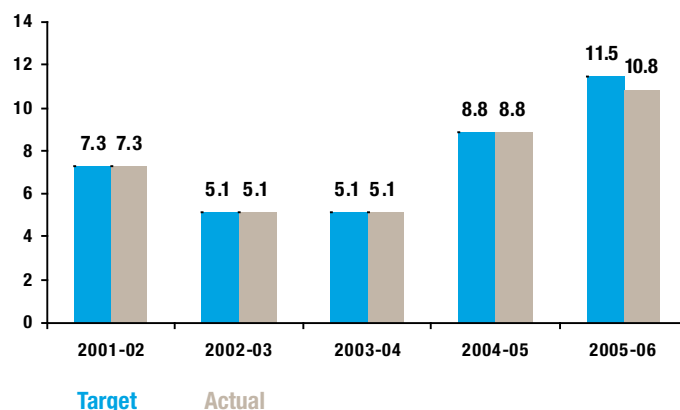


Number of Units of Regulated Infrastructure Oversighted

During 2005-06, the Arbitrator was responsible for 10.8 equivalent standard units (\$500 million) of regulated infrastructure. This was higher than the previous two years because of the additional electricity infrastructure.

The 11.5 target for 2005-06 was set with the expectation that the coverage of all infrastructure would be maintained. However, the revocation of the Tubridgi Pipeline System on 1 May 2006, caused a minor variation. The chart (right) illustrates that the number of units oversighted has increased in recent years.

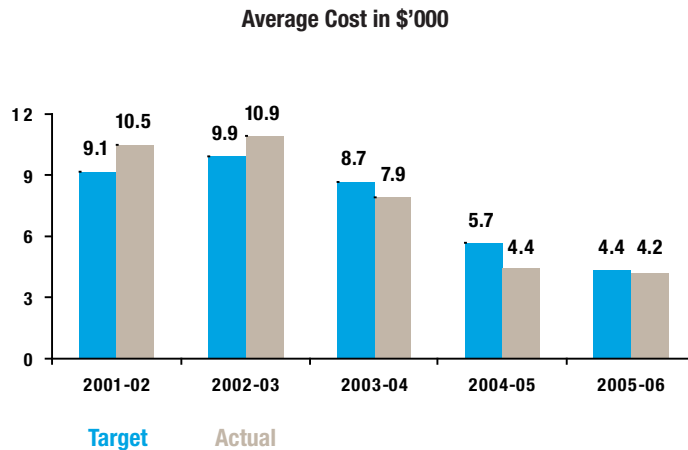
Number Oversighted



Average Cost of Oversighting

The average cost of oversighting an equivalent standard unit of regulated infrastructure has continued to decrease from \$4,352 in 2004-05 to \$4,204 in 2005-06.

This is due to the total number of units increasing from 8.8 to 10.8 units and there being a small increase in total costs for this oversighting role from \$38,846 in 2004-05 to \$45,510 in 2005-06.



Funding

Expenditure, other than that directly associated with the hearing of arbitrations by the Arbitrator and reviews by the Gas Review Board, has traditionally been funded by charges payable by the operators of regulated pipelines.

These funding arrangements are set out in the *Gas Pipelines Access (Western Australia) (Funding) Regulations 1999* (Funding Regulations).

As from 1 January 2005, the Arbitrator acquired significant additional functions under the *Electricity Industry Act 2004*. These functions included providing services and support to the Gas Review Board to hear and determine matters related to the electricity industry.

Accordingly, since January 2005, 50 per cent of the Arbitrator’s core function costs have been funded under the Funding Regulations whilst the other 50 per cent has been met through an appropriation from Government.

Funding of the Arbitrator’s gas industry functions has been arranged through “standing” charges levied by the Arbitrator on operators of regulated pipelines. These charges are determined in accordance with regulation 3 of the Funding Regulations. Standing charges are levied on operators of pipelines in respect of costs incurred by the Arbitrator, including any costs that relate to the Gas Review Board, that are not directly attributable to a particular review.

The pipeline operators who are liable for quarterly standing charges and the percentage allocations of costs between them are set out in schedule 1 of the Funding Regulations.

The total amount of standing charges paid by pipeline operators in respect of the costs of the Arbitrator in the year ending 30 June 2006 are presented in the following table.

Section 30 of schedule 1 of the *Gas Pipelines Access (Western Australia) Act 1998* allows the Arbitrator to recover costs incurred in arbitrating an access dispute. As there were none in 2005-06, no costs were incurred.

The Funding Regulations enable the Arbitrator to recover certain costs and expenses of the Gas Review Board in connection with hearings and determinations of the Board. Regulation 9 provides for the Board to fix an amount that represents the costs and expenses incurred by the Board in connection with the hearing and determination of particular proceedings before it, and to assign costs to the parties of the relevant proceedings.

As the Board made no orders as to its own costs in respect of appeals 3 and 5 of 2004 and appeals 1 and 2 of 2005, none of the Board’s costs were recovered from the parties to those proceedings.

Charges Paid by Pipeline Operators for the year ended 30 June 2006

Service Provider	Standing Charges	Charges Levied, But Not Yet Received
AlintaGas Networks Pty Ltd	\$3,852	\$0
DBNGP (WA) Transmission Pty Ltd	\$8,218	\$0
Goldfields Gas Transmission	\$3,402	\$0
BHP Petroleum (Ashmore Operations) Pty Ltd	\$373	\$171
Southern Cross Pipelines Pty Ltd	\$453	\$0
TOTAL	\$16,298	\$171



Treasurer's Advances

Section 83 of the *Gas Pipelines Access (Western Australia) Act 1998* allows for the Arbitrator to borrow from the Treasurer. As the Arbitrator does not allow for costs associated with arbitration, review or appeal in his annual estimates, application is made for a Treasurer's Advance to fund these functions on an as-needs basis.

The Arbitrator had a \$1.8 million Treasurer's Advance during 2005-06 to fund the activities of the Gas Review Board. An appropriation was arranged through the Office of Energy for the Arbitrator to repay the Treasurer's Advance at the end of the financial year.

Compliance

The Arbitrator has no supporting organisation as such. Details of compliance relate solely to the office of the Arbitrator.

Shares in Subsidiary Bodies

Treasurer's Instruction 903 requires details of shares in any subsidiary body of the statutory authority held as a nominee or held beneficially by a Senior Officer of the statutory authority. There are no such shares.

Interest in Existing or Proposed Contracts

Treasurer's Instruction 903 requires the disclosure of any interest in any existing or proposed contract which a Senior Officer, or a firm of which a Senior Officer is a member, or an entity in which a Senior Officer has a substantial financial interest, has made with the statutory authority or any related or affiliated body. There are no such interests.

Electoral Act Disclosure Requirements

Section 175ZE of the *Electoral Act 1907* requires public agencies to include a statement in their annual reports detailing all the expenditure incurred by or on behalf of the public agencies during the reporting period in relation to advertising agencies, market research organisations, polling organisations, direct mail organisations and media advertising agencies.

Total expenditure for 2005-06 was \$2,794. Expenditure was incurred in the following areas:

Electoral Act Disclosure Requirements 1 July 2005 to 30 June 2006

Market Research Organisations:	
- Data Analysis Australia Pty Ltd	\$880
Polling Organisations	Nil
Direct Mail Organisations	Nil
Media Advertising Organisations:	
- Marketforce Productions	\$1,914

Note: Amount shown includes GST.

Directions Given

Section 75(2) of the *Gas Pipelines Access (Western Australia) Act 1998* provides for the Minister to give directions in writing to the Arbitrator in relation to general policies to be followed by the Arbitrator in matters of administration, including financial administration. The text of any such direction is required to be included in the Arbitrator's Annual Report.

No directions under section 75(2) of the *Gas Pipelines Access (Western Australia) Act 1998* were given to the Arbitrator during the year.

Publications

Boards and Committees

During the reporting year, the Arbitrator published an annual report for 2004-05. This report was placed on the Economic Regulation Authority's website and is available for downloading.

The Arbitrator did not participate on any Boards or Committees during the year.

Human Resource Policies

The Arbitrator does not employ staff. Officers of other public service agencies providing services to the Arbitrator are employed in accordance with the human resource policies of the employing agencies.

of the Code of Conduct while providing services to the Arbitrator should contact the General Manager of the Economic Regulation Authority.

Staff and consultants to the Economic Regulation Authority are also provided with documentation that expands on the Code of Conduct and sets out relevant policies, including the handling of complaints on administrative matters.

Complaints Handling

There are three main areas that can be the source of complaints in the case of the Arbitrator. These relate to administration, matters relating to reviews carried out by the Gas Review Board and matters relating to the arbitration of disputes.

There were no complaints lodged on administrative matters during the reporting period.

Complaints relating to the review of decisions and the arbitration of disputes are matters dealt with through the formal review and arbitration processes. There were no complaints lodged relating to the review of decisions and the arbitration of disputes.

Complaints relating to administration are dealt with under the Economic Regulation Authority's Code of Conduct (which is available from the Economic Regulation Authority's website or in hardcopy form at the Authority's reception). This advises that anyone having a serious concern about any member of the Authority in their observance

Consultants

Section 81 of the *Gas Pipelines Access (Western Australia) Act 1998* provides for the Arbitrator to engage consultants to help perform functions.





Issues and Trends

The Arbitrator's role of resolving disputes arising under the interim TUAS market is expected to end on 21 September 2006.

Under the *Electricity Networks Access Code 2004*, and the obligation for the Economic Regulation Authority to approve an access arrangement for Western Power's network in the South West Interconnected System, the Arbitrator's new functions are more substantial. Following the approval of an access arrangement, the Arbitrator will have two further functions. These are to resolve disputes between parties negotiating an access contract for electricity transmission and distribution services, and those arising from access contracts.

Once the Wholesale Electricity Market starts, the Board may be constituted to hear appeals of decisions by the Independent Market Operator on enforcement of the market rules and to make orders for contravening market rules, including the determination of appropriate penalties. This could result in the Gas Review Board's workload increasing.

Outlook

The main challenge for the Arbitrator is to maintain preparedness to deal with disputes lodged for arbitration or applications to the Gas Review Board for reviews.

Administrative procedures are reviewed on an ongoing basis and improvements made. This includes updating information on services through the Economic Regulation Authority's website www.era.wa.gov.au.

Independent Audit Opinion

To the Parliament of Western Australia
 WESTERN AUSTRALIAN GAS DISPUTES ARBITRATOR
 FINANCIAL STATEMENTS AND PERFORMANCE INDICATORS FOR THE YEAR ENDED 30 JUNE 2006

Audit Opinion

In my opinion,

- (i) the financial statements are based on proper accounts and present fairly the financial position of the Western Australian Gas Disputes Arbitrator at 30 June 2006 and its financial performance and cash flows for the year ended on that date. They are in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia and the Treasurer's Instructions;
- (ii) the controls exercised by the Arbitrator provide reasonable assurance that the receipt and expenditure of moneys, the acquisition and disposal of property, and the incurring of liabilities have been in accordance with legislative provisions; and
- (iii) the key effectiveness and efficiency performance indicators of the Arbitrator are relevant and appropriate to help users assess the Arbitrator's performance and fairly represent the indicated performance for the year ended 30 June 2006.

Scope

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

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

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

Summary of My Role

As required by the Act, I have independently audited the accounts, financial statements and performance indicators to express an opinion on the financial statements, controls and performance indicators. This was done by testing selected samples of the evidence. Further information on my audit approach is provided in my audit practice statement. Refer "<http://www.audit.wa.gov.au/pubs/Audit-Practice-Statement.pdf>".

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



D D R PEARSON
 AUDITOR GENERAL
 22 September 2006

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

Key Performance Indicators

Certification of Performance Indicators for the year ended 30 June 2006

I hereby certify that the performance indicators are based on proper records, are relevant and appropriate for assisting users to assess the Western Australian Gas Disputes Arbitrator's performance and fairly represent the perform



LAURIE JAMES LLB Hons.

GAS DISPUTES ARBITRATOR

22 September 2006

Performance Indicators for 2005-06

The office of the Gas Disputes Arbitrator was established by the *Gas Pipelines Access (Western Australia) Act 1998* and funded through provisions in the *Gas Pipelines Access (Western Australia) (Funding) Regulations 1999*. The *Gas Pipelines Access (Western Australia) Act 1998* also provides for appropriations by Parliament. The office has been supported jointly through the Department of Treasury and Finance and the Economic Regulation Authority (ERA).

The Government's strategic goal for the ERA is:

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

The desired outcome is:

The efficient, safe and equitable provision of utility services in Western Australia.

While the services provided by the Arbitrator are different to those of the ERA, the services are sufficiently related to share a common high-level Government goal and desired outcome. As the services provided by the Arbitrator comprise several related but non-standardised services, these are referred to as programs.

The desired outcome for the Arbitrator is the effective and efficient delivery of the following programs:

- arbitration of disputes; and
- provision of administrative services to the Gas Review Board for the review of decisions.

These programs are facilitated by maintaining a state of readiness for the arbitration of disputes and the review of decisions by the Gas Review Board.

The Arbitrator's outcome is achieved by assisting parties to resolve disputes and

providing timely and efficient support to the Gas Review Board when it is constituted.

The Arbitrator is only required to report in relation to his administrative and management functions. Therefore the performance indicators required to be prepared by the Arbitrator have been prepared to comply with section 84(2) of the *Gas Pipelines Access (Western Australia) Act 1998* which states that:

"any requirement under the Treasurer's Instructions (issued under section 58 of the *Financial Administration and Audit Act 1985*) that the Arbitrator prepare performance indicators is to be limited to the Arbitrator's management functions (including financial management), and is not to apply to the performance of any function referred to in section 73."

The Arbitrator's key performance indicators derive from the processes and support that he provides in meeting the objectives set by the enabling legislation, including the *Electricity Industry Act 2004* (section 122) and the *Gas Pipelines Access (Western Australia) Act 1998* (the Preamble).

Effectiveness

Resolution of Disputes

The most meaningful measure of the effectiveness of this first program is the number of disputes resolved as a proportion of total disputes registered. The number of resolved disputes includes disputes withdrawn or extended until the next year or sine die.

Provision of Administrative Services to the Gas Review Board

The Arbitrator plays an important role in providing administrative support to the Gas Review Board. The effectiveness of this program can be established through a survey of the respective Gas Review Board members who have first-hand experience of the support provided and are best placed to respond as to their level of satisfaction with the services provided by the Arbitrator.

Effectiveness cont.

2005-06 Performance – Effectiveness

The two effectiveness indicators for the Arbitrator's outcome are shown below.

1. Resolution of disputes

The target for this measure of effectiveness is 100 per cent. Such an outcome reflects a situation where all disputes that were registered were also resolved during the year. There were no active disputes during the year.

2. Provision of administrative services to the Gas Review Board

The Arbitrator's effectiveness in supporting the Gas Review Board in its review of decisions is measured by determining the percentage of Board members involved in reviews of decisions who are satisfied or very satisfied with the way the Arbitrator has provided general administrative support. This includes sourcing accommodation and associated services for hearings and facilitating liaison with the various parties outside the formal hearings process.

The survey of Board members revealed that there was a high level of satisfaction with the support provided by the Arbitrator during the 2005-06 year. This offers evidence that the Arbitrator has been effective in providing the required administrative services. Two new appeals were received in December 2005 and one appeal was discontinued in July 2005. There are now three outstanding appeals to be heard by the Board.

Although the Arbitrator's role does not directly contribute to the desired outcome of the provision of efficient, safe and equitable utility services in Western Australia, the services he provides to bodies such as the Gas Review Board are consistent with this outcome.

In establishing a reasonable target for the purpose of assessing performance, it was determined that the satisfaction level should be consistent with satisfaction-level targets that were agreed and used in the 2004-05 annual report, which is a value of 75 per cent.

The survey results show that all Gas Review Board members surveyed were either satisfied or very satisfied which is an improvement on the performance in 2004-05. This was a pleasing result, given the extremely demanding workload of the Board.

Effectiveness

Desired outcome	Measure	Target	2005-06	2004-05
To provide for the resolution of disputes	The number of disputes resolved as a proportion of total disputes registered	100%	n/a (no disputes)	n/a (no disputes)
To provide administrative services to the Gas Review Board for the review of decisions	Percentage of Gas Review Board members satisfied or very satisfied with the services provided by the Arbitrator in support of review processes	75%	100%	80%



Efficiency

Resolution of Disputes

The efficiency indicator for the Arbitrator's program of arbitrating disputes is the average cost per dispute during the year. There may be costs incurred in dealing with a particular arbitration matter during any given year, even though the arbitration is not resolved during that year. This measure ensures that, to the extent that there are arbitration matters active during the year, there will be a measure of the cost associated with the determination process. This is a measure of the cost efficiency of providing the arbitration of disputes program.

Provision of Administrative Services to the Gas Review Board

The efficiency indicator for the Arbitrator's program of providing administrative services to the Gas Review Board is the average cost per review application before the Board during the year. There may be costs incurred in dealing with a particular review application during the year, even though the review is not completed by year's end. This is in contrast to the efficiency indicator published in 2003-04, which was the average cost per completed review. The revised measure ensures that, to the extent that there are review matters active during the year, there will be a measure of the cost associated with the support provided by the Arbitrator to the review process. This is a measure of the cost efficiency of providing administrative services to the Gas Review Board program.

Maintaining a State of Readiness

This involves maintaining a state of readiness for the resolution of disputes and the review of decisions by the Gas Review Board. As with the resolution of disputes, the availability of the Arbitrator and procedures to establish and support a review body when required is an important feature of an efficient regulatory regime. This is implemented by providing parties with assistance in settling disputes and providing owners of regulated infrastructure with an opportunity and means of having regulatory decisions reviewed to ensure that they are fair and reasonable. The Arbitrator's effectiveness in overseeing the regulated infrastructure is related to his availability to respond to matters brought before him, such as disputes and reviews. The efficiency indicator for the Arbitrator's program of maintaining a state of readiness is the average cost per standard unit of regulated infrastructure. This facilitates the measurement of the cost efficiency associated with the Arbitrator's availability to address matters arising from the regulation of infrastructure.



2005-06 Performance – Efficiency

The three efficiency indicators for the Arbitrator are:

1. Average cost per dispute;
2. Average cost per review application; and
3. Average cost per standard unit of infrastructure.

The efficiency indicators 1 and 2 are now reported as disputes/reviews that are active during the year, regardless of whether they have been completed. This approach better reflects the costs incurred, particularly where a dispute/review spans more than one year.

1. Average cost per dispute

As there were no disputes initiated during the 2005-06 financial year, the average cost per dispute is zero. The average cost was also zero in 2004-05. The target for this indicator is zero, consistent with an objective of having no disputes.

Efficiency cont.

2. Average cost per review application

The indicator represents the average cost per review in the reporting year. This measure is in contrast to that used prior to 2004-05, which was held to be the average cost per completed review.

Two new review applications were lodged in December 2005 that remained before the Gas Review Board during 2005-06. These related to the Economic Regulation Authority's final decision on the proposed revisions to the access arrangement for the Dampier to Bunbury Natural Gas Pipeline. The Authority's final decision was published on 15 December 2005. The average cost for each review was \$29,086 in 2005-06 compared with \$142,252 in 2004-05 and \$51,693 in 2003-04.

As the costs for review applications are highly dependent on the nature of the review and the actions of the parties to it, a target of zero has been used. A zero target in this case is consistent with a desirable outcome of no applications for review having been lodged.

3. Average cost per standard unit of infrastructure

The average cost per standard unit of regulated infrastructure oversights in the 2005-06 financial year is the cost necessary to ensure that procedures are in place to address matters that fall within the jurisdiction of the Arbitrator.

This cost was \$4,204 in 2005-06 compared with \$4,421 in 2004-05 and \$7,919 in the previous financial year. This improvement to this efficiency indicator is explained by the addition of electricity assets to the Arbitrator's oversight role, increasing the number of standard units of regulated infrastructure. The target of \$4,352 was established on the basis of the Arbitrator's approved budget (\$50,000) divided by the anticipated number of standard units of regulated infrastructure at the beginning of the financial year (11.49 units).

Efficiency

Service	Performance Indicator	Target	2005-06	2004-05
Arbitration of disputes	Average cost per dispute	\$0 (no disputes)	\$0 (no disputes)	\$0 (no disputes)
Review of regulatory decisions	Average cost per review application	\$0	\$29,086	\$142,252
Maintaining a state of readiness	Average cost per standard unit of regulated infrastructure	\$4,352	\$4,204	\$4,421

Equivalent Standard Units of Infrastructure

The concept of a standard unit of regulated infrastructure is used to recognise and allow for the fact that the size, value and complexity of regulated infrastructure, including pipelines and electricity networks, varies from one asset to another. It also recognises that the size, cost and complexity of regulation and arbitration work will vary accordingly.

For example, the demands placed on the Arbitrator by several smaller regulated assets in one year may be equivalent to those of a single larger piece of regulated infrastructure in another year. To ensure that the units of measurement are reasonably consistent from one year to the next, a standard unit of regulated infrastructure has been defined as one having a capital base value of \$500 million.

Financial Statements

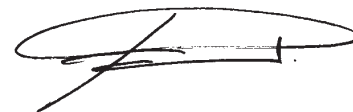
Certification of Financial Statements for the Year Ended 30 June 2006

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

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



LAURIE JAMES LLB Hons.
GAS DISPUTES ARBITRATOR



Paul Goonting
CHIEF FINANCE OFFICER

20 September 2006

Income Statement

for the year ended 30 June 2006

	Note	2006 \$'000	2005 \$'000
COST OF SERVICES			
Expenses			
Employee benefits expense	4	30	29
Supplies and services	5	99	594
Accommodation expenses	6	33	150
Total cost of services		162	773
Income			
User charges and fees	7	31	19
Interest revenue	8	49	27
Other revenue	9	3	–
Total income other than income from State Government		83	46
NET COST OF SERVICES		79	727
INCOME FROM STATE GOVERNMENT			
Appropriation	10	1,104	–
Resources received free of charge		2	6
Total income from State Government		1,106	6
SURPLUS/(DEFICIT) FOR THE PERIOD		1,027	(721)

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

Balance Sheet

for the year ended 30 June 2006

	Note	2006 \$'000	2005 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents	11	158	945
Receivables	12	12	16
Total Current Assets		170	961
TOTAL ASSETS		170	961
LIABILITIES			
Current Liabilities			
Payables	13	1	19
Amounts due to the Treasurer	14	–	1,800
Total Current Liabilities		1	1,819
TOTAL LIABILITIES		1	1,819
NET ASSETS/(LIABILITIES)		169	(858)
EQUITY			
Accumulated surplus/(deficit)	15	169	(858)
TOTAL EQUITY		169	(858)

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

Statement of Changes in Equity

for the year ended 30 June 2006

	Note	2006 \$'000	2005 \$'000
Balance of equity at start of period	15	(858)	(137)
ACCUMULATED SURPLUS/(DEFICIT)			
Balance at start of period		(858)	(137)
Surplus/(deficit) for the period		1,027	(721)
Balance at end of period		169	(858)
Balance of equity at end of period	15	169	(858)
Total income and expense for the period		1,027	(721)

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

Cash Flow Statement

for the year ended 30 June 2006

	Note	2006 \$'000	2005 \$'000
CASH FLOWS FROM STATE GOVERNMENT			
Appropriation		1,104	-
Net cash provided by State Government		1,104	-
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments			
Employee benefits		(30)	(29)
Supplies and services		(117)	(576)
Accommodation		(33)	(150)
GST payments on purchases		70	(72)
Receipts			
User charges and fees		30	41
GST receipts from taxation authority		(63)	81
Other receipts		52	27
Net cash provided by/(used in) operating activities	16(a)	(91)	(678)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Treasurer's Advance		-	1,300
Repayments of Treasurer's Advance		(1,800)	-
Net cash provided by/(used in) financing activities		(1,800)	1,300
Net increase/(decrease) in cash and cash equivalents		(787)	622
Cash and cash equivalents at the beginning of period		945	323
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	16(b)	158	945

Notes to the Financial Statements

for the year ended 30 June 2006

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

a) General

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

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

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

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

b) Early adoption of standards

The Arbitrator cannot early adopt an Australian Accounting Standard or UIG Interpretation unless specifically permitted by TI1101 'Application of Australian Accounting Standards and Other Pronouncements'. This TI requires the early adoption of revised AASB 119 'Employee Benefits' as issued in December 2004, AASB 2004-3 'Amendments to Australian Accounting Standards; AASB 2005-3 'Amendments to Australian Accounting Standards [AASB 119]', AASB 2005-4 'Amendments to Australian Accounting Standard [AASB 139, AASB 132, AASB 1, AASB 1023 and AASB 1038]' and AASB 2005-6 'Amendments to Australian Accounting Standards [AASB 3]' to the annual reporting period beginning 1 July 2005. AASB 2005-4 amends AASB 139 'Financial Instruments: Recognition and Measurement' so that the ability to designate financial assets and financial liabilities at fair value is restricted. AASB 2005-6 excludes business combinations involving common control from the scope of AASB 3 'Business Combinations'.

Reconciliations explaining the transition to AIFRS as at 1 July 2004 and 30 June 2005 are provided at note 26 'Impact of adopting AIFRS'.

Notes to the Financial Statements cont.

for the year ended 30 June 2006

2. Summary of Significant Accounting Policies

a) General Statement

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

The Financial Administration and Audit Act 1985 and the Treasurer's Instructions are legislative provisions governing the preparation of financial statements and take precedence over the Accounting Standards, the Framework, Statements of Accounting Concepts and other authoritative pronouncements of the Australian Accounting Standards Board.

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

b) Basis of Preparation

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

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

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

c) Reporting Entity

The reporting entity comprises the Western Australian Gas Disputes Arbitrator.

d) Income

Revenue

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

Interest

Interest revenue is recognised when the interest has been credited to the bank account.

Standing Charges

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

Appropriations

Appropriations are recognised as revenues at nominal value in the period in which the Arbitrator gains control of the appropriated funds. The Arbitrator gains control of appropriated funds at the time those funds are deposited to the bank account.

e) Cash and Cash Equivalents

For the purpose of the Cash Flow Statement, cash and cash equivalent assets comprise cash on hand which is subject to insignificant risk of changes in value.

Notes to the Financial Statements cont.

for the year ended 30 June 2006

f) Receivables

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

g) Payables

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

h) Amounts Due to the Treasurer

The Arbitrator repaid a Treasurer's Advance during the year which had been provided for the purpose of funding the Gas Review Board to facilitate the deliberation of appeals.

i) Provisions

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

(i) Provisions – Employee Benefits

Annual Leave and Long Service Leave

The Arbitrator has no entitlement to annual or long service leave.

Superannuation

The Arbitrator has an amount included as part of his remuneration, which is deducted from each payment and remitted to a complying superannuation fund. The Government has no unfunded superannuation liability in respect of the Arbitrator.

(ii) Provisions – Other

Employment On-Costs

The Arbitrator has no employment on-costs.

j) Resources Received Free of Charge or for Nominal Cost

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

k) Comparative Figures

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

3. Disclosure of changes in accounting policy and estimates

The Arbitrator cannot early adopt an Australian Accounting Standard or UIG Interpretation unless specifically permitted by TI 1101 'Application of Australian Accounting Standards and Other Pronouncements'. As referred to in note 1, TI 1101 has only mandated the early adoption of revised AASB 119, AASB 2004-3, AASB 2005-3, AASB 2005-4 and AASB 2005-6. Consequently, the Arbitrator has not applied the following Australian Accounting Standards and UIG Interpretations that have been issued but are not yet effective. These will be applied from their application date:

Notes to the Financial Statements cont.

for the year ended 30 June 2006

- a) AASB 7 'Financial Instruments: Disclosures' (including consequential amendments in AASB 2005-10 'Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038]'). This Standard requires new disclosures in relation to financial instruments. The Standard is required to be applied to annual reporting periods beginning on or after 1 January 2007. The Standard is considered to result in increased disclosures of an entity's risks, enhanced disclosure about components of a financial position and performance, and changes to the way of presenting financial statements, but otherwise there is no financial impact.
- b) AASB 2005-9 'Amendments to Australian Accounting Standards [AASB 4, AASB 1023, AASB 139 and AASB 132]' (Financial guarantee contracts). The amendment deals with the treatment of financial guarantee contracts, credit insurance contracts, letters of credit or credit derivative default contracts as either an "insurance contract" under AASB 4 'Insurance Contracts' or as a "financial guarantee contract" under AASB 139 'Financial Instruments: Recognition and Measurement'. The Arbitrator does not undertake these types of transactions resulting in no financial impact when the Standard is first applied. The Standard is required to be applied to annual reporting periods beginning on or after 1 January 2006.
- c) UIG Interpretation 4 'Determining whether an Arrangement Contains a Lease'. This Interpretation deals with arrangements that comprise a transaction or a series of linked transactions that may not involve a legal form of a lease but by their nature are deemed to be leases for the purposes of applying AASB 117 'Leases'. At reporting date, the Arbitrator has not entered into any arrangements as specified in the Interpretation resulting in no impact when the Interpretation is first applied. The Interpretation is required to be applied to annual reporting periods beginning on or after 1 January 2006.

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

AASB Amendment	Affected Standards
2005-1	AASB 139 (Cash flow hedge accounting of forecast intra-group transactions).
2005-5	'Amendments to Australian Accounting Standards [AASB 1 and AASB 139]'
2006-1	AASB 121 (Net investment in foreign operations).
UIG 5	'Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds'.
UIG 6	'Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment'.
UIG 7	'Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies'.
UIG 8	'Scope of AASB 2'.
UIG 9	'Reassessment of embedded derivatives'.

Notes to the Financial Statements cont.

for the year ended 30 June 2006

	Note	2006 \$'000	2005 \$'000
4. Employee benefits expense			
Salaries		27	27
Other related expenses		3	2
		30	29
5. Supplies and services			
Communications		–	4
Consultants and contractors		11	26
Consumables		–	23
Legal costs		11	55
Travel		–	2
Gas Review Board fees		68	465
Other		9	19
		99	594
6. Accommodation expenses			
Office accommodation rental		33	142
Other accommodation expenses		–	8
		33	150
7. User charges and fees			
Standing charges		31	19
		31	19
8. Interest revenue			
Interest		49	27
		49	27
9. Other revenue			
Other		3	–
		3	–
10. Income from State Government			
Appropriation received during the year		1,104	–
Resources received free of charge Determined on the basis of the following estimates provided by agencies:			
State Solicitor's Office – legal service charges		2	6
		1,106	6
11. Cash and cash equivalents			
Cash at bank		158	945
		158	945
12. Receivables			
Current			
Accounts receivable		1	4
Accrued revenue		6	–
GST receivable		5	12
		12	16

Notes to the Financial Statements cont.

for the year ended 30 June 2006

	Note	2006 \$'000	2005 \$'000
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13. Payables

Current			
Accrued expenses		1	19
		1	19

14. Amounts due to the Treasurer

Current			
Treasurer's Advance		–	1,800
		–	1,800

15. Equity

Equity represents the residual interest in the net assets of the Arbitrator. The Government holds the equity interest in the Arbitrator on behalf of the community. The asset revaluation reserve represents that portion of equity resulting from the revaluation of non-current assets.

Accumulated surplus/deficit

Balance at start of year		(858)	(137)
Change in net assets		1,027	(721)
Balance at end of year		169	(858)

16. Notes to the Cash Flow Statement

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

Net cost of services		(79)	(727)
Non-cash items			
Resources received free of charge		2	6
(Increase)/decrease in assets			
Current receivables		(3)	15
Increase/(decrease) in liabilities			
Payables		(18)	19
Net GST receipts/(payments)		(63)	81
Change in GST in receivables/payables		70	(72)
Net cash provided by/used in operating activities		(91)	(678)

(b) Reconciliation of cash

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

Cash and cash equivalents		158	945
		158	945

Notes to the Financial Statements cont.

for the year ended 30 June 2006

	Note	2006 \$'000	2005 \$'000
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17. Commitments

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

Within one year	-	45
	-	45

The property lease is a non-cancellable lease expiring on 14 October 2005, with rent payable monthly in advance. The lease was not renewed.

18. Contingent liabilities and contingent assets

The Arbitrator has no contingent liabilities as at 30 June 2006.

19. Events occurring after the balance sheet date

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

20. Explanatory statement

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

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

	2006 Actual \$'000	2006 Estimate \$'000	Variation \$'000
Expenses			
Total cost of operations of the Arbitrator	162	50	(112)

Total cost of operations

The main reason for the higher costs in comparison to the estimate was the need to support the Gas Review Board.

(b) Significant variances between actual and prior year actual results

	2006 Actual \$'000	2005 Actual \$'000	Variation \$'000
Expenses			
Total cost of operations of the Arbitrator	162	773	(611)

Total cost of operations

The main reason for the lower costs in comparison to the previous year was a change in activity of the Gas Review Board.

Notes to the Financial Statements cont.

for the year ended 30 June 2006

21. Financial instruments

(a) Financial Risk Management Objectives and Policies

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

Credit Risk

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

Liquidity risk

The Arbitrator has appropriate procedures to manage cash flows by monitoring forecast cash flows to ensure that sufficient funds are available to meet commitments.

Cashflow interest rate risk

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

(b) Financial Instrument disclosures

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

Interest Rate Risk Exposure

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

	Weighted Average Effective Interest Rate %	Fixed Interest Rate Maturity		
		Variable Interest Rate \$'000	Non- Interest Bearing \$'000	Total \$'000
2006				
Financial Assets				
Cash and cash equivalents	5.5	158	–	158
Receivables	n.a.	–	12	12
		158	12	170
Financial Liabilities				
Payables	n.a.	–	1	1
		–	1	1

Notes to the Financial Statements cont.

for the year ended 30 June 2006

	Weighted Average Effective Interest Rate %	Fixed Interest Rate Maturity		
		Variable Interest Rate \$'000	Non- Interest Bearing \$'000	Total \$'000
2005				
Financial Assets				
Cash and cash equivalents	4.75	945	–	945
Receivables	n.a.	–	16	16
		945	16	961
Financial Liabilities				
Payables	n.a.	–	19	19
Amount due to the Treasurer	n.a.	–	1,800	1,800
			1,819	1,819

Fair Values

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

22. Remuneration of members of the Accountable Authority

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

	2006	2005
\$		
20,001–30,000	1	1

\$'000 \$'000

The total remuneration of members of the Accountable Authority is: 27 27

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

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

23. Remuneration of Auditor

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

	2006	2005
	\$'000	\$'000
Auditing the accounts, financial statements and performance indicators:	5	5

24. Related bodies

The Arbitrator had no related bodies during the financial year.

25. Affiliated bodies

The Arbitrator had no affiliated bodies during the financial year.

Notes to the Financial Statements cont.

for the year ended 30 June 2006

26. Impact of Adopting Australian Equivalents to International Financial Reporting Standards

Australia adopted Australian Equivalents to International Financial Reporting Standards (AIFRS) for reporting periods beginning on or after 1 January 2005. The Arbitrator has adopted these standards for the first time for the year ended 30 June 2006.

AASB 1047 'Disclosure of the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards' requires disclosure of any known or reliably estimable information about the impacts on the financial statements had they been prepared using AIFRS.

a) **Reconciliation of Total Equity at the date of transition to AIFRS – 1 July 2004 (AASB 1.39(a)(i))**

There were no adjustments required for the Arbitrator as at 1 July 2004. The above reconciliation is not applicable in this instance.

b) **Reconciliation of Equity at the end of the last reporting period under previous AGAAP – 30 June 2005 (AASB 1.39(a)(ii))**

There were no adjustments required for the Arbitrator as at 30 June 2005. The above reconciliation is not applicable in this instance.

c) **Reconciliation of Income Statement (Profit or Loss) for the year ended 30 June 2005 (AASB 1.39(b))**

There were no adjustments required for the Arbitrator as at 30 June 2005. The above reconciliation is not applicable in this instance.

d) **Reconciliation of Cash Flow Statement for the year ended 30 June 2005 (AASB 1.40)**

There were no adjustments required for the Arbitrator as at 30 June 2005. The above reconciliation is not applicable in this instance.



Glossary of Terms

Below is a glossary of terminology used in this report:

Access Arrangement	An access arrangement sets out terms and conditions (including prices) for access by third parties to regulated infrastructure. The Economic Regulation Authority is responsible for the assessment and approval of access arrangements under the <i>Gas Pipelines Access (Western Australia) Act 1998</i> and the <i>Electricity Networks Access Code 2004</i> . The Gas Review Board may review a decision of the Economic Regulation Authority to approve or not approve an access arrangement submission.
Gas Disputes Arbitrator	The office of the Arbitrator was established to provide for the resolution of any disputes that may arise between providers of gas pipeline services and prospective users of gas pipelines. The role was created under the <i>Gas Pipeline Access (Western Australia) Act 1998</i> .
Gas Review Board	The Board functions as an appeals body under the <i>National Third Party Access Code for Natural Gas Pipeline Systems</i> and the <i>Electricity Industry Act 2004</i> .
Ring Fencing	Ring fencing means separating an infrastructure owner/operator’s function and business of providing access to the infrastructure from its other functions and business. The Gas Review Board may review a decision of the Economic Regulation Authority as to the ring fencing obligations of a network service provider.
“Top-Up-and-Spill” Market	The “Top-Up-and-Spill” (TUAS) market allows members to purchase “top up” energy from Western Power when their production is below the level of their customer demand, and to sell “spill” energy to Western Power when their production exceeds demand.
Wholesale Electricity Market	As part of the Western Australian Government’s electricity market reform program, a new Wholesale Electricity Market will be implemented in the South West Interconnected System from 21 September 2006.

THE OFFICE OF THE ARBITRATOR IS ESTABLISHED UNDER THE GAS PIPELINES ACCESS (WESTERN AUSTRALIA) ACT 1998 TO RESOLVE DISPUTES THAT MAY ARISE BETWEEN PROVIDERS OF GAS PIPELINE SERVICES AND PROSPECTIVE USERS OF GAS PIPELINES. Under the Electricity Industry Act 2004 the Arbitrator also has responsibility for resolving disputes between users and operators of regulated electricity networks.

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

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