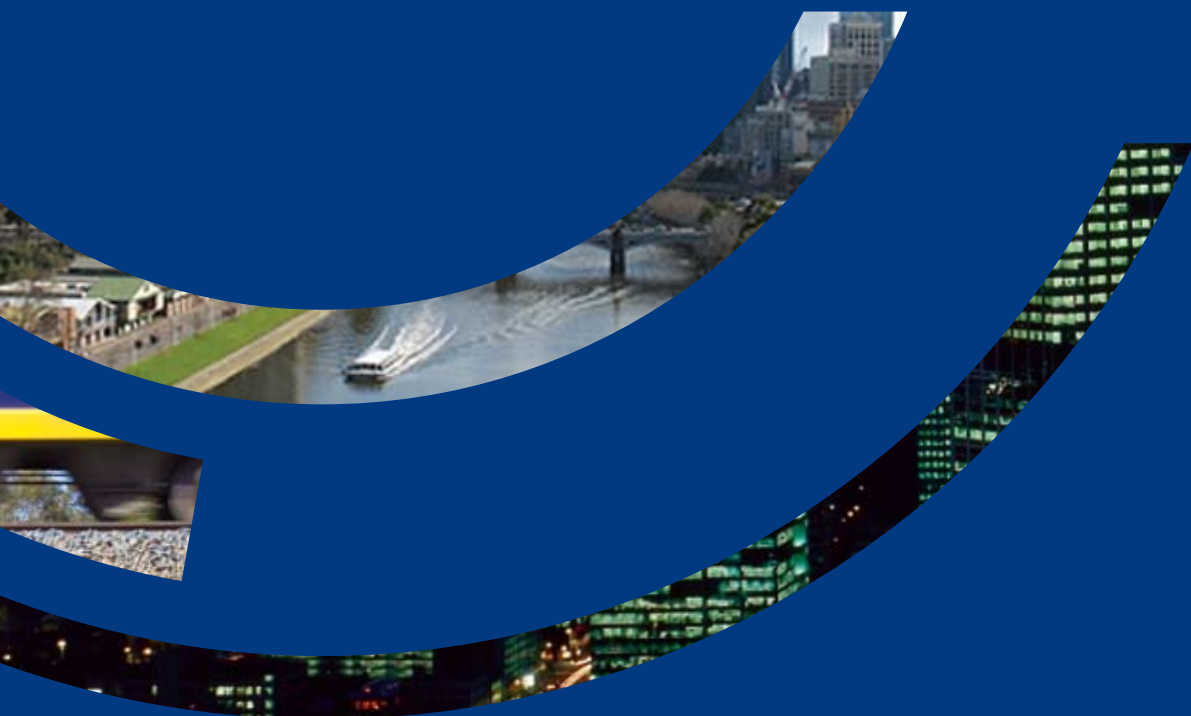


ESSENTIAL SERVICES COMMISSION

ANNUAL REPORT
2007/08





ESSENTIAL SERVICES COMMISSION

ANNUAL REPORT
2007/08



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COMMISSIONER

Mr Tony Darvall

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– Paul Fearon

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(Gas Access and Industry Reviews)

– Andrew Chow

Director, Regulation (Energy)

– Ian Primrose

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8 October 2008

The Hon Tim Holding MP
Minister for Finance, WorkCover and
the Transport Accident Commission
121 Exhibition Street
Melbourne Vic 3000

Dear Minister

ESSENTIAL SERVICES COMMISSION 2007-08 ANNUAL REPORT

The Essential Services Commission is pleased to present to you its 2007-08 Annual Report, prepared in accordance with Part 7 of the *Financial Management Act 1994*, and as required by section 31 of the *Essential Services Commission Act 2001*. The 2007-08 Annual Report also satisfies the requirements of regulation 9 of the Essential Services Commission Regulations.

During 2007-08, the Commission again completed an extensive regulatory program across a range of industry sectors.

In March 2008, the Commission delivered a final decision of its review of gas access arrangements to apply from 2008 for the reticulated gas network. This was the last such review of energy distribution prices to be conducted by the Commission before the transfer of economic regulation of energy distribution to the Australian Energy Regulator.

The Commission also completed a review of urban and rural water prices for Victoria, setting prices for the 2008-13 period for the regional and rural water sectors and for 2008-09 for Melbourne metropolitan water customers.

As requested by the Minister for Public Transport, the Commission undertook a review of Victoria's taxi fares, delivering an interim report in April 2008 and a draft report in June 2008. It also conducted a review into port planning and its impact on competition.

During the year, the Commission also prepared to assume responsibility for the Victorian Energy Efficiency Target scheme, in accordance with the *Victorian Energy Efficiency Target Act 2007*.

In addition, the Commission completed a host of regulatory reviews and delivered a series of performance reports for the energy distribution and retail sectors and the urban water sector.

We would like to record our appreciation to the Commission's staff for their dedication and contribution in improving the delivery of essential services to Victorians throughout 2007-08.

Yours sincerely



DENNIS CAVAGNA
Acting Chairperson



TONY DARVALL
Commissioner

HIGHLIGHTS OF 2007-08

Completed a review of gas access arrangements, submitted by the three gas distributors to apply to the Victorian reticulated gas system from 1 January 2008

Completed the review of urban water prices, for regional and rural water businesses for the period 2008–13 and for metropolitan Melbourne for 2008-09

Delivered a report on proposals to reform metropolitan water tariff structures

Handed down interim and draft reports of the review of Victorian taxi fares

Commenced a review of regulatory instruments to ensure ongoing protection for energy customers ahead of the transfer of energy distribution regulatory responsibilities to the national regulator

Completed a review of port planning and its impact on competition

Developed an internet-based registry system for the Victorian Renewable Energy Target and Victorian Energy Efficiency Target schemes

Overhauled the Retailer of Last Resort scheme, to protect energy customers in the event of retailer failure

Delivered reports on the annual comparative performance of the Victorian energy distribution and retail sectors and the Victorian urban water sector

Developed further initiatives for low-income and vulnerable consumers to access full retail energy competition and better understand their rights and obligations



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**ABOUT THE
ESSENTIAL SERVICES COMMISSION**

The Essential Services Commission was established on 1 January 2002 under the *Essential Services Commission Act 2001*.

The Act established the Commission as an economic regulator (for pricing, standards and monitoring of anti-competitive conduct), subsuming the former Office of the Regulator-General (the economic regulator of regulated utility industries in Victoria from 1994).

At 30 June 2008, the industries regulated by the Commission were electricity, gas, water, ports, rail and grain export facilities.

Why the Commission was established

The Commission was established to provide continued and expanded support to the Victorian Government's microeconomic reform program. This program was designed to improve the efficiency and competitiveness of the State's economy through the reform of the electricity, gas, water and other current and former government business enterprises. The Government perceived the establishment of an independent regulatory body as necessary to ensure that the benefits of industry restructuring were passed on to household, commercial and industrial customers.

Objectives of the Commission

For the 2007-08 year, the primary objective of the Commission was 'to protect the long-term interests of Victorian consumers with regard to the price, quality and reliability of essential services.'



This objective was central to the framework of economic regulation that facilitates efficiency and financial viability in regulated industries, encourages competition, prevents misuse of monopoly power and ensures that customers benefit from the gains from competition and efficiency (section 8, *Essential Services Commission Act 2001*).

The facilitating objectives of the Commission, as expressed in the Act for the 2007-08 year were:

- to facilitate efficiency in regulated industries and the incentive for efficient long-term investment
- to facilitate the financial viability of regulated industries

- to ensure that the misuse of monopoly or non-transitory market power is prevented
- to facilitate effective competition and promote competitive market conduct
- to ensure regulatory decision-making has regard to the relevant health, safety, environmental and social legislation applying to the regulated industry
- to ensure that users and consumers (including low-income or vulnerable customers) benefit from the gains from competition and efficiency
- to promote consistency in regulation between States and on a national basis.

Functions of the Commission

The functions of the Commission, as expressed in the Act for the 2007-08 year were:

- to perform such functions as are conferred on the Commission by the Act and the relevant legislation under which a regulated industry operates
- to advise the Minister for Finance on matters relating to economic regulation, including reliability issues
- when requested by the Minister to do so, to conduct an inquiry into any systemic reliability of supply issues related to a regulated industry or other essential service specified by the Minister in the request
- to conduct inquiries and report on matters relating to regulated industries
- to make recommendations to the Minister as to whether an industry that provides an essential service should become a regulated industry or whether a regulated industry should continue to be a regulated industry
- to conduct public education programs for the purpose of promoting its objectives under the Act and the relevant legislation and in relation to significant changes in the regulation of a regulated industry
- to advise the Minister on any other matter referred to the Commission by the Minister
- to administer the Act
- to perform the functions conferred on the Commission by or under Part VI of the *Transport Act 1983*.

In addition to these objectives and functions, the Commission has objectives and functions conferred by industry-specific legislation. The industry-specific legislation includes: the *Electricity Industry Act 2000*, the *Gas Industry Act 2001*, the *Water Industry Act 1994*, the *Rail Corporations Act 1996*, the *Port Services Act 1995*, the *Grain Handling and Storage Act 1995*, the *Victorian Renewable Energy Act 2006*, and the *Victorian Energy Efficiency Target Act 2007*.

The Commission's particular industry objectives and functions are outlined below.

The Regulated Electricity Industry

- To promote a consistent regulatory approach between the electricity industry and the gas industry.
- To promote the development of full retail competition.

The Regulated Gas Industry

- To promote a consistent regulatory approach between the gas industry and the electricity industry.
- To promote the development of full retail competition.

The Regulated Water Industry

- Wherever possible, to ensure that the costs of regulation do not exceed the benefits.
- To ensure that regulatory decision-making and regulatory processes have regard to any differences between the operating environments of regulated entities.
- To ensure that regulatory decision-making has regard to the health, safety, environmental sustainability (including water conservation) and social obligations of regulated entities.

The Regulated Rail Industry

- To ensure that users have fair and reasonable access to declared rail transport services.
- To resolve intrastate rail track access disputes.
- To ensure that passenger services have priority over other regulated rail services.
- To promote competition in rail transport services to achieve an increase in the use of and investment in rail and track infrastructure.

The Regulated Grain Handling and Storage Industry

- To promote competitive storage and handling of export grain.
- To protect the interests of users by ensuring that charges are fair and reasonable.
- To ensure that users have fair and reasonable access to export facilities, while having regard to competition and efficiency.

The Regulated Ports Services

- To promote competition in regulated port services.
- To protect the interests of users, by ensuring that port charges and access to declared shipping channels are fair and reasonable, having regard to competition and efficiency.

Insurance References

- The objective of the Commission under section 8 of the *Essential Services Commission Act 2001* does not apply to the functions of the Commission in relation to the insurance industry, which are activated by relevant referrals from the responsible Minister.
- The Minister for WorkCover may request that the Commission provide advice in relation to a premium or charges order proposed by the Transport Accident Commission (TAC) or the Victorian WorkCover Authority (VWA).
- The Commission is required to advise the Minister for Finance (and any other Minister that the Minister specifies in writing) on any matter relating to the insurance industry that the Minister refers to the Commission for advice.

Transport References

- Under section 186 of the *Transport Act 1983*, the Minister for Transport may refer matters for investigation to the Commission relating to licence fees for hire car licences or special purpose vehicle licences; taxi-cab fares or hiring rates; or tow truck charges.
- Except to the extent that the Minister for Transport determines, the objectives of the Commission under section 8 of the *Essential Services Commission Act 2001*, do not apply to the functions of the Commission under section 186 of the *Transport Act 1983*.

Renewable Energy

Functions as defined by Section 76 of the *Victorian Renewable Energy Act 2006*:

- To register persons who may create renewable energy certificates.
- To accredit relevant power stations.
- To approve nominated persons.
- To monitor and administer the creation, registration, transfer and surrender of certificates.
- To enforce renewable energy shortfall penalties.
- To monitor compliance with the Act.

Energy Efficiency

Functions as defined by section 7 of the *Victorian Energy Efficiency Target Act 2007*:

- To accredit persons who may create certificates.
- To monitor and administer the creation, registration, transfer and surrender of certificates.
- To enforce the imposition of energy efficiency shortfall penalties.
- To undertake audits of the creation of certificates by accredited persons.
- To monitor compliance with the Act.

Performing the Commission's Functions

The Commission performs its functions via both formal and informal consultation processes and a formal decision making process. Formal processes are adopted for each major regulatory decision and are usually applied in the same way for each regulated industry. The consultation processes can include Commission presentations and the opportunity for stakeholders to make submissions. The Commission usually publishes and circulates a draft decision. The responses to the draft decision are considered before a final decision is made.

The Commission adopts a formal decision-making process. It meets in a formal session, usually each week, to consider and direct its regulatory business. Commission decisions are informed by staff papers and formal oral briefings. When a Commission decision is made, a minute is created and approved. Where appropriate, the Commission decision is confirmed by an appropriately sealed document.

The ESC's Organisational Structure

The ESC is structured as a Commission comprising a Chairperson and two part-time Commissioners, supported by more than 60 staff led by a Chief Executive Officer.

The Chairperson:

Appointment and Qualification

G R (Greg) Wilson, B.Comm

On 18 July 2008, Mr Greg Wilson officially stepped down as Chairperson of the Commission, to take up a position of Deputy Secretary in the Victorian Department of Premier and Cabinet. Mr Wilson was appointed as Chairperson of the Commission in November 2005, after holding the position of Deputy Secretary (Water Sector) at the Victorian Department of Sustainability and Environment. He had previously served at the Commission and its predecessor body, the Office of the Regulator-General, as General Manager of Regulatory Policy, overseeing price and access electricity and gas distribution sectors. Mr Wilson was also an economist in the Victorian Department of Treasury and Finance and held several senior roles in the Victorian water sector. He also holds a Post-Graduate Diploma (Economics) from the University of Melbourne.

Commissioners

The Governor-in-Council may appoint persons as Commissioners who are qualified for appointment on the basis of their knowledge of, or experience in, industry, commerce, economics, law and/or public administration. In November 2007, Mr Dennis Cavagna was appointed Commissioner for a five-year term while Mr Tony Darvall was appointed to the Commission in October 2006, also for a five-year term. Mr Cavagna succeeded Mr Bob Scott, who completed his five-year term with the Commission in August 2007.

D J (Dennis) Cavagna, B.Ec, FCA F Fin

Prior to his appointment to the Essential Services Commission in 2007, Mr Cavagna had more than 24 years' experience in the water sector. This included the position of Managing Director of the Melbourne metropolitan water retailer, South East Water, as well as executive positions with Melbourne Water and the former Mornington Peninsula and District Water Board and Victorian Department of Water Resources. A chartered accountant by profession, Mr Cavagna is also a former chairman of the Victorian Water Industry Association.

A W (Tony) Darvall AM, LL.B (Hons)

Mr Darvall was appointed a Commissioner in October 2006. An experienced commercial litigation lawyer, Mr Darvall previously served as a partner of Corrs Chambers Westgarth from 1967 to 2003.

He has held several board positions on major State Government authorities, including the Melbourne City Link Authority and the Werribee Park Advisory Board. In addition, he is a former Chairman of the ESC Appeals Panel. Mr Darvall is the Chairman of VicUrban and the Deputy Chairman of the Southern and Eastern Integrated Transport Authority. In June 2007, Mr Darvall was named as a Member (AM) in the General Division of the Order of Australia, for services to the legal profession and sustainable urban and transport infrastructure development.

Chief Executive Officer

P F (Paul) Fearon, BA, BBUS, MBA, FCPA, FAICD

Mr Fearon was appointed Chief Executive Officer of the Commission in 2003. His appointment followed 23 years with the electricity industry including holding senior executive roles in regulation and strategy, business development and commercial operations. He was involved in the reform of the Victorian energy sector, both as an adviser to Government and reform project manager; in 2003 he was awarded a Centenary Medal by the

Australian Government for services to the industry through major structural reform.

Mr Fearon holds degrees in public and business administration from the University of Melbourne.

Senior Administrative Structure

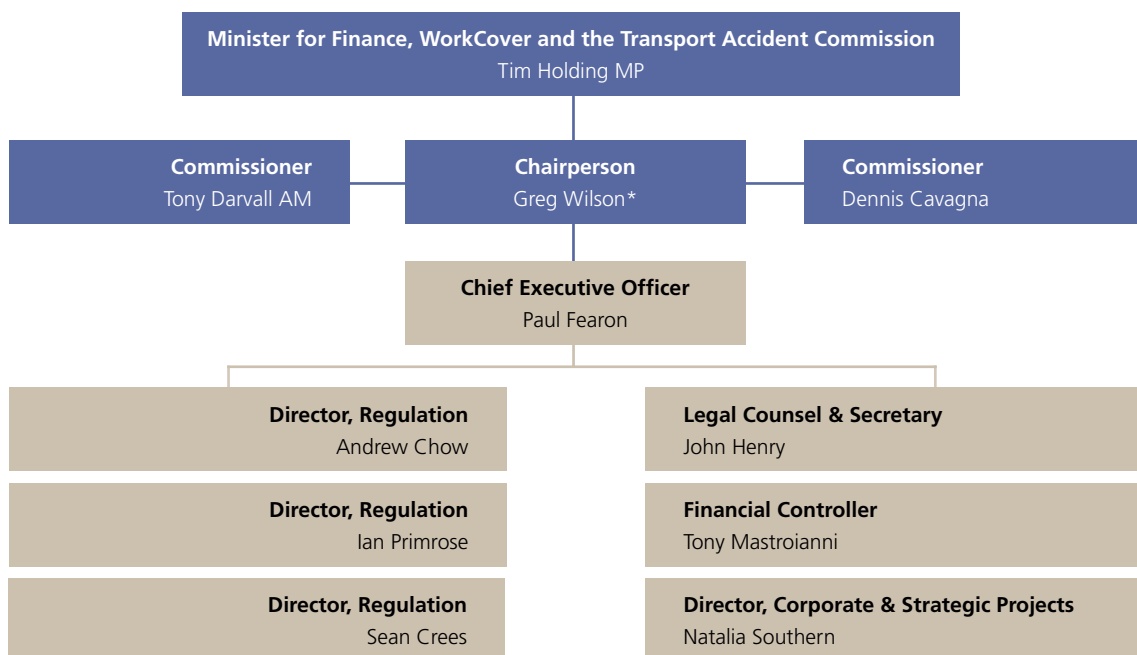
The Commission’s organisational structure (as at 30 June 2008) and senior management team are set out below.

The Commission’s regulatory and analytical staff are qualified in economics, accounting, engineering and other analytical disciplines. In addition to its staff, specialist contractors and consultants experienced in providing analysis and advice on technical, economic and legal regulatory matters also support the Commission on an as-needs basis.



Annual Report of the Essential Services Commission

The Essential Services Commission is required to provide an annual report of its operations under Part 7 of the *Financial Management Act 1994*. The Commission is also required under section 31 of the *Essential Services Commission Act 2001* to include in the annual report information relating to its operation and performance as prescribed in the Essential Services Commission Regulations 2001.



* As at 30 June 2008. Chairperson resigned from position on 18 July 2008.





THE YEAR IN REVIEW
CHAIRPERSON



I am proud to report on another year of significant achievement for the Essential Services Commission in 2007-08.

The Commission completed a full program of price and regulatory reviews, as well as administering and conducting a range of compliance and enforcement activities for the regulated businesses that provide essential services.

A major activity for the Commission in 2008 was the completion of the review into regional and rural Victorian water prices for the period 2008 to 2013. This review was conducted amid the major challenge for water customers and water businesses of continuing severe drought conditions and diminishing urban and rural water supplies.

The Commission's final decision of its review was handed down in June 2008, approving average annual real price increases for the five-year period of between 4.3 percent and 14.9 percent for urban water users in non-metropolitan areas, and between 0.9 percent and 10.7 percent for rural water users over the same period. Included in the scope of the review was a requirement for the Commission to assess and approve waterways and drainage charges applied by Melbourne Water over an extended metropolitan area.

In addition, the Commission approved a real price increase of 14.8 percent for water customers serviced by Melbourne's three water retailers for the 2008-09 year only. A more comprehensive review of metropolitan water prices for the 2009-13 period will be undertaken in 2008-09.

The Commission also assessed potential options for a range of reforms to water tariff structures. In the context of a general review on tariff structures, the Commission assessed proposals by the three Melbourne metropolitan water retailers. As part of its advice to the Minister for Water, the Commission's assessment of the proposals found that the water businesses needed to further address the impact on certain customer groups and better articulate the cost justifications.

A review of gas access arrangements for the three Victorian gas distributors was concluded in May with the Commission's release of the further final decisions. These decisions provided for initial real increases in gas network charges of between 5.1 and 6.7 percent for Envestra and SP AusNet, to take effect on 1 July 2008. For the third distributor, Multinet, the Commission delivered an initial real price reduction of 0.8 percent. The price adjustments in the further final decisions represented a scaling back on price reductions proposed in the draft decision, largely reflecting an increase in the cost of capital expenditure. The gas distributors appealed certain elements of the further final decisions.

Separately in August 2007, the Supreme Court of Victoria handed down a decision that required Alinta Asset Management (a major service provider of the Multinet gas network) to be licensed under the *Gas Industry Act 2001* and

the National Gas Code. Alinta Asset Management appealed that decision to the Court of Appeal.

The review of gas access arrangements was the last such price review of energy distribution networks to be undertaken by the Commission. Future energy distribution price reviews will be conducted by the Australian Energy Regulator, which is progressively assuming energy regulatory powers transferred by the state-based regulators.

Ahead of the transfer of regulatory powers to the national regulator, the Commission has carried out, and continues to carry out, a number of important regulatory-based reviews affecting the energy distribution networks. These include reviews of advanced metering infrastructure, an upgrade of the security of supply to the Melbourne Central Business District, energy-efficient public lighting and electricity distribution call centre performance indicators. The Commission also participated in a review conducted by the Emergency Services Commissioner into the response by emergency services, state and local government and electricity distributors and retailers to the electricity outages resulting from major storms on 2 April 2008. This review also sought to identify lessons learned to further improve emergency planning and response and whole of government and system capability to manage such events.

In the energy retail area, the Commission finalised charges for the retailer of last resort regime and provided guidance on the methodology on determining feed-in tariffs for small generators providing electricity into the central grid. In December 2007, the Commission also intervened to ensure a refund to customers of a gas market congestion charge imposed by energy retailer Simply Energy, on the grounds that the imposition of the charge was not compliant with the Energy Retail Code.

Renewable energy sources are assuming greater importance in the Victorian economy and in 2007-08 the Commission continued to build the framework to support its administration of the Victorian Renewable Energy Target (VRET) scheme. In September 2007, the Commission issued its first VRET accreditations to a wind power station and a sewage gas power station in northern Victoria.

In addition, the Commission has moved quickly to establish its administration of the Victorian Energy Efficiency Target (VEET) scheme, ahead of its official starting date of 1 January 2009. This scheme will involve energy retailers buying energy efficiency certificates, to lift the level of energy-efficient technology, initially in the residential sector.

During 2007-08, the Commission undertook a major review of Victorian taxi fares, as requested by the Minister for Public Transport. Taxis are an integral part of the Victorian transport network; in many country towns they are the only available form of public transport. The Commission held three public meetings in Melbourne, Bendigo and Morwell, which were well-attended by taxi operators, drivers and customers.

In June 2008, the Commission released a draft report, which proposed a package of major service reforms for the taxi sector. Among other recommendations, the Commission proposed that future taxi fare increases be linked to a composite index of taxi costs comprising wages, LPG prices, insurance and other motoring costs. The draft report also proposed changes to fare structures, including the level of flagfall and booking charges, as well as the application of late-night surcharges. A final report was subsequently handed to the Victorian Government in August 2008.

The Commission also undertook a major review in the ports sector, at the request of the Victorian Minister for Roads and Ports. This review required the Commission to examine the impact of port planning on competition in the provision of container stevedoring and related services in Victorian ports. A final report was handed to the Minister in December 2007. It found that there were no major constraints to stevedoring competition as a result of the current port planning framework.

The Commission received separate undertakings from managers of three export grain terminals in Victoria, but after a consultation process, decided not to approve them. The default-arbitrate framework remains in place.

In conducting its regulatory program through 2007-08, the Commission relied heavily on consultation with the public and with industry and customer stakeholders in general. Members of the Commission's Customer Consultative Committee, in particular, provided valuable input across a broad range of industry sectors.

Over the course of its many reviews, the Commission held 22 public meetings in 16 towns and cities across Victoria. These meetings afforded the Commission a valuable opportunity to hear first-hand the concerns of consumers, often from a local or regional viewpoint.

During 2007-08, the Victorian Government completed the review of the *Essential Services Commission Act 2001*, following an independent review conducted by Mr Roger Beale AO the previous financial year.

Amending legislation passed through the Victorian Parliament in March 2008. This legislation substantially broadens the scope for Commission activity, potentially extending its ability to advise Government in new industry areas or services.

Other amendments include a strengthening of the Commission's code-making powers and an extension of the provisions governing appeals against decisions of the Commission. New provisions in the legislation will also ensure that regulation of Victorian access regimes is consistent with the nationally agreed approach.

Complementing the legislation is a review of the administrative burden across areas of the Commission's

regulatory activities, involving consultation with regulated businesses.

This is my final report as the Chairperson of the Essential Services Commission. On 21 July 2008 I took up a position of Deputy Secretary in the Victorian Department of Premier and Cabinet.

Since my appointment in 2005, it has been my privilege to serve as the Commission's Chairperson through a major program of price and regulatory reviews and ongoing compliance activities affecting all Victorian consumers.

It has been a pleasure to meet with many customer and industry groups throughout Victoria, ranging from consumer advocacy and welfare organisations to industry associations in agriculture, manufacturing and services. I have also received valuable support from local government and other branches and agencies within the State Government.

I wish to thank my fellow commissioners of the past year, in particular the retiring commissioner Bob Scott for the benefit of his knowledge and long experience in the energy sector, as well as Tony Darvall and Dennis Cavagna, the latter who joined the Commission in November 2007. All commissioners have demonstrated their combined industry experience through their practical insights into decision-making.

In addition, I also pay tribute to the staff of the Essential Services Commission for their dedication and professionalism. They have met and overcome several challenges in conducting the significant work program of the Commission, for the benefit of all Victorian consumers.

Earlier in this report I referred to the proposed transfer of energy regulatory powers to the national body, the Australian Energy Regulator. Regulation of the energy distribution and retail networks was one of the first tasks for our predecessor organisation, the then Office of Regulator-General when it was established in 1994. In that time, the Office and the Essential Services Commission have led the way in energy regulation in Australia. Our approach to, and outcomes of, licensing, price regulation and performance monitoring have established benchmarks that are recognised both nationally and internationally.

The challenge for the Commission is to continue to provide quality regulation and advice on various economic matters as it expands into new areas of industry or service.

Irrespective of its future direction, I am confident that the Essential Services Commission is in good hands as it strives to protect the long-term interests of Victorian consumers with regards to the price, quality and reliability of essential services.

GREG WILSON
Chairperson
2007-08





REVIEW OF ORGANISATION AND OPERATIONS
CEO



In 2007-08, the Essential Services Commission undertook a diverse work program, completing two major price reviews and a host of regulatory reviews, inquiries and investigations. Reviews into Victorian gas access arrangements for the period 2008–12 and regional urban and rural water pricing for the period 2008–13 dominated the Commission's agenda, complemented by major projects in electricity, transport, ports, renewable energy and energy efficiency.

During 2007-08, the Commission's core expenditure of \$15.4 million fully absorbed the appropriated funding and achieved its forecast economic outputs.

The Commission has moved into a period of transition, with the progressive transfer of energy distribution regulatory responsibilities to the Australian Energy Regulator and an extension of the Commission's role following a review of the *Essential Services Commission Act 2001*.

While the Commission retains significant regulatory roles in the retail energy sector and in administering the two energy target schemes, new opportunities will continue to emerge in other industry sectors, reflecting the amendments to the Act.

For example, the Commission will be required to undertake more work of an advisory nature, at the request of Government. This will require a greater focus on skill development and training to equip staff in providing quality advice across a broader range of industry sectors. It will also help to ensure that the Commission has the necessary flexibility across its workforce to meet changing work needs.

The development of the Commission's administrative and operational capabilities in renewable energy and energy efficiency demonstrates the flexibility of the organisation in undertaking new responsibilities.

During the year, the Commission commenced work on the design and development of an internet-based registry system to support the Victorian Renewable Energy and Energy Efficiency Target schemes. This registry will assist the Commission to meet its obligations under the *Victorian Renewable Energy Act 2006* and the *Victorian Efficiency Target Act 2007* to perform the functions of administrator of the two schemes. The registry will provide a platform for the creation, transfer

and surrender of certificates and associated monitoring and administrative functions.

Effective information, communications and technology systems underpin the Commission's regulatory, advisory and compliance activities. In 2007-08, the Commission 'virtualised' its ICT infrastructure to enhance the reliability and efficiency of its ICT systems and to improve network and data security. It also adopted a suite of new ICT policies, arising out of recommendations of a major internal audit including in relation to system access and security, equipment usage and the use of the internet and e-mail. Arrangements were also put in place to increase the capability for staff to access networks while working remotely.

In addition, the Commission adopted new policies on handling external complaints, dealing with confidential business information and on privacy; all three policies arose out of the recommendations of an internal audit.

Attracting and retaining skilled staff remained a key priority of the Commission as it branched out into new areas of industry regulation and review. In 2007-08, the Commission remained an employer of choice for many graduates entering the Victorian public service, as well as for tertiary students seeking vacation employment. In addition to external recruitment, 10 per cent of staff sought and were successful in obtaining a transfer or promotion to roles within other divisions of the Commission. This provided excellent development opportunities for those staff and also enabled the Commission to reap the benefits of applying their skills and knowledge to new areas of the Commission's work.

In addition to the retention opportunities arising from new areas of work, the Commission has actively provided career planning, training opportunities and support services for staff, particularly those working in regulatory areas due for transfer to the Australian Energy Regulator.

The Commission also continued to focus on work-life balance. In 2007-08, a new working from home policy was developed to provide a flexible working environment to cater for the needs of parents and other people with special needs. It has also facilitated part-time options and remote working arrangements, while also making health and fitness assessments and other occupational health and safety initiatives available to all staff.

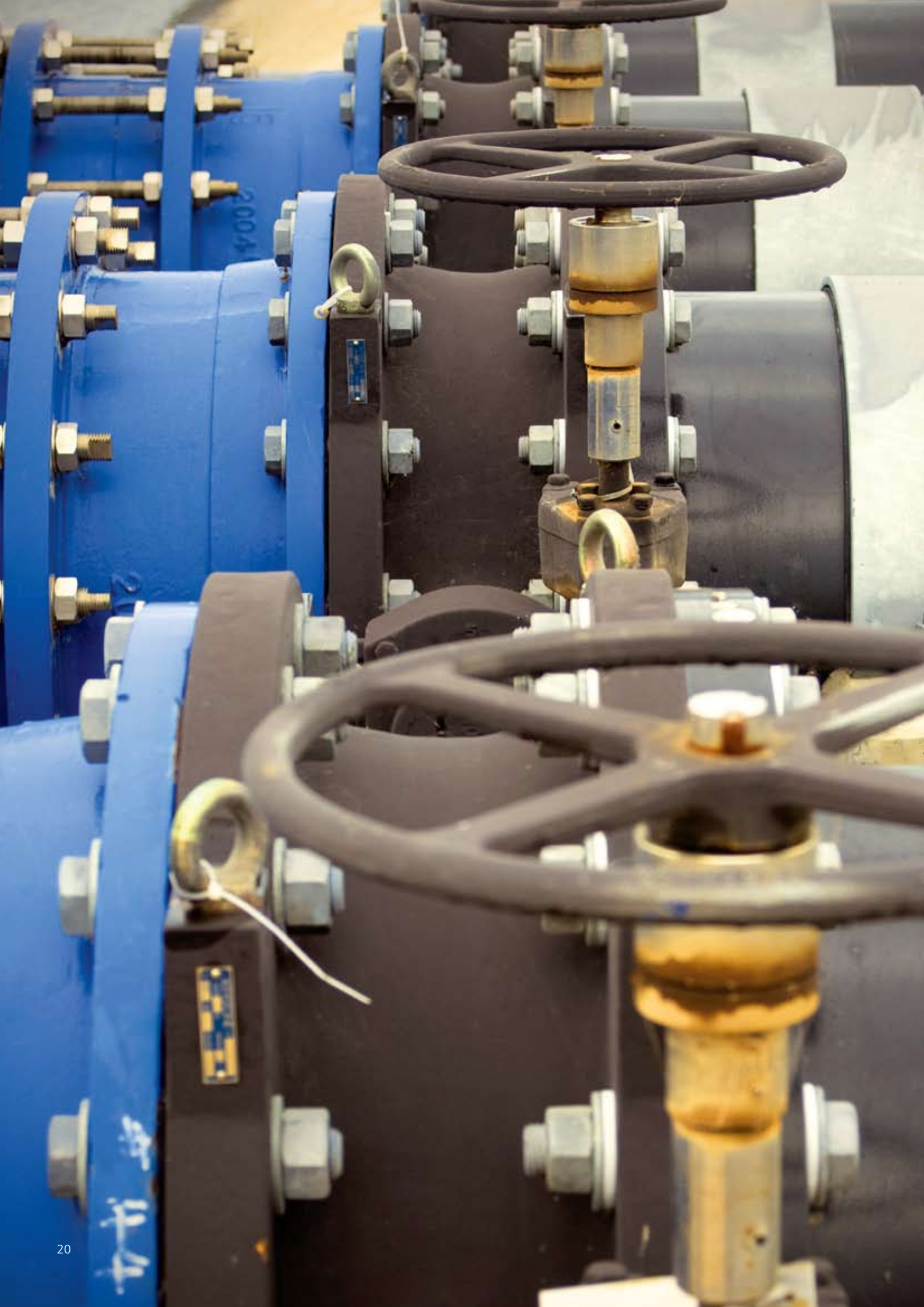
The annual Staff Climate Survey completed in August 2007 achieved a response rate of 92.7 per cent and revealed an increase in the positive attitudes of staff. The level of employee engagement measured its highest level for five years. A highlight of the survey was the strong commendation of the Commission's emphasis on enhanced skills, professional development and learning.

I thank all the staff of the Commission for their contribution in 2007-08, against the backdrop of new challenges across a range of industry sectors and in the regulatory arena in general. They have all contributed to the delivery of essential services to Victorian consumers in 2007-08.

PAUL FEARON
Chief Executive Officer

Below: Powercor workers completing supply restoration works in the Otway Ranges.







**COMMISSION OUTCOMES
2007/2008**



ENERGY

The Essential Services Commission is responsible for the regulation and licensing of gas and electricity companies in the distribution and retail sectors, as well as the licensing of companies in energy generation and the conduct of reviews of Victorian electricity and gas distribution prices. In 2007-08, it had the added responsibility of addressing the practical questions arising from the transfer of regulation of distribution network and retail services to the Australian Energy Regulator (AER). During the year, planning and interactions commenced to transfer not only regulatory functions but to cooperate in the transfer of regulatory practice and human resources.

The financial year has been marked by efforts to strike an appropriate balance between maintaining regulatory effort and working toward the successful transfer of regulatory authority and resources to the AER and the national regulatory scheme. To give effect to that balancing of Victorian and national interests, the Commission has participated throughout the year in the identification of functions that should be transferred to the AER; the ways in which those transfers should occur and building cooperative and consultative mechanisms to facilitate the transfer of ideas and experience to the AER.

Consistent with that effort, the Energy Division has both undertaken a review of regulatory instruments to identify changes to the Victorian regulatory framework that will assist the Commission to manage its regulatory responsibilities during the transitional period, contribute to the effective development of the national regulatory arrangements and to reduce or eliminate regulatory duplication. At the same time the Division has been contributing to the development of the legislative and regulatory framework changes that are required to transfer the functions formerly exercised by jurisdictional regulators.

In 2007-08, the Commission continued to deliver a range of outcomes consistent with its overall objective of striking a balance between promoting market competition and protecting customers, but without a major price determination process as occurred in 2006. However, related to the 2006 Price Review decision, the Distribution Code was changed to require CitiPower to upgrade network security to the Melbourne CBD from N-1 to N-1 Secure. Importantly, the Commission improved retailers' hardship provisions and developed and implemented indicators to monitor their performance. The Commission also maintained its focus on regulatory compliance and complaint resolution.

The Commission also progressed the implementation of a range of other initiatives, such as the review of electricity distribution call centres and establishing and implementing improved service key performance indicators (KPIs) for distribution networks. Work continued on measuring and reporting comparative performance of electricity and gas distribution and retail service providers.

During the year, the Retailer of Last Resort (RoLR) Scheme was overhauled, with the production of a RoLR procedures manual, the determination of RoLR service prices and the finalisation of the Retailer of Last Resort framework.

The Commission continued its program of customer education and information, with the release of a revised 'Choice – How to choose your electricity and gas retailer' brochure and support for the implementation of the Government's decision to remove the price controls for small business customers from 1 January 2008.

Other key energy projects completed in 2007-08, included:

- continuing the Total Factor Pricing trend measurement process
- resolving customer complaints about retail services and wrongful disconnection complaints
- releasing comparative performance reports of the energy distribution and retail sectors
- initiating a review of the performance of electricity networks in restoring services following the windstorm event on 2 April 2008, as part of the review referred to the Office of the Emergency Services Commissioner
- conducting audits of electricity and gas distribution businesses and review of network businesses regulatory accounts.

Cost

The estimated cost of the Energy Division, including the cost of the Energy Targets group within the Division, in 2007-08 was \$6.29 million.

Major Projects Completed and Benefits Generated in 2007-08

Energy

General Regulation		
Project	Output/Results	Benefits/Impact
Compliance strategy	Implemented compliance policy to guide regulated businesses on compliance reporting requirements	Increased transparency of ESC's approach to compliance monitoring and enforcement and consistency in national regulation. Increased licensed businesses' awareness of regulatory obligations.
Review of regulatory instruments	Commenced review of energy regulation to ensure appropriate customer protection for the competitive market, facilitate the Victorian Government's advanced interval metering roll-out and minimise duplication and red tape for businesses	Provided adequate and appropriate customer protection in a competitive market and simpler regulatory framework for businesses and customers.
Evaluating approaches to regulation for the future	Update of the Victorian Total Factor Productivity (TFP) trend. Estimation of a national TFP trend. Calculation of the Total Factor Productivity (TFP) of Victoria's electricity distribution businesses for 2006	Demonstrated that a national TFP trend could be estimated using a minimum set of data requirements and identified where information collection needed to improve for the estimation of a robust national TFP trend.
CBD security of supply	Review of the Distribution Code to consider the value of upgrading the central business district security to 'N-1 Secure'. Review any costs to be passed through to customers, consistent with the 2006-10 price determination	Increased security of the Melbourne CBD 66kV network improving service security for customers and businesses and progressed proposals initially considered in the ESC's distribution network pricing review in 2005.
Small scale licensing and exemption order review	Progress of small scale licensing framework in consultation with AER	Implemented a framework for improving the regulation of embedded electricity network to ensure customers within these arrangements receive adequate protection.
Financial hardship policies	Development and implementation of a set of performance indicators to monitor the impacts of the retailers' financial hardship policies and programs	Enabled transparency for all stakeholders and a framework for reporting to the Victorian Government on the impacts of the statutory requirements for hardship policies and programs.
Wrongful disconnection	Six wrongful disconnection complaints determined by the Commission after referral from EWOV	Ensured retailers met their legislative obligations and that consumers were compensated in accordance with the legislation.
Retailer of last resort (RoLR) scheme	Development of working protocols with NEMMCO and VENCORP and procedures for the retailer of last resort scheme, including distribution of communication materials to customers	Facilitated a coordinated approach to the legislative, regulatory and business responses to a RoLR event.
National regulation	Submissions and advice to the Victorian Government on the framework for the economic regulation of the non-economic distribution and retail regulation	Provided comment derived from ESC's regulatory experience to assist in the development of a national framework for the economic and non-economic regulation of the energy industries.

Major Projects Completed and Benefits Generated in 2007-08

Energy

Facilitating Competition

Project	Output/Results	Benefits/Impact
Customer education and information	Developed and published 'Choice' brochures for small business customers. Developed and published a 'Fact Sheet' on the competitive energy market for distribution through community agencies. Improved consumer page and information on website	Improved information to low income and vulnerable customers to increase awareness of energy retail competition and choice. Assisted the Victorian Government to advise small business customers of changes to the energy market.

Company Approvals and Reviews

Review of electricity distributors' call centres	Published a report on the performance of electricity distribution businesses' call centres during wide-scale emergency situations in accordance with the terms of reference set by the Minister for Energy and Resources. Commenced review of the call centre performance monitoring framework	Identified that the electricity distributors' call centre performance during normal operating conditions was generally satisfactory, but improvements could be made to the management of wide-scale emergency situations.
Approve annual network tariffs	Approval of electricity distribution network tariffs for 2008	Approved a set of distribution tariffs that complied with the price controls.
Annual Review of the Regulatory Accounts	Review of electricity distributors' regulatory accounts	Ensured regulatory accounts compliant with Guideline No. 3: Regulatory Information Requirements.
Energy audit program	Audited one energy retail business. Audit scopes for desktop financial hardship policy audit finalised	Ensured that non-compliance or low levels of compliance by the businesses were identified and rectified.
Energy Performance Reporting	2006-07 Financial Year Energy Retail Businesses Comparative Performance Report. 2006-07 Consumer Snapshot Report. 2006 Electricity Distribution Businesses Comparative Performance Report. 2006 Gas Distribution Businesses Comparative Performance Report	Provided transparency in identifying the performance of the energy distributors and retailers in delivering their services. The reports provided an incentive for the businesses to improve their performance relative to the others and identified trends to enable policy and regulatory responses.



GAS ACCESS

During 2007-08, the Essential Services Commission completed the Gas Access Arrangement Review. Following receipt in March 2007 of the submissions of revised access arrangements from the distributors for the period 2008-12, the Commission issued its Draft Decision in August 2007 and its Final Decision in March 2008. The Commission rejected the revised Access Arrangements as submitted by the gas distributors and issued its own Access Arrangements together with Further Final Decisions in May 2008. The Commission also revised its Gas Regulatory Accounting guideline and completed reviews of gas regulatory accounting information and full retail competition costs of gas distributors and VENCORP.

Cost

The estimated cost of the Gas Arrangement Access Review in 2007-08 was \$3.7 million.

Major Projects Completed and Benefits Generated in 2007-08

Gas Access		
Project	Output/Results	Benefits/Impact
Gas Access Arrangement Review 2008–12	Draft Decision	Provided a detailed and robust assessment of revised Access Arrangements (prices and terms and conditions for third party access) proposed by the gas distributors. This provided all stakeholders with an open and transparent process.
	Final Decision	Provided a comprehensive evaluation of distributor and stakeholder submissions in response to the Commission's Draft Decision. It required the distributors to amend their Access Arrangements consistent with the Final Decision.
	Further Final Decisions	Provided certainty in relation to the Terms and Conditions and tariffs for third party access to these network assets for the period 2008–2012.
Regulatory Accounts	Review regulatory accounts submitted by each of the gas distributors	Assisted the Commission to formulate regulatory policy and to monitor and assess industry performance in delivering their statutory and gas code obligations.
Revised Regulatory Accounting Guideline	Review and amend the Gas Regulatory Accounting Guideline	Updated Regulatory Accounting Guideline to incorporate recent accounting developments and improvements emanating from the Gas Access Arrangement Review.
VENCorp's FRC cost recovery expenditure and tariffs	Review and approval of VENCorp's proposed gas full retail contestability (FRC) tariffs for 2008-09	Provided certainty for gas retailers that FRC related costs charged by VENCorp had satisfied the regulatory principles and could appropriately be recovered from retailers.
Distribution Business FRC cost recovery	Review and approval of recommendations of FRC cost recovery and determine FRC adjustment for incorporation in GAAR decisions	Provided certainty for distributors of final amount for recovery consistent with the FRC Cost Recovery Order-in-Council.
Additional project undertaken not included in 2007-08 work program		
Litigation and legal proceedings	Defended proceedings brought in the Supreme Court by Alinta on the application of the Gas Code and the Gas Industry Act; an application by Alinta challenging the Commission's release of material relating to Multinet; and a separate proceeding by Multinet on the validity of the Gas Regulatory Accounting Guideline	Provided clarity on the status of Alinta Asset Management as an operator, on the gas regulatory framework and on the powers of the Commission to release and/or obtain certain material.



ENERGY TARGETS

Victorian Renewable Energy Target Scheme

During 2007-08, the Commission reviewed and approved applications for registration and accreditation of eligible renewable energy power stations in the Victorian Renewable Energy Target (VRET) scheme.

In addition the Commission maintained the following registers in respect of the operation of the VRET scheme: Register of registered persons, Register of accredited power stations, Register of applications for accredited power stations and Register of Victorian renewable energy certificates (VRECs).

The Commission is responsible for ensuring compliance with the scheme. This involved overseeing and reviewing the submission of annual electricity generation returns by accredited power stations and annual energy acquisition statements by relevant entities.

Victorian Energy Efficiency Target Scheme

The Commission will be responsible for administering the Victorian Energy Efficiency Target (VEET) scheme commencing 1 January 2009.

The scheme sets a target for energy savings to be achieved through the uptake of energy efficient technology, initially in the household sector. Energy retailers will be required to meet these targets by purchasing energy efficient certificates.

As part of its scheme administrator role, the Commission has commenced the development of guidelines to facilitate participation in the scheme.

The development and implementation of an internet based registry system has commenced which will facilitate direct user access to the system and readily update information for participants and stakeholders to ensure ease of participation and transparency in the scheme.

Major Projects Completed and Benefits Generated in 2007-08

Energy Targets		
Project	Output/Results	Benefits/Impact
Victorian Renewable Energy Target Scheme	Administration of the Victorian Renewable Energy Target (VRET) Scheme	Promoted the development of renewable energy generation through implementation of the VRET scheme.
	Registration and accreditation of renewable energy power stations	Promoted the development of renewable energy generation in Victoria.
	Development of an Energy Targets internet based registry	Provided for the creation, acquisition and surrender of renewable energy certificates through the establishment of the scheme registry.
	Victorian Renewable Energy Target Scheme Annual Report 2007	Reported on the operation of the Victorian Renewable Energy Target Scheme for 2007.
	Victorian Renewable Energy Target Scheme Compliance Report 2007	Reported on compliance and audit requirements to meet legislative obligations for 2007.
Victorian Energy Efficiency Target Scheme	Development and implementation of the Victorian Energy Efficiency Target (VEET) Scheme	Promoted energy efficient use of electricity and gas and reduced greenhouse gas emissions by consumers.
	Development of Victorian Energy Efficiency Target Scheme Guidelines	Provided clarity and certainty in the operation of the VEET scheme to accredited persons and retailers.
	Development of an Energy Targets internet based registry	Provided for the creation, acquisition and surrender of energy efficiency certificates through the establishment of the scheme registry.

INDUSTRY SECTORS AND SPECIAL REFERENCES

The Industry Sectors and Special References Group is responsible for regulation and reviews in the ports, grain, rail, statutory insurance and transport sectors. In 2007-08, the regulatory program involved a range of activities associated with Ministerial-referenced reviews and administering existing regulatory frameworks.

On 25 July 2007, the Minister for Finance, WorkCover and the Transport Accident Commission under

section 41 of the *Essential Services Commission Act 2001*, directed the Commission to undertake a review of the impact of port planning on competition in the provision of container stevedoring and related services in Victorian ports.

A Final Report was completed by the

Commission and provided to the Minister in December 2007.

In June 2007, the Commission received an application from V/Line to vary its existing access arrangement. The Commission conducted the approval process for this application and in September 2007, decided to not approve the proposed variation. A further variation application by V/Line in November 2007 was subsequently withdrawn. Accounting templates submitted by V/Line were approved.

The Commission also released a Final Rail Access Dispute Resolution Guideline in August 2007, and made a submission to the Rail Freight Network Review taskforce.

On 19 September 2007, the Minister for Public Transport directed the Commission under section 186(1) of the *Transport Act 1983* to undertake an independent review of taxi-cab fares in Victoria. The Commission completed an Issues Paper in December 2007, an Interim Report (addressing specifically the issue of rising LPG prices) and a Draft Report in June 2008. The Final Report was provided to the Minister in August 2008.

In regard to grain, the Commission received in 2007-08 separate proposed undertakings from GrainCorp and Australian Bulk Alliance consistent with the *Grain Handling and Storage Act 1996*, but decided to not approve them following a consultation process.

The Commission did not receive any references to review premiums for the statutory insurance schemes administered by the Transport Accident Commission (TAC) and the Victorian WorkCover Authority (VWA).

Key reviews and determinations completed in 2007-08 included:

Victorian Rail Access Regime

- V/Line Access Arrangement Variation – Final Decision
- Rail Access Dispute Resolution Guideline
- Submission to Rail Freight Network Review taskforce

Ports – Port Planning Review

- Issues Paper
- Draft Report
- Final Report

Transport – Taxi Fare Review

- Issues Paper
- Interim Report (assessing the impact of LPG prices)
- Draft Report

Grain

- Final Decision to not approve the proposed GrainCorp and ABA Undertakings

Cost

The estimated costs of the Commission's Regulatory Operations in 2007-08 in relation to Industry Sectors and Special References in the grain, rail and ports regulated industries and to special references in transport and insurance were:

Industry	Estimated Cost
Grain Handling and Storage	\$0.024 million
Rail Industry	\$0.646 million
Ports Services Industry	\$0.687 million
Insurance References	—
Transport Act References	\$0.615 million



Major Projects Completed and Benefits Generated in 2007-08

Industry Sectors & Special References		
Project	Output/Results	Benefits/Impact
Victorian Rail Access Regime	Publication of information paper providing an overview of the Victorian Rail Access Regime	Informed access seekers and providers about the regime to assist parties negotiating access agreements.
	Rail Access Dispute Resolution Guideline setting out proposed processes, procedures and strategies for resolving access regime disputes	Informed industry participants on how the Commission proposed to carry out its dispute resolution function and provided an opportunity for industry feedback.
	Submission to Rail Freight Network Review taskforce providing views on matters relevant to the configuration and maintenance of the rail freight network	Provided relevant information to the taskforce gained from the Commission's previous analysis in the process of implementing rail regulation.
	Agreement to substitution of Pacific National Access Arrangement to V/Line Passenger and approval of V/Line information handling procedures	Maintained procedures and protocols for access by third parties to the country rail freight network.
	Decision to not approve V/Line's application to vary its Access Arrangement in terms of prices, service standards and other terms and conditions	Retention of existing rail operational standards to facilitate third party access to the rail network.
	Rail access provider compliance, including approval of V/Line regulatory accounting templates	Ensured the required information was provided annually to the Commission to facilitate the transparency of the access regime framework.
	VicTrack Access Arrangement variation Draft Decision	Process commenced to facilitate third party access to the Dynon Intermodal Terminal.
Reference from the Minister for Finance on Port Planning	Report to the Minister on the impact of port planning frameworks on competition between stevedores and examined the market structure of the land-side interface of the ports, and whether they imposed any impediment to market entry in port services	Met a Victorian Government commitment under Council of Australian Governments (COAG) to undertake such a review and provided advice to the Government in relation to port planning issues.
Reference from the Minister for Public Transport on taxi fares	Draft Report to the Minister on taxi fare levels and the structure of fares, and the formula to adjust taxi fares over the next three to five years, as well as options to improve driver remuneration in the taxi industry and to improve information gathering and reporting	Provided preliminary report on review of taxi fares.
Grain access regime implementation	Decision to not approve proposed access undertakings of Australian Bulk Alliance and GrainCorp	Retained the status quo dispute resolution access regime framework.



WATER

The water group is responsible for the economic regulation of 20 Victorian water businesses that service metropolitan Melbourne and regional urban customers as well as rural (irrigation) customers. The Commission's key areas of responsibility include regulation of prices, service standards, performance reporting and auditing.

Conduct of water price reviews is a major plank of the Commission's activity and a review of the prices to apply from 2008 to 2013 was undertaken for the 16 regional and rural water businesses, as well as for the waterways and drainage services provided by Melbourne Water. This review was undertaken after consulting extensively with water businesses, customers and other stakeholders.

In addition, the Commission set prices for the three metropolitan Melbourne water businesses for the year beginning 1 July 2008, with a full review to be undertaken during 2008-09.

The Commission also conducted an inquiry into tariff structures for the Minister for Finance and contributed to the review of the metropolitan water sector that was undertaken by the Victorian Competition and Efficiency Commission.

Other areas under focus in the Commission's work program included:

- Review of regulatory accounts for all Victorian water businesses
- Release of the third statewide performance report for the metropolitan and regional urban water businesses
- Completion of regulatory audits for all Victorian water businesses

Cost

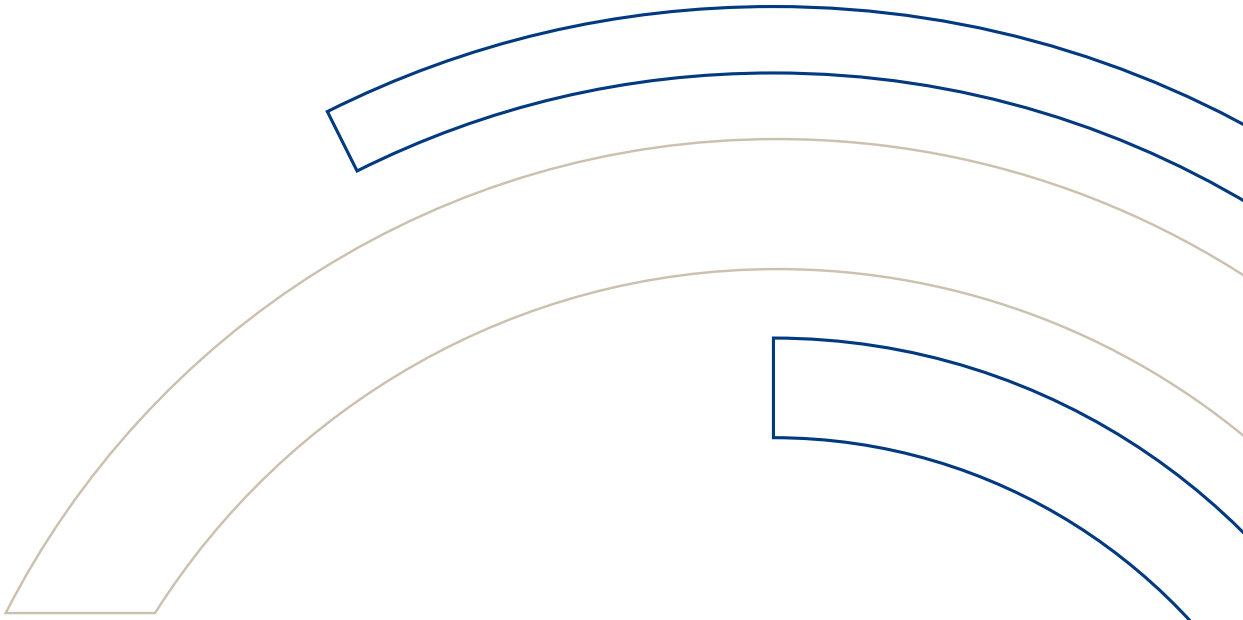
The estimated cost of the Commission's regulation of the Victorian water industry in 2007-08 was \$3.46 million.

Major Projects Completed and Benefits Generated in 2007-08

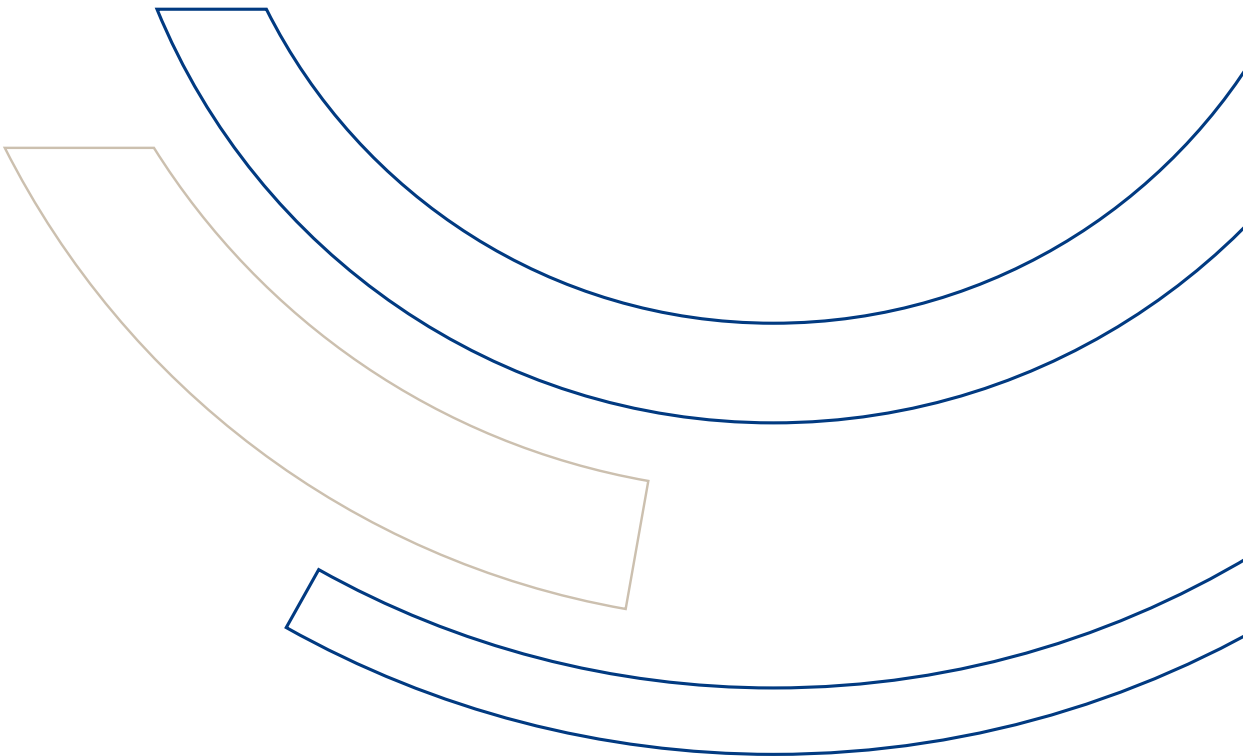
Water		
Project	Output/Results	Benefits/Impact
Water price review	Completion of the second independent review of water prices, including detailed assessment of service standards, expenditure and demand forecasts for 16 water businesses in regional and rural Victoria. Completion of the review for Melbourne Water's drainage and waterways services. Prices were set for the five-year period commencing 1 July 2008	Provided greater clarity for all stakeholders about the Commission's process and approach. Provided water businesses, through prices, with the ability to deliver a challenging work program over the forthcoming five years. Provided transparent identification of service standards, capital projects and other deliverables.
	Regulatory accounts submitted by the metropolitan, regional urban and rural water businesses. Assessment against the requirements of the Commission's regulatory accounting code	Improved consistency of reported financial information across businesses. Provided basis for undertaking a more rigorous assessment of businesses' forecasts in 2008 water price review.
Regulatory audits	Audit of urban and rural water businesses for compliance with reporting requirements	Demonstrated high level of compliance with customer service obligations. Demonstrated accuracy of reporting performance data.
Performance monitoring and reporting	Release of performance report for metropolitan and regional urban water businesses	Enhanced accountability and transparency of information on water industry performance. Provided consistent basis for assessing performance across businesses. Encouraged competition by comparison or performance over time to benefit customers.
Additional projects undertaken not included in 2007-08 work program		
Inquiry into tariff structures	Completion of a report that assessed the proposed tariff structures for metropolitan Melbourne, and recommended improvements to the regulatory framework	Provided greater clarity for all stakeholders about the most appropriate tariff structures. Provided improvements to the regulatory framework with regards to pricing.
Input into the inquiry into reform of the metropolitan water sector by VCEC	Provision of two submissions that outlined the Commission's preliminary assessment of the draft Water Plans for Melbourne Water and the three metropolitan retailers, and its experience with comparative performance	Assisted the Victorian Competition and Efficiency Commission in its recommendations to Government on reforming the metropolitan water sector.



Melbourne Water waterways and drainage projects at Jacksons Creek, Sunbury.



CORPORATE SERVICES



ECONOMIC REGULATORY SERVICES

Key Government Outcomes

To act as the economic regulator of regulated industries, to promote competitive conduct, prevent misuse of market power, facilitate market power, facilitate market entry and industry efficiency and ensure that users and consumers benefit from competition and efficiency.

Description of the Output Group

Regulation of utilities in Victoria.

Output Performance 2007-08

The Commission budget for 2007-08 was prepared on an output budgeting basis in accordance with Victorian Government standards. The following is a brief report on output targets set for 2007-08:

Major Outputs/Deliverables Performance Measures			
	Unit of measure	2007-08 Target	2007-08 Actual
Quantity			
Regular services			
Company, Performance Reviews and Audits	Number	23	18
New or revised regulatory guidelines	Number	1	2
Industry Performance Reports	Number	6	5
Price approvals/Reviews	Number	13	14
Price Determinations	Number	23	24
Quality			
Regulatory decisions upheld	Per cent	100	100
Timelines			
Statutory deadlines met for major projects	Per cent	95	95
Cost			
Total output cost*	\$million	\$12.7	\$15.4

*Refer Department of Treasury and Finance, 2008-2009 *Budget Paper No. 3*.

Output Targets 2008-09

For 2008-09 output targets are as follows:

Description of the Output Group

Regulatory Services – regulation of utilities and other regulated markets in Victoria.

These outputs regulate utilities and other regulated markets in Victoria and provide advice on ways the Government can improve the business environment.

These outputs contribute to the key Government outcome of sound financial management by informing Government on ways to create a competitive business environment and by efficiently regulating utilities and other specified markets to protect the long-term interests of Victorian consumers with regard to price, quality and reliability of essential services.

Major Outputs/Deliverables Performance Measures

Economic Regulatory Service	Unit of measure	2008-09 Target
Quantity		
Regular services		
Company Performance Reviews and Audits	Number	30
New or revised regulatory guidelines	Number	2
Industry Performance Reports	Number	6
Price approvals/reviews	Number	13
Price determinations	Number	0
Reviews, investigations or advisory projects	Number	4
Registration and accreditation decisions/approvals	Number	50
Quality		
Regulatory decisions upheld	Per cent	100
Timelines		
Deadlines met for major projects	Per cent	100
Cost		
Total output cost	\$million	\$15.2

Workforce Data by Division

Total Employment[^] as at 30 June 2008 (By Division):

Gas Access and Industry Reviews	9
Energy	27
Water	13
Organisation and Operations*	17
Total	66

* Excluding the Commissioners, outsourced services and contractors.

[^] Includes personnel on paid leave arrangements, but excluding those on unpaid leave.

Staffing Trends

Year at 30 June	Head Count	FTE
2004	58	55.3
2005	63	61.4
2006	62	61
2007	71	69
2008	66	65.6

Workforce Data Disclosure

	Ongoing Employees				Fixed term & Casual	
	Employee Headcount	Full time Headcount	Part time Headcount	FTE	FTE	FTE
Jun 07	65	60	5	63		6
Jun 08	60	55	5	58.81		5.61

	June 07			June 08		
	Ongoing		Fixed term & Casual	Ongoing		Fixed term & Casual
	Employee Headcount	FTE	FTE	Employee Headcount	FTE	FTE
Gender						
Female	31	29	3	36	36	3
Male	34	34	3	24	22.81	2.61
Age						
Under 25	4	4	0	2	2	0
25-34	20	19	3	18	17.6	1.9
35-44	24	24	2	20	19.8	1.43
45-54	10	9	0	11	10.61	0
55-64	7	7	1	9	8.8	2.28
Over 64	0	0	0	0	0	0
Classification						
VPS1	0	0	0	0	0	0
VPS2	4	3	2	5	4.9	2
VPS3	15	15	2	7	7	0
VPS4	10	9	1	10	9.6	1.9
VPS5	10	10	0	14	14	0
VPS6	13	13	0	13	12.51	0
STS	3	3	0	2	2	0
SRM	5	5	0	4	3.8	0
Executives	5	5	0	5	5	0
Other	0	0	1	0	0	1.71

Executive Officer disclosures

Table 1: Number of executive officers classified into 'Ongoing' and 'Special Projects'

Class	All		Ongoing		Special Projects	
	No.	Var	No.	Var	No.	Var
EO-1	0	0	0	0	0	0
EO-2	1	0	1	0	0	0
EO-3	4	0	4	0	0	0
Total	5	0	5	0	0	0

Table 2: Breakdown of executive officers into gender for 'Ongoing' and 'Special Projects'

Class	Ongoing					Special Projects					
	Male		Female		Vacancies	Male		Female		Vacancies	
	No.	Var	No.	Var	No.	Var	No.	Var	No.	Var	
EO-1	0	0	0	0	0	0	0	0	0	0	0
EO-2	1	0	0	0	0	0	0	0	0	0	0
EO-3	2	1	2	-1	0	0	0	0	0	0	0
Total	3	1	2	-1	0	0	0	0	0	0	0

Table 3: Reconciliation of executive numbers

		2008	2007
Executives with remuneration over \$100,000 (Refer to note 11)		5	6
<i>Add</i>	Vacancies (table 2)	0	0
Executives employed with total remuneration below \$100,000		0	0
Accountable Officer* (Secretary)		1	1
<i>Less</i>	Separations	0	-1
Total executive numbers at June 30 2008		5	5

* The ESC's Accountable Officer is a statutory appointee and is not included in the executive numbers.

Merit and Equity

The Commission is an equal opportunity employer and is committed to ensuring merit and equity principles are applied to all human resources policies and work practices.

Reporting Under Directions of the Commissioner for Public Employment*

Commissioner's Direction	Performance Indicator	2007-08 Response
Selecting on Merit. Decisions made to exempt vacancies from advertisement	Number of decisions	1
Reviewing Personal Grievances. Finalisation of individual grievance reviews	Number of grievances finalised	0
Managing and Valuing Diversity Outcomes of diversity and EEO initiatives	Barriers to employment and enhancement in productivity removed	No barriers to employment and enhancement in productivity identified.
Upholding Public Sector Conduct Implementation and expansion of Code of Conduct	Measures taken to uphold principles of public sector conduct	Victorian Public Service Code of Conduct is applied.

* Provision served under clause 6 (3) of Schedule 2 to the *Public Administration Act 2004*

Occupational Health and Safety

The Commission has continued to promote occupational health and safety through a range of measures. The Commission has a health and safety representative.

strategic planning, management of resources, monitoring of project activity and overseeing compliance with corporate governance. The board meets monthly, and met 12 times during 2007-08.

Private Interest Declarations

Declarations of private interests were completed by all relevant officers. New staff were required to complete a declaration.

The Commission also operates under its own Corporate Governance Statement, which is posted on the Commission's external website. This statement also outlines the role of the Commission's Audit and Risk Management Committee, which in 2007-08 comprised the two-part-time Commissioners (Mr Tony Darvall and Mr Bob Scott, and his replacement as Commissioner, Mr Dennis Cavagna) and one external appointment, an accountant (Mr Ian Cuthbertson). Internal and external auditors also attended the meetings as required.

WorkCover

WorkCover statistics	2006-07	2007-08
Claims during the year	1	0

Employee Relations

No employee time was lost in 2007-08 due to industrial disputes.

The role of the committee is to assist the Commission in fulfilling its responsibilities in relation to the identification of areas of significant business risks and the monitoring of:

- effective management of financial and other business risks
- reliable management reporting
- compliance with laws and regulations in respect of financial activity and reporting, and
- external and internal audits.

Corporate Governance

The Essential Services Commission is committed to high standards of corporate governance in its decision-making and corporate activities.

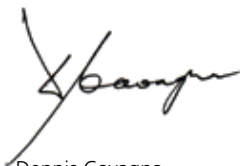
Commissioners also comprise a board of management, which is responsible for the oversight of the organisation supporting the Commission through participation in

The committee reviews and provides recommendations to the Commission on the adequacy of the processes for identifying and managing significant risks. It also provides a direct link between the Commission and the internal and external auditors, and enables any concerns of the auditors to be conveyed to the Commission independently of management.

In 2007-08 the committee met four times, with meetings attended by all committee members, except in the case of one meeting that occurred during a vacancy in the position of commissioner.

**Attestation on compliance with the Australian/
New Zealand Risk Management Standard**

I, Dennis Cavagna, certify that the Essential Services Commission has risk management processes in place consistent with the Australian/New Zealand Risk Management Standard (AS/NZS 4360:2004) and an internal control system is in place that enables the executive to understand, manage and satisfactorily control risk exposures. The Essential Services Commission verifies this assurance and that the risk profile of the Essential Services Commission has been critically reviewed within the last 12 months.



Dennis Cavagna
Acting Chairperson
Essential Services Commission

Memoranda of Understanding

The Essential Services Commission Act 2001 (section 16) requires the Commission to enter into Memoranda of Understanding with a range of State Government agencies. In addition, the Commission has entered into Memoranda of Understanding with agencies with which it shares important working relationships.

The objective of the memoranda is to improve communications, encourage input into regulatory processes and avoid overlap with the other agencies.

Since the first memoranda were signed in 2003, the Commission has widened its regulatory objectives and diversified its consultative base. In addition, some of the agencies have undergone a change of identity and personnel.

Memoranda of Understanding are held with the following organisations:

- Department of Human Services
- Emergency Services Commissioner
- Energy and Water Ombudsman (Victoria) Limited (EWOV)*
- Environment Protection Authority (EPA Victoria)
- Marine Safety Victoria
- Energy Safe Victoria
- Port of Melbourne Corporation*
- Victorian Regional Channels Authority
- Victorian Energy Networks Corporation (VENCorp)
- Victorian WorkCover Authority
- Consumer Affairs Victoria (signed October 2007)
- Sustainability Victoria (signed October 2007)

Note: * These are voluntary Memoranda of Understanding entered into by the Commission and are not required under section 16 of the *Essential Services Commission Act 2001*.

Information Technology

Information technology facilitates the delivery of Commission services to its stakeholders and the wider community.

During the year a number of key projects enhanced capability to provide efficient communications and services to stakeholders. The projects included an upgrade of the Information Communications and Technology infrastructure, and review and implementation of the ICT governance framework.

Sponsored Committees

The Essential Services Commission's Customer Consultative Committee has been in operation since 1995. It meets quarterly and assists the Commission in carrying out its regulatory agenda.

The terms of reference of the Customer Consultative Committee provide that it assists the Essential Services Commission to perform its functions and exercise its powers under the *Essential Services Commission Act 2001* in relation to customer issues generally and, in particular, to meet its objectives under that Act, other relevant legislation and statements of government policy.

Areas for specific attention by the Customer Consultative Committee in pursuing its objectives include measures that seek to ensure that:

- present and future utility services consumers benefit from competition in contestable markets or from benchmark competition and the efficiencies flowing from such competition
- the interests of consumers are protected in relation to the price, reliability, quality and safety of regulated services and by having access to balanced contracts and accurate market information
- consumers of essential utility services have access to effective complaint handling, escalation and resolution processes.

The Committee's role is to provide a forum in which information relevant to the achievement of the Committee's objectives may be disseminated, and consumer representatives may exchange views on customer entitlements, issues and needs and have these views conveyed by the Commission to the regulated industries and other interested parties. The Committee's role is also to advise the Commission on customer issues and provide advice on the needs of industrial, commercial and residential customers generally. In particular, members of the committee play a leading role in stakeholder consultation during price and regulatory reviews.

Membership of the Committee represents the interests of business and household consumers of utility services across the full range of the Commission's regulatory

functions, including energy, water, ports, statutory insurance, grain and transport industries. The Commission recognises that customer issues differ between industry sectors and across regional areas. For this reason, the Commission has sought to include representatives from across the broader Victorian community; that is, representatives of metropolitan, regional and rural consumers, and industrial, small business and household customers, including low income and vulnerable customers.

In June 2008, the Committee held its quarterly meeting in Ballarat, hosting presentations by Central Highlands Water, the City of Ballarat and Child and Family Services.

During 2007-08, membership of the Committee comprised representatives of the following organisations:

- Australian Industry Group
- Bendigo Bank
- Community Connections
- Consumer Action Law Centre
- Consumer Utilities Advocacy Centre
- Energy Action Group
- Energy and Water Ombudsman (Victoria)
- Energy Users' Association of Australia
- Kildonan UnitingCare
- Municipal Association of Victoria
- St Lukes Anglicare
- Tenants Union of Victoria
- Victorian Council of Social Service
- Victorian Employers' Chamber of Commerce and Industry
- Victorian Farmers Federation.

In addition, the Departments of Human Services, Infrastructure and Sustainability and Environment, as well as Regional Development Victoria, are accorded observer status on the Customer Consultative Committee.

Meetings are chaired by the Chairperson (or a nominated Commissioner) of the Essential Services Commission. Payment of sitting fees to organisations represented on the Customer Consultative Committee totalled \$17,000 in 2007-08.





Above: Public meeting of the Taxi Fare Review at Bendigo on 19 February 2008. Photograph courtesy of *The Advertiser* (Bendigo).

Charter of Consultation and Regulatory Practice

The Essential Services Commission Act 2001 requires the Commission to develop and publish a Charter of Consultation and Regulatory Practice. First produced in 2003, the Charter was updated and reissued in late 2006.

The purpose of the Charter is to provide guidance on the Commission's processes for making determinations and conducting inquiries. It outlines the Commission's principles of consultation and outlines how external audiences are notified of inquiries, decisions and determinations.

Staff of the Commission refer to the Charter when planning price and regulatory reviews and other activities, and are guided by it in conducting public consultation and seeking comment from stakeholders. The Charter is intended for review in 2009.

Consultation processes

Public forums

The Commission encourages stakeholder participation in its regulatory activities and in 2007-08 held several public meetings for a range of price and regulatory reviews.

In total, the Commission held 22 public meetings at 16 venues across Victoria:

Review of CBD Security of Supply Upgrade

Melbourne; August 2007

Report on Metropolitan Water Tariff Structures

Melbourne; November 2007

Review of Impact of port planning on port competition

Melbourne; November 2007

Review of Taxi Fares

Bendigo, Melbourne; February 2008

Morwell; March 2008

Review of Water Prices

Ballarat, Bendigo, Geelong, Wodonga, Shepparton, Horsham, Warrnambool, Sunbury, Phillip Island, Leongatha, Traralgon, Bairnsdale; April 2008

Mildura; May 2008

Review of Melbourne Water Waterways and Drainage Charges

Mornington, Phillip Island, Sunbury; June 2008

Submissions

Numbers of submissions to major pricing and other regulatory reviews and activities received during the year were:

Energy

CBD Security of Supply upgrade: Draft Decision – 2

CBD Security of supply upgrade: Issues Paper – 4

2006 Adjustment Factor Review for FRC Recoverable Expenditure: Final Determination – 3

Network connection for small embedded generators: Draft Decision – 5

Advanced metering infrastructure price review: Framework and Approach – 10

Retailer of Last Resort Customer Charges: Draft Decision – 5

Review of Energy Regulatory Instruments: Open Letter – 13

Methodology for assessment of reasonable feed-in tariffs and terms and conditions: Draft Guidance Paper – 4

Electricity Distribution Businesses Call Centre Performance Indicators: Draft Decision – 4

Electricity Distribution Businesses Call Centre Performance Indicators: Consultation Paper – 5

Interval Meter Reassignment Requirements: Consultation Paper – 11

Gas Access Arrangement Review

Gas Access Arrangement Review: Draft Decision – 11

Energy Targets

Victorian Renewable Energy Target scheme, Rules for Stage 2 and audit guideline: Draft Decision – 3

Victorian Energy Efficiency Target scheme guidelines: Framework Paper – 7

Water

Review of Water Tariff Structures: Draft Report – 14

Review of Water Tariff Structures: Issues Paper – 20

Melbourne Water Waterways and Drainage Charges: Draft Decision – 5

Review of Regional Water Businesses' Prices 2008–2013: Draft Decision – 69

Ports

Port Planning and its impact on competition: Draft Report – 10

Port Planning and its impact on competition: Issues Paper – 16

Transport


Review of Taxi Fares: Draft Report – 21

Review of Taxi Fares: Issues Paper – 7

In addition, the Commission's consultation processes included:

- quarterly meetings of the Commission's Customer Consultative Committee
- issue of draft decisions and issues papers for public comment
- consultation with prescribed agencies, under the Commission's Memoranda of Understanding
- inputs from working parties from community-based groups
- stakeholder input and comment on the draft version of the Commission's Work Program 2008-09.

Input to the Commission's work from external consultation is highly valued. Participation by stakeholders in the Commission's processes enhances the relevance and effectiveness of the Commission's decisions.

A large crane is shown in silhouette, lifting a heavy rectangular load. The crane's lattice boom extends diagonally across the frame from the bottom left towards the top right. The load is suspended by several cables and is positioned in the middle-right area of the image. The background is a bright, overcast sky with some clouds. In the lower part of the image, there are silhouettes of industrial buildings and a tall light pole.

Communications and Publications

The Commission is committed to communicating effectively with stakeholders and the general community.

Numerous publications on various matters pertaining to the regulated industries were published and made available publicly in both hard copies and via the Commission's website (refer to Appendix C of this Report).

Media liaison continued at a comprehensive level to assist in the communication of Commission information to the general community. A total of 16 media releases were issued by the Commission in 2007-08. Two of the Commission's comparative performance reports – for electricity distribution and for urban water – were released in regional areas for the specific information of regional-based media. The draft and final decisions of the Review of Water Prices were also released in regional Victoria.

The Commission's website continues to be an effective means of providing information to the community. The website address is <http://www.esc.vic.gov.au>. Each year a communications strategy is developed to ensure the Commission is aligned with its work program and provides effective communication with stakeholders and the community.

National Competition Policy

The Commission promotes and complies with the National Competition Policy.

Shares

No shares are held by any officer as nominee or held beneficially in a statutory authority or subsidiary.

Research and Development

No major research and development activities were undertaken by the Commission in 2007-08.

Building Works

The Commission does not have any buildings under its direct control and did not enter into works that required compliance under the *Building Act 1993*.

Comparative Financial Data

Excluding DTF overhead	2002-03 \$m	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Operating Budget	17.2	12.8*	15.2	15.7	12.8	14.6
Actual Operating Expenditure	11.5	12.9	15.2	15.2	13.7	15.4

* Provision served under clause 6 (3) of Schedule 2 to the *Public Administration Act 2004*

Fees

The following table shows licence fees by type. The Commission's role with regard to licences is to notify the licensees of the charges determined by the Minister.

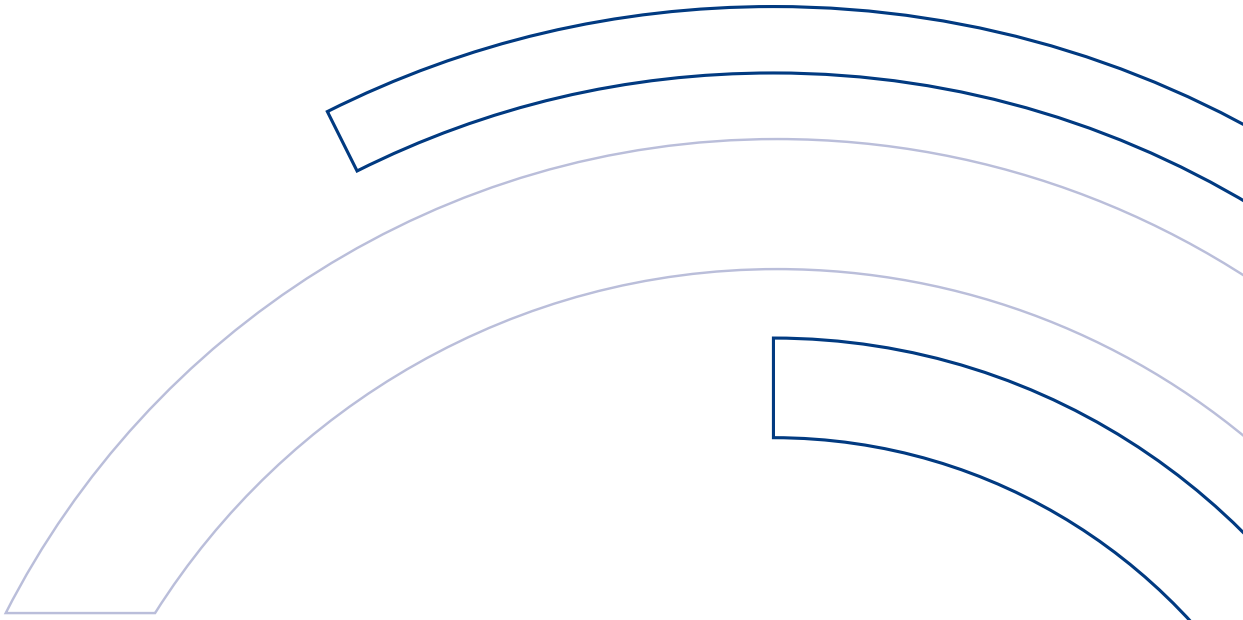
Type of Licence	2006-07* \$
Electricity Industry	
Generation < 200MW	4,551
Generation 200-999 MW	13,654
Generation ≥ 1000 MW	22,757
Trader	2,353
Transmission - State-wide	35,560
Transmission - Interconnector	17,780
Distribution	3,618,286
Retail Contestable (<1000 customers)	13,000
Retail Contestable (≥ 1000 < 50,000 customers)	16,937
Retail Contestable (≥50,000 <100,000 customers)	30,068
Retail Contestable (>100,000 customers)	119,980
Gas Industry	
Distribution - Standard	3,188,060
Distribution - New Area	844
Retailer - (<1000 customers)	13,000
Retailer - (≥1000 <50,000 customers)	16,937
Retailer - (≥50,000 <100,000 customers)	30,068
Retailer - (>100,000 customers)	119,980
Restricted Retailer	13,000

Type of Licence	2006-07* \$
Grain Industry	
Grain Handling and Storage	10,377
Ports Industry	
Port - Category 1	41,804
Port - Category 2	7,146
Port - Category 3	1,036
Port - Category 4	572
Water Industry	
Water and Sewerage	2,113,416

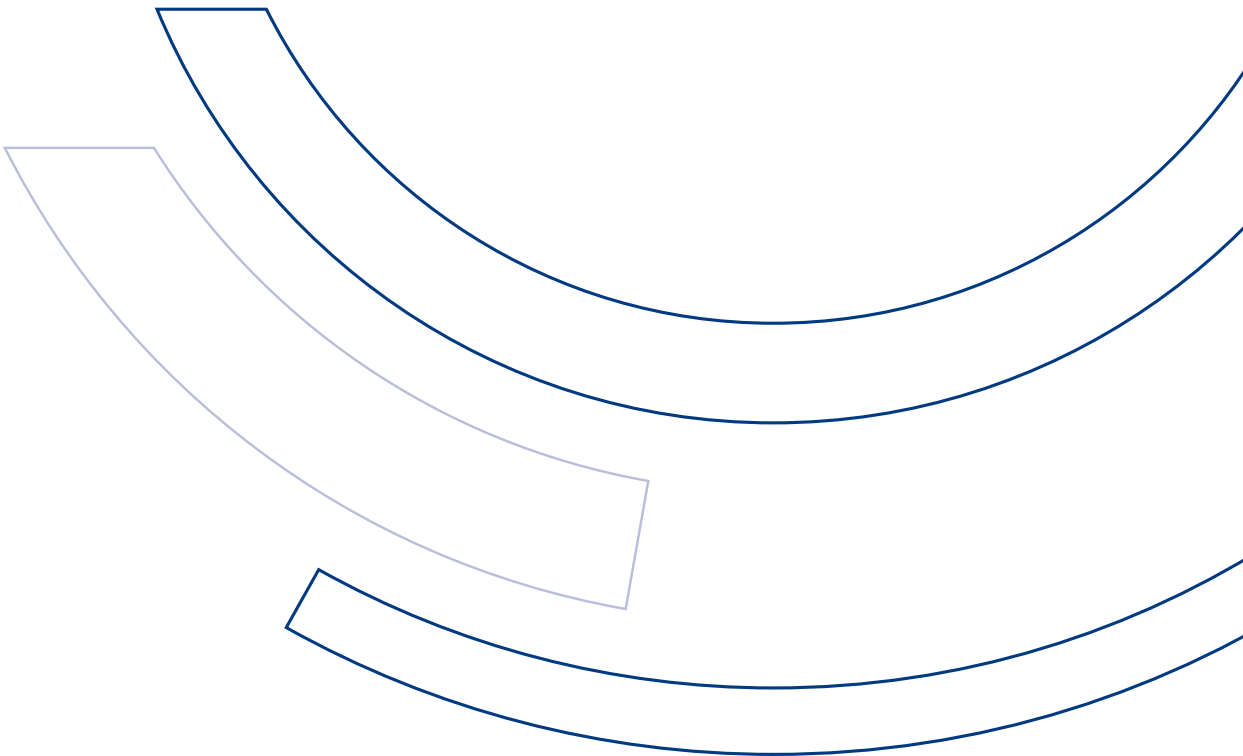
Note:

* Licence fees are accrued on the basis of estimates, with final determination to be made by the Minister for Finance in consultation with the relevant industry Minister. Figures for Water and Sewerage based on total costs recovered from licence fees.





APPENDICES



APPENDIX A

Financial Statements For the Year Ended 30 June 2008

Operating Statement for the year ended 30 June 2008			
	Notes	2008 \$	2007 \$
Income			
Grants from Government	1(b),2	15,436,270	13,686,000
Expenses			
Employee Benefits	3	7,005,386	6,700,310
Depreciation	3	216,930	220,586
Capital Asset Charge	1(j)	82,248	79,080
Supplies and Services		8,089,955	6,675,390
Finance Lease Interest		14,866	10,856
Loss on Disposal of Property, Plant and Equipment		26,477	1,223
		15,435,862	13,687,445
Net Result for the Period	8(a)	408	(1,445)

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

Balance Sheet as at 30 June 2008

	Notes	2008 \$	2007 \$
Current Assets			
Cash on Hand		500	500
Receivables	4	9,135,319	6,351,981
Total Current Assets		9,135,819	6,352,481
Non-Current Assets			
Receivables	4	182,243	155,000
Property, Plant and Equipment	5	1,226,168	899,059
Total Non-Current Assets		1,408,411	1,054,059
Total Assets		10,544,230	7,406,540
Current Liabilities			
Payables		1,756,891	1,881,686
Interest Bearing Liabilities	6	53,668	164,642
Provisions	7	1,147,185	1,462,879
Unearned Income		3,352,729	—
Total Current Liabilities		6,580,473	3,509,207
Non-Current Liabilities			
Interest Bearing Liabilities	6	123,930	85,157
Provisions	7	182,243	155,000
Total Non-Current Liabilities		306,173	240,157
Total Liabilities		6,886,646	3,749,364
Net Assets		3,657,584	3,657,176
Equity			
Contributed Capital	8(b)	873,921	873,921
Accumulated Surplus	8(a)	2,783,663	2,783,255
Total Equity		3,657,584	3,657,176

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

Statement of Recognised Income and Expense for the year ended 30 June 2008

	Notes	2008 \$	2007 \$
Net Income Recognised Directly in Equity		—	—
Net Result for the Period		408	(1,445)
Total Recognised Income and Expense for the Period		408	(1,445)

The above Statement of Recognised Income and Expenses should be read in conjunction with the accompanying notes.

Cash Flow Statement for the year ended 30 June 2008

	Notes	2008 \$	2007 \$
Cash Flows from Operating Activities			
Receipts from Government		15,948,610	13,027,220
Payments to Suppliers and Employees		(15,208,779)	(12,828,582)
Capital Asset Charge		(82,248)	(79,080)
Finance Costs		(14,866)	(10,856)
Net Cash Inflow from Investing Activities	15	642,717	108,702
Cash Flows from Investing Activities			
Payments for Property, Plant and Equipment		(578,783)	(79,401)
Proceeds from Sale of Property, Plant and Equipment		119,864	—
Net Cash Outflow from Investing Activities		(458,919)	(79,401)
Cash Flows from Financing Activities			
Repayment of Finance Leases		(183,798)	(29,301)
Net Cash Outflow from Financing Activities		(183,798)	(29,301)
Net Increase In Cash Held			
Cash at the Beginning of the Financial Year		500	500
Cash at the End of the Financial Year		500	500

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

NOTES TO THE FINANCIAL STATEMENTS 30 JUNE 2008

Note 1. Summary of Significant Accounting Policies

Statement of Compliance

This general purpose financial report has been prepared on an accrual basis in accordance with the *Financial Management Act 1994*, Australian Accounting Standards, which includes the accounting standards issued by the Australian Accounting Standards Board (AASB) and Interpretations.

The financial report also complies with relevant Financial Reporting Directions (FRDs) issued by the Department of Treasury and Finance, and relevant Standing Directions (SD) authorised by the Minister for Finance.

Basis of Preparation

The financial report has been prepared on the basis of historical cost, except where noted. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of the accounting policies set out below, Management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies set out below have been applied in preparing these Financial Statements.

(a) Reporting Entity

The Financial Statements include all the controlled activities of the Essential Services Commission.

Administered Resources

The Commission acts on behalf of the Victorian Government in collecting licence fees under the *Electricity Industry Act 2000*, the *Gas Industry Act 2001*, the *Grain Handling and Storage Act 1995*, the *Water Industry Act 1994* and the *Port Services Act 1995*, that are administered by the Commission. These and certain other administered revenues are collected by the Commission but not controlled by it, and are not recognised as revenues/receivables within the body of the Financial Statements, but are reported as administered revenues/receivables (see note 16). Such amounts are required to be paid to the Consolidated Fund.

(b) Objectives and Funding

The Essential Services Commission operates under the *Essential Services Commission Act 2001* ("the Act").

The Act designates the Commission as an economic regulator (pricing, standards and monitoring for anti-competitive conduct) and lays a foundation for the Commission to perform its functions and exercise its powers in respect of regulated industries operating under relevant legislation.

At 30 June 2008 the regulated industries included electricity, gas, water, ports, rail and grain export facilities.

The Commission is predominantly funded by accrual based Parliamentary appropriations for the provision of outputs. These funds are received in the form of grants from the Department of Treasury and Finance.

(c) Income

Income received by the Commission is generally required to be paid into the Consolidated Fund. Income becomes controlled by the Commission when it is appropriated (to the Department of Treasury and Finance) from the Consolidated Fund by the Victorian Parliament and applied to the purposes defined under the relevant Appropriations Act.

Income from the outputs the Commission provides to Government is recognised when those outputs have been delivered and the relevant Minister has certified delivery of those outputs in accordance with specified performance criteria.

(d) Depreciation of Non-Current Assets

Depreciation is calculated on a straight line basis to write off the net cost of each item of non-current assets over its expected useful life to the Commission to its estimated residual value. Estimates of remaining useful lives, residual values and depreciation method for all such assets are reviewed at least annually. The expected useful lives applicable for the years ended 30 June 2008 and 30 June 2007 are as follows:

Computer Equipment	4 years
Office Equipment	4 years
Furniture and Fittings	10 years
Leasehold Improvements	10 years

(e) Impairment of Assets

All non-current physical assets are assessed annually for indications of impairment. If there is an indication of impairment, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written off by a charge to the Operating Statement except to the extent that the write-down can be debited to an Asset Revaluation Reserve amount applicable to that class of asset.

The recoverable amount for most assets is measured at the higher of depreciated replacement cost and fair value less costs to sell.

Recoverable amount for assets held primarily to generate net cash inflows is measured at the higher of the present value of future cash flows expected to be obtained from the asset and fair value less costs to sell. It is deemed that, in the event of the loss of an asset, the future economic benefits arising from the use of the asset will be replaced unless a specific decision to the contrary has been made.

(f) Receivables

Receivables consist predominantly of debtors in relation to grants, provision of services and GST input tax credits recoverable. Receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest rate method, less any accumulated impairment.

A provision of doubtful receivables is made where there is objective evidence that the debts will not be collected. Bad debts are written off when identified.

(g) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Commission at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the Balance Sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

The lease asset is depreciated on a straight line basis over the term of the lease, or where it is likely that the Commission will obtain ownership of the asset, the expected useful life of the asset to the Commission. Lease assets held at the reporting date, being motor vehicle leases, are being depreciated over 3 years.

Operating lease payments are charged to the Operating Statement in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

(h) Payables

Payables are recognised when the Commission becomes obliged to make future payments resulting from the purchase of goods and services. The amounts are unsecured and are usually paid within 30 days of recognition. Payables are initially recognised at fair value then subsequently carried at amortised cost. Fair value is determined in accordance with note 9(f).

(i) Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values, using the remuneration rate expected to apply at the time of settlement. Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Commission in respect of services provided by employees up to reporting date. The liability is classified as a current liability where the Commission does not have an unconditional right to defer settlement for at least 12 months after the reporting date.

Superannuation

Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

Defined benefit plans

The amount charged to the Operating Statement in respect of defined benefit plan superannuation represents the contributions made by the Commission to the superannuation plan with respect to the current services of current Commission staff. Superannuation contributions are made to the plans based on the relevant rules of each plan.

The Commission does not recognise any defined benefit liability in respect of the superannuation plan because the Commission has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay superannuation contributions as they fall due.

The Department of Treasury and Finance administers and discloses the State's defined benefit liabilities in its Financial Statements.

(j) Capital Asset Charge

The capital asset charge is imposed by the Department of Treasury and Finance and represents the opportunity cost of capital invested in the non-current physical assets used in the provision of outputs. The charge is calculated on the budgeted carrying amount of applicable non-current physical assets.

(k) Resources Provided and Received Free of Charge

Contributions of resources and resources provided free of charge or for nominal consideration are recognised at their fair value when the transferee obtains control over them, irrespective of whether restrictions or conditions are imposed over the use of the contributions, unless received from another government department or agency as a consequence of a restructuring of administrative arrangements. In the latter case, such a transfer will be recognised at carrying value. Contributions in the form of services are only recognised when a fair value can be reliably determined and the services would have been purchased if not donated.

(l) Contributed Capital

Consistent with UIG *Interpretation 1038 Contributions by Owners Made to Wholly-Owned Public Sector Entities*, grants received for additions to net assets are designated as contributed capital. Other transfers that are in the nature of contributions or distributions, including transfers of net assets arising from administrative restructures, are also designated as contributed capital.

(m) Functional and Presentation Currency

These Financial Statements are presented in Australian dollars, which is the Commission's functional and presentation currency.

(n) New Accounting Standards and Interpretations

As at 30 June 2008, the following standards and interpretations (applicable to the Commission) had been issued but were not mandatory for the 30 June 2008 reporting period. The Commission has not adopted, and does not intend to adopt, these standards early.

Revised AASB 1004 Contributions. The AASB has decided to relocate requirements on contributions from AAS 27, 29 and 31, substantively unamended, into AASB 1004 as part of its short-term review of AAS 27, AAS 29, and AAS 31. This is applicable for annual reporting periods beginning 1 July 2008. Impact is expected to be insignificant.

AASB 1050 Administered Items. As part of the short-term review of AAS 27, AAS 29, and AAS 31, AASB decided to relocate the requirements for the disclosure of administered items from AAS 29, substantively unamended (with some exceptions) into a new topic-based standard AASB 1050. This is applicable for annual reporting periods beginning 1 July 2008. Impact is expected to be insignificant.

AASB 1052 Desegregated Disclosures. AASB decided to relocate requirements relating to reporting of desegregated information from AAS 27 and AAS 29 into AASB 1052, a new topic-based standard, as part of its short-term review of AAS 27, AAS 29 and AAS 31.

This is applicable for annual reporting periods beginning 1 July 2008. Impact is expected to be insignificant.

AASB 2007-09 Amendments to Australian Accounting Standards arising from the review of AAS 27, AAS 29 and AAS 31. An accompanying amendment standard to amend existing accounting standards as part of the short term review of AAS 27, AAS 29 and AAS 31 in December 2007. This is applicable for annual reporting periods beginning 1 July 2008. Impact is expected to be insignificant.

Revised Interpretation 1038 Contributions by Owners made to Wholly-Owned Public Sector Entities. Editorial amendments to Interpretation 1038 due to changes to AASB 1004. This is applicable for annual reporting periods beginning 1 July 2008. Impact is expected to be insignificant.

AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 and AASB 1038]. An accompanying amending standard, also introduced consequential amendments into other Standards. This is applicable for annual reporting periods beginning 1 January 2009. Impact is expected to be insignificant.

AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]. Option to expense borrowing cost related to a qualifying asset had been removed. Entities are now required to capitalise borrowing costs relevant to qualifying assets. This is applicable for annual reporting periods beginning 1 January 2009. All Australian government jurisdictions are currently still actively pursuing an exemption for government from capitalising borrowing costs.

AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101. Editorial amendments to Australian Accounting Standards to align with IFRS terminology. This is applicable for annual reporting periods beginning 1 January 2009. Impact is expected to be insignificant.

Note 2. Income

	2008 \$	2007 \$
Income from Government		
Grants from the Department of Treasury and Finance (note 1(b))	14,589,000	13,686,000
Grants from Other Departments	847,270	—
Total Income	15,436,270	13,686,000

Note 3. Expenses

	2008 \$	2007 \$
The net result for the period includes the following expenses:		
Employee Benefits		
Salaries and Wages	5,576,021	5,321,410
Superannuation		
- Defined Contribution Plans	521,722	326,323
- Defined Benefit Plans	17,263	16,025
Annual and Long Service Leave Expense	522,456	646,687
Other On-Costs	367,924	389,865
Total Employee Benefits	7,005,386	6,700,310
Depreciation		
Leasehold Improvements	69,705	68,903
Office and Computer Equipment	107,994	123,047
Motor Vehicles under Finance Lease	39,231	28,636
Total Depreciation	216,930	220,586
Rental Expense Relating to Operating Leases		
Minimum Lease Payments	660,741	652,280
Auditors' Remuneration		
External Audit - Victorian Auditor-General's Office	12,600	11,600
Internal Audit	62,000	69,818
	74,600	81,418

Note 4. Receivables

	2008 \$	2007 \$
Current		
Amounts Receivable from Government Departments	9,042,555	6,229,409
GST Recoverable	92,764	122,572
	9,135,319	6,351,981
Non-Current		
Amounts Receivable from Government Departments	182,243	155,000
	182,243	155,000

Note 5. Property, Plant and Equipment

	2008 \$	2007 \$
Office and Computer Equipment - at Cost	1,692,393	1,279,268
Less: Accumulated Depreciation	(920,760)	(969,329)
	771,633	309,939
Leasehold Improvements - at Cost	1,233,087	1,223,999
Less: Accumulated Depreciation	(953,672)	(883,967)
	279,415	340,032
Motor Vehicles under Finance Lease	213,512	313,205
Less: Accumulated Depreciation	(38,392)	(64,117)
	175,120	249,088
	1,226,168	899,059

Reconciliation of Movements	2008	2007
	\$	\$
Office and Computer Equipment		
Carrying Amount at Start of the Period	309,939	357,431
Additions	569,694	76,778
Disposals	(6)	(1,223)
Depreciation Expense (note 3)	(107,994)	(123,047)
Carrying Amount at End of the Period	771,633	309,939
Leasehold Improvements		
Carrying Amount at Start of the Period	340,032	406,312
Additions	9,088	2,623
Depreciation Expense (note 3)	(69,705)	(68,903)
Carrying Amount at End of the Period	279,415	340,032
Motor Vehicles under Finance Lease		
Carrying Amount at Start of the Period	249,088	175,627
Additions	—	102,097
Net Transfer to Other Government Agencies	(34,737)	—
Depreciation Expense (note 3)	(39,231)	(28,636)
Carrying Amount at End of the Period	175,120	249,088

Note 6. Interest Bearing Liabilities

	2008 \$	2007 \$
Current Secured		
Lease Liabilities	53,668	164,642
Non-Current Secured		
Lease Liabilities	123,930	85,157
Aggregate Carrying Amount of Interest Bearing Liabilities		
Current	53,668	164,642
Non-Current	123,930	85,157
	177,598	249,799
Assets Pledged as Security		
The carrying amounts of non-current assets pledged as security are: Motor Vehicles under Finance Lease	175,120	249,088

Note 7. Provisions

	2008 \$	2007 \$
Current		
Employee Benefits		
- Annual Leave	599,535	621,615
- Long Service Leave		
Expected to be paid within 12 months	82,000	83,000
Expected to be paid after 12 months	626,446	658,264
- Performance Bonus	109,204	100,000
	1,417,185	1,462,879
Non-Current		
Employee Benefits		
- Long Service Leave	182,243	155,000
	182,243	155,000
Aggregate Carrying Amount of Provisions		
Current	1,417,185	1,462,879
Non-Current	182,243	155,000
	1,599,428	1,617,879

Note 8. Equity and Movements in Equity

	2008 \$	2007 \$
(a) Accumulated Surplus		
Accumulated Surplus at the Start of the Period	2,783,255	2,784,700
Net Result for the Period	408	(1,445)
Accumulated Surplus at the End of the Period	2,783,663	2,783,255
(b) Contributed Capital		
Balance at the Start of the Period	873,921	873,921
Balance at the End of the Period	873,921	873,921

Note 9. Financial Instruments

(a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement, and the basis on which income and expenses are recognised, with respect to each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the Financial Statements.

(b) Categorisation of financial instruments

			Carrying Amount	
	Note	Category	2008 \$	2007 \$
Financial Assets				
Cash	—	Cash	500	500
Receivables*	4	Loans and receivables at amortised cost	—	—
Financial Liabilities				
Payables	6	Financial liabilities at amortised cost	1,756,891	1,881,686
Interest bearing liabilities	7	Financial liabilities at amortised cost	177,598	249,799

* Receivables disclosed here exclude statutory receivables (i.e. Amounts owing from Government Departments and GST recoverable).

(c) Credit Risk

Credit risk arises from the financial assets of the Commission, which comprise cash and trade and other receivables. The Commission exposure to credit risk arises from the potential default of counterparties on their contractual obligations resulting in financial loss to the Commission. Credit risk is measured at fair value and is monitored on a regular basis.

Credit risk associated with the Commission's financial assets is minimal because the main debtor is the Victorian Government. For debtors other than government, it is the Commission's policy to only deal with entities with high credit ratings and to obtain sufficient collateral or credit enhancements where appropriate. The Commission does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The carrying amount of

financial assets recorded in the Financial Statements, net of any allowances for losses, represents the Commission's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Financial assets that are either past due or impaired

Currently the Commission does not hold any collateral as security nor credit enhancements relating to any of its financial assets.

As at the reporting date, there is no event to indicate that any of the financial assets were impaired.

There are no financial assets that have had their terms renegotiated so as to prevent them from being past due or impaired, and they are stated at the carrying amounts as indicated. There are no financial assets that are past due but not impaired.

(d) Liquidity Risk

Liquidity risk arises when the Commission is unable to meet its financial obligations as they fall due. The Commission operates under the Victorian Government's fair payments policy of settling financial obligations within 30 days and in the event of a dispute, making payments within 30 days from the date of resolution.

The Commission's exposure to liquidity risk is deemed insignificant based on prior periods' data and current assessment of risk. Maximum exposure to liquidity risk is the carrying amounts of financial liabilities.

The interest rate exposure and maturity analysis of financial liabilities are:

	Weighted average interest rate	Carrying amount	Interest rate exposure			Nominal amount	Maturity dates *			
			Fixed interest rate	Variable interest rate	Non-interest bearing		Less than 1 month	1-3 months	3 months – 1 year	1-5 years
	%	\$	\$	\$	\$	\$	\$	\$	\$	\$
2008										
Payables	-	1,756,891			1,756,891	1,756,891	1,756,891			
Finance lease liabilities	6.8	177,598	177,598			197,732	4,443	8,885	52,072	132,332
2007										
Payables	-	1,881,686			1,881,686	1,881,686	1,881,686			
Finance lease liabilities	6.9	249,799	249,799			268,220	78,184	77,810	17,077	95,149

*The amounts disclosed are the contractual undiscounted cash flows of each class of financial liabilities.

(e) Market risk

The Commission's exposure to market risk is primarily through interest rate risk. The Commission has no exposure to foreign currency and other price risks. Objectives, policies and processes used to manage each of these risks are disclosed in the paragraphs below.

Interest rate risk

Exposure to interest rate risk is insignificant and might arise primarily through the Commission's interest bearing liabilities. The only interest bearing assets or liabilities are the motor vehicle lease liabilities, with respect to which the interest rate is fixed for the term of the lease.

The Commission's exposure to interest rate risk is set out below.

Sensitivity disclosure analysis

Taking into account past performance, future expectations, economic forecasts, and management's knowledge and experience of the financial markets, the Commission believes the following movements are reasonably possible over the next 12 months (Base rates are sourced from Treasury Corporation of Victoria):

- A parallel shift of +0.5 per cent and -0.5 per cent in market interest rates (AUD) from year-end rates.

The impact on net operating result and equity for each category of financial instrument held by the Commission at year-end as presented to key management personnel, if the above movements were to occur, is \$Nil (2007 - \$Nil).

(f) Fair Value

The carrying amount of financial assets and financial liabilities recorded in the Financial Statements approximates their fair values.

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market prices; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

None of the classes of financial assets and liabilities are readily traded on organised markets in standardised form.

Note 10. Responsible Persons

In accordance with the Ministerial Directions issued by the Minister for Finance under the *Financial Management Act 1994*, the following disclosures are made regarding responsible persons for the reporting period.

Names

The persons who held the positions of Minister and Accountable Officer in the Commission during the financial year were as follows:

Responsible Minister

The Hon Tim Holding, MP, Minister for Finance, WorkCover and the Transport Accident Commission

Accountable Officer

Greg Wilson, Chairperson

Remuneration

Remuneration received or receivable by the Accountable Officer, in connection with the management of the Commission during the reporting period, was in the range:

\$270,000-\$279,999 (\$260,000 - \$269,999 in 2007)

Amounts relating to Ministers are reported in the Financial Statements of the Department of Premier and Cabinet.

Other Transactions

Other related transactions and loans requiring disclosure under the Directions of the Minister for Finance have been considered and there are no matters to report.

Note 11. Remuneration of Executives

The number of executive officers, other than the Accountable Officer, whose total remuneration exceeded \$100,000 during the reporting period, are shown in their relevant income bands in the first two columns of the table below. The base remuneration of these executive officers is shown in the third and fourth columns. Base remuneration is exclusive of bonus payments, long service leave payments, redundancy payments and retirement benefits.

Income Band	Total Remuneration		Base Remuneration	
	2008 No.	2007 No.	2008 No.	2007 No.
\$80,000 - \$89,999			—	1
\$100,000 - \$109,999	—	1		
\$130,000 - \$139,999	1	1	1	1
\$160,000 - \$169,999			1	3
\$170,000 - \$179,999	1	2	2	—
\$180,000 - \$189,999	2	1		
\$200,000 - \$209,999			—	1
\$210,000 - \$219,999			1	—
\$220,000 - \$229,999	—	1		
\$230,000 - \$239,999	1	—		
Total Numbers	5	6	5	6
Total Amount (\$)	913,287	997,202	858,222	842,444

Note 12. Contingent Liabilities and Contingent Assets

Contingent Liabilities

Court Proceedings

The Essential Services Commission is defending various court actions brought against it in relation to licensing requirements and the applicability of certain regulatory requirements of the Commission to the other parties to these actions. The potential liability for costs in the event that these actions are successful against the Commission is estimated at \$3,500,000.

Note 13. Commitments for Expenditure

	2008 \$	2007 \$
Capital Commitments		
Plant and Equipment, payable:		
Within one year	872,000	272,861
Later than one year but not later than five years	545,000	—
Later than five years	—	—
	1,417,000	272,861
Outsourcing Commitments		
Information Technology Services, payable:		
Within one year	19,200	269,595
Later than one year but not later than five years	380,000	404,393
Later than five years	—	—
	399,200	673,988
Operating Lease Commitments		
Commitments for minimum lease payments in relation to non-cancellable operating leases, not recognised as liabilities, are payable as follows:		
Within one year	667,080	667,080
Later than one year but not later than five years	723,736	1,390,816
Later than five years	—	—
	1,390,816	2,057,896
Finance Lease Commitments		
Commitments in relation to finance leases are payable as follows:		
Within one year	65,400	173,071
Later than one year but not later than five years	132,332	95,149
Later than five years	—	—
Minimum Lease Payments	197,732	268,220
Less: Future finance charges	(20,134)	(18,421)
Total Lease Liabilities	177,598	249,799
Shown in the Financial Statements as:		
Current (note 6)	53,668	164,642
Non-Current (note 6)	123,930	85,157
	177,598	249,799

Note 14. Superannuation

No liability is recognised in the Balance Sheet for the Commission's share of the State's unfunded superannuation liability. The State's unfunded superannuation liability has been reflected in the Financial Statements of the Department of Treasury and Finance.

However, superannuation contributions for the reporting period are included as part of salaries and associated costs in the Operating Statement of the Commission.

The Commission made contributions to the following major employee superannuation funds during the year:

Defined Benefit Funds

Government Superannuation Office
- New Scheme

Accumulation Funds

VicSuper

The Commission does not have any contributions outstanding to the above Funds and there have been no loans made from the Funds.

The bases for contributions are determined by the various schemes.

Note 15. Reconciliation of Net Result for the Reporting Period to Net Cash Inflows from Operating Activities

	2008 \$	2007 \$
Net Result for the Reporting Period	408	(1,445)
Depreciation	216,930	220,586
Loss on Disposal of Property, Plant and Equipment	26,477	1,223
Change in Operating Assets and Liabilities		
(Increase)/Decrease in Receivables	(2,810,581)	(692,365)
(Increase)/Decrease in Prepayments	—	17,396
Increase/(Decrease) in Payables	(124,795)	435,665
Increase/(Decrease) in Provisions	(18,451)	127,642
Increase/(Decrease) in Other Operating Liabilities	3,352,729	—
Net Cash Inflow from Operating Activities	642,717	108,702

Note 16. Administered Items

In addition to the specific controlled operations which are included in the Balance Sheet, Operating Statement and Cash Flow Statement, the Commission administers or manages activities on behalf of the State. The transactions relating to these State activities are reported as administered in this note. Administered transactions give rise to income, expenses, assets and liabilities and are determined on an accrual basis. Administered income consists principally of licence fees. Administered assets include licence fee income earned but yet to be collected. Licence fees are accrued on the basis of estimates, with final determination to be made by the Minister for Finance, WorkCover and the Transport Accident Commission.

	2008 \$	2007 \$
Administered Income		
Licence Fees	11,527,770	10,997,919
Other Income	1,536,036	600,348
Payments to Consolidated Fund	(11,259,144)	(13,892,346)
	1,804,662	(2,294,079)
Administered Expenses		
Net Administered Income/(Expenses)	1,804,662	(2,294,079)
Administered Assets		
Debtors	330,000	4,400
Accrued Income	11,431,561	10,564,172
	11,761,561	10,568,572
Administered Liabilities		
Unearned Income	300,000	911,672
	300,000	911,672
Net Administered Assets	11,461,561	9,656,900

Note 17. Non-Cash Financing and Investing Activities

During the period, motor vehicles with a fair value of \$Nil (2007 \$102,097) were acquired by means of finance leases.

Accountable Officer's and Chief Financial Officer's Declaration

We certify that the attached Financial Statements for the Essential Services Commission have been prepared in accordance with Standing Direction 4.2 of the *Financial Management Act 1994*, applicable Financial Reporting Directions, Australian Accounting Standards and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the Operating Statement, Balance Sheet, Statement of Recognised Income and Expense, Cash Flow Statement and Notes to the Financial Statements, presents fairly the financial transactions during the year ended 30 June 2008 and financial position of the Commission as at 30 June 2008.

We are not aware of any circumstance, which would render any particulars included in the Financial Statements to be misleading or inaccurate.



Peter Goddard
Chief Financial Officer
Department of Treasury and Finance

Melbourne
24 September 2008



Dennis Cavagna
Acting Chairperson
Essential Services Commission

Melbourne
24 September 2008

Independent Audit Report

To the Commission Members, Essential Services Commission

The Financial Report

The accompanying financial report for the year ended 30 June 2008 of the Essential Services Commission which comprises an operating statement, balance sheet, statement of recognised income and expense, cash flow statement, a summary of significant accounting policies and other explanatory notes to and forming part of the financial report, and the accountable officer's and chief financial officer's declaration has been audited.

The Commission Members' Responsibility for the Financial Report

The Members of the Essential Services Commission are responsible for the preparation and the fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the financial reporting requirements of the *Financial Management Act 1994*. This responsibility includes:

- establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error
- selecting and applying appropriate accounting policies
- making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit, which has been conducted in accordance with Australian Auditing Standards. These Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The audit procedures selected depend on judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, consideration is given to internal control relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used, and the reasonableness of accounting estimates made by the Commission Members, as well as evaluating the overall presentation of the financial report.

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

Matters Relating to the Electronic Presentation of the Audited Financial Report

This auditor's report relates to the financial statements published in both the annual report and on the website of the Essential Services Commission for the year ended 30 June 2008. The Members of the Essential Services Commission are responsible for the integrity of the web site. I have not been engaged to report on the integrity of the web site. The auditor's report refers only to the statements named above. An opinion is not provided on any other information which may have been hyperlinked to or from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications, they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on the Essential Services Commission web site.

Independence

The Auditor-General's independence is established by the *Constitution Act 1975*. The Auditor-General is not subject to direction by any person about the way in which his powers and responsibilities are to be exercised. In conducting the audit, the Auditor-General, his staff and delegates complied with all applicable independence requirements of the Australian accounting profession.

Auditor's Opinion

In my opinion, the financial report presents fairly, in all material respects, the financial position of the Essential Services Commission as at 30 June 2008 and its financial performance and cash flows for the year then ended in accordance with applicable Australian Accounting Standards (including the Australian Accounting Interpretations), and the financial reporting requirements of the *Financial Management Act 1994*.

MELBOURNE
24 September 2008


D.D.R Pearson
Auditor - General

APPENDIX B

Regulatory Framework

Regulated Industries and Relevant Legislation

At 30 June 2008, the following industries were regulated industries within the ambit of the Commission by virtue of the relevant legislation specified below:

- the electricity industry – generation, transmission distribution and retailing, under the *Electricity Industry Act 2000*
- the gas industry – distribution, underground storage and retailing, under the *Gas Industry Act 2001*
- the water industry – prices, service standards and conditions of service for the Victorian water industry including Melbourne Water and three metropolitan retailers under the *Water Industry Act 1994* and 16 regional and rural businesses under the *Water Act 1989*
- the industry of facilitating the export shipping of grain from 1 July 1995, under the *Grain Handling and Storage Act 1995*
- the port industry in the ports of Melbourne, Geelong, Portland and Hastings from 1 January 1996, under the *Port Services Act 1995*
- the rail (including trams) industry from 29 April 1999, access only, under the *Rail Corporations Act 1996*.

In addition, the Commission is responsible for the administration of the Victorian renewable energy scheme and the Victorian energy efficiency target scheme through the following legislation:

- the renewable energy industry from 1 January 2007, under the *Victorian Renewable Energy Act 2006*
- energy efficiency under the *Victorian Energy Efficiency Target Act 2007* (from 1 January 2009).

APPENDIX C

Essential Services Commission Publications 2007-08

The majority of the Commission's publications can be obtained from the web site at <http://www.esc.vic.gov.au>. Publications are also available from Information Victoria, 505 Little Collins Street, Melbourne 3000 and the Commission's reception at Level 2, 35 Spring Street, Melbourne 3000.

Corporate

Work Program 2007-08 (July 2007)

Annual Report 2006-07 (Oct. 2007)

Energy Industry – Electricity and Gas

Industry Guidelines

Framework Paper – Victorian Energy Efficiency Target Scheme Guidelines (March 2008)

Industry Codes

Draft Decision – Amendments to Energy Retail Code & Electricity Customer Transfer Code: Retailer of Last Resort & Assignment to Third Party (Aug. 2007)

Proposed Electricity Distribution Code (Sept. 2007)

Electricity Distribution Code (Oct. 2007)

Final Decision – Amendments to Energy Retail Code & Electricity Customer Transfer Code: Retailer of Last Resort & Assignment to Third Party (Oct. 2007)

Electricity Customer Transfer Code (Oct. 2007)

Electricity Distribution Code – Issue No. 3 – Effective 1 March 2008 (March 2008)

Comparative Performance Reports

Electricity Distribution Businesses – Comparative Performance Report 2006 (Oct. 2007)

Gas Distribution Businesses – Comparative Performance Report 2006 (Oct. 2007)

Victorian Energy Retail Businesses 2006-07 Compliance Report (Nov. 2007)

Energy Retail Businesses – Comparative Performance Report for the 2006-07 Financial Year (Dec. 2007)

Customer Information

Final Decision – Energy Financial Hardship Policy Performance Indicators (Sept. 2007)

Draft Decision – Energy Financial Hardship Policy Performance Indicators (July 2007)

Victorian Renewable Energy

Draft Decision –Victorian Renewable Energy Target Scheme: Stage 2 Rules (July 2007)

Final Decision –Victorian Renewable Energy Target Scheme: Stage 2 Rules (Sept. 2007)

Draft Decision – Audit Guideline (July 2007)

Victorian Renewable Energy Target Scheme Rules – Made under the *Victorian Renewable Energy Act 2006* (Sept. 2007)

VRET Scheme Audit Guideline (Sept. 2007)

Framework Paper – Victorian Energy Efficiency Target Scheme Guidelines (March 2008)

Victorian Energy Efficiency Target Scheme Annual Report, 2007 (June 2008)

General

Draft Decision – Energy Financial Hardship Policy Performance Indicators (July 2007)

Issues Paper – Review of CitiPower CBD Security of Supply Proposal (July 2007)

Final Decision – Energy Businesses' Compliance Reporting (July 2007)

Compliance Reporting Manual (Energy Distribution and Retail businesses) (July 2007)

Consultation Paper No. 1 – Framework and Approach: Advanced Metering Infrastructure Price Review (Aug. 2007)

Final Decision – Network Connection Arrangement for Small Embedded Generators (Aug. 2007)

Final Decision – Applications for Exclusion from the Financial Incentives for Supply Reliability: Supply Interruptions due to the 2006-07 Eastern Victoria Bushfires (Sept. 2007)

Final Decision Volume 2 – Price Determination: October 2005 Determination as amended in accordance with a decision of the Appeal Panel dated 27 February 2006; and an Order in Council under section 15A and 46D of the *Electricity Industry Act 2000* (28 August 2007) (Oct. 2007)

Draft Decision – CBD Security of Supply (Oct. 2007)

Draft Decisions – Applications for Exclusion from the Financial Incentives for Supply Reliability: Supply interruptions due to the State-Wide Customer Load Shedding Event of 16 January 2007 (Nov. 2007)

Advanced Metering Infrastructure Review – Final Framework and Approach: Volume 1, Guidance Paper (Dec. 2007)

Advanced Metering Infrastructure Review – Final Framework and Approach: Volume 2, Information Requirements and Templates (Dec. 2007)

Consultation Paper – Electricity distribution call centres performance indicators (Dec. 2007)

Draft Guidance Paper – Methodology for Assessment for Fair and Reasonable Feed-in Tariffs and Terms and Conditions (Jan. 2008)

Final Decisions – Applications for Exclusion from the Financial Incentives for Supply Reliability: Supply Interruptions due to the 11 February 2007 Wide-Scale Supply Interruption Event and Transmission Network Incidents January-August 2007 (Jan. 2008)

Final Decision – CBD Security of Supply (Feb. 2007)

Draft Decision – Retailer of Last Resort Customer Charges (Feb. 2008)

Final Decisions – Applications for Exclusion from the Financial Incentives for Supply Reliability: Supply Interruptions due to the State-Wide Customer Load Shedding Event of 16 January 2007 (Feb. 2008)

Guidance paper – Methodology for Assessment of Fair and Reasonable Feed-In Tariffs and Terms and Conditions (March 2008)

Final Decision – Application for Exclusion from the Financial Incentives for Supply Reliability – Supply Interruptions Due to An Outage Event at Mount Beauty Terminal Station on 14 May 2007 (March 2008)

Framework Paper – Victorian Energy Efficiency Target Scheme Guidelines (March 2008)

Final Decision – Retailer of Last Resort Customer Charges (May 2008)

Consultation Paper – Interval Meter Reassignment Requirements (May 2008)

Draft Decision – Electricity distribution call centres performance indicators (May 2008)

Water Industry

Industry Codes

Customer Service Code – Metropolitan Retail and Regional Water Businesses (July 2007)

Water Industry Regulatory Accounting Code – Issue No. 3 (Oct. 2007)

Rural Water Customer Service Code (June 2008)

2008 Water Price Review

Issues Paper – Water Plans (Dec. 2007)

Draft Decision – Regional and Rural Businesses Water Plans 2008–2013 (March 2008)

Draft Decision – 2008 Water Price Review: Draft Decision Volume II: Barwon Water (March 2008)

Draft Decision – 2008 Water Price Review: Draft Decision Volume II: Central Highlands Water (March 2008)

Draft Decision – 2008 Water Price Review: Draft Decision Volume II: Coliban Water (March 2008)

Draft Decision – 2008 Water Price Review: Draft Decision Volume II: East Gippsland Water (March 2008)

Draft Decision – 2008 Water Price Review: Draft Decision Volume II: FMIT Water (March 2008)

Draft Decision – 2008 Water Price Review: Draft Decision Volume II: Gippsland Water (March 2008)

Draft Decision – 2008 Water Price Review: Draft Decision Volume II: Goulburn-Murray Water (March 2008)

Draft Decision – 2008 Water Price Review: Draft Decision Volume II: Goulburn Valley Water (March 2008)

Draft Decision – 2008 Water Price Review: Draft Decision Volume II: GWM Water (March 2008)

Draft Decision – 2008 Water Price Review: Draft Decision Volume II: Lower Murray Water (March 2008)

Draft Decision – 2008 Water Price Review: Draft Decision Volume II: North East Water (March 2008)

Draft Decision – 2008 Water Price Review: Draft Decision Volume II: South Gippsland Water (March 2008)

Draft Decision – 2008 Water Price Review: Draft Decision Volume II: Southern Rural Water (March 2008)

Draft Decision – 2008 Water Price Review: Draft Decision Volume II: Wannon Water (March 2008)

Draft Decision – 2008 Water Price Review: Draft Decision Volume II: Western Water (March 2008)

Draft Decision – 2008 Water Price Review: Draft Decision Volume II: Westernport Water (March 2008)

Draft Decision – 2008 Water Price Review: Melbourne Water Drainage and Waterways Water Plans 2008–2013 (May 2008)

Final Decision – 2008 Water Price Review: Regional and Rural Businesses' Water Plans 2008–2013: Melbourne Water's Drainage and Waterways Water Plan 2008–2013 (June 2008)

General

Issues Paper – Water Tariff Structures Review (Oct. 2007)

Draft Report – Water Tariff Structures Review (Dec. 2007)

Final Report – Water Tariff Structures Review (Dec. 2007)

Performance Reports

Performance of Urban Water and Sewerage Businesses 2006-07 (April 2008)

Gas Access

Industry Guidelines

Consultation Paper – Proposed Revisions to Gas Industry Guideline No. 17: Regulatory Accounting Information Requirements (Dec. 2007)

Draft Decision – Proposed Revisions to Gas Industry Guideline No. 17: Regulatory Accounting Information Requirements (May 2008)

Gas Industry Guideline No. 17 – Regulatory Accounting Information Requirements: Issue No. 2 (June 2008)

Gas Access Arrangement Review

Draft Decision – Gas Access Arrangement Review 2008–2012 (Aug. 2007)

Final Decision – Gas Access Arrangement Review 2008–2012 (March 2008)

Review of Gas Access Arrangements 2008–2012 – Further Final Decision and Approval of Commission's Amended Revisions to Access Arrangement, Multinet (May 2008)

Review of Gas Access Arrangements 2008–2012 – Further Final Decision and Approval of Commission's Amended Revisions to Access Arrangement, Envestra (Albury) (May 2008)

Review of Gas Access Arrangements 2008–2012 – Further Final Decision and Approval of Commission's Amended Revisions to Access Arrangement, Envestra (Victoria) (May 2008)

Review of Gas Access Arrangements 2008–2012
– Further Final Decision and Approval of Commission's
Amended Revisions to Access Arrangement, SP AusNet
(May 2008)

General

Final Decision – Multinet South Gippsland Extension:
Application by Multinet for Approval of New Facilities
Investment to provide Reticulated Natural Gas to Lang
Lang, Korumburra, Leongatha, Inverloch and Wonthaggi
(July 2007)

Grain Handling

General

Draft Determination – Grain Access Undertakings:
Applications for General Access Determination
(March 2008)

Ports Services

General

Issues Paper – Review of Port Planning (Aug. 2007)
Final Report – Review of Port Planning (Dec. 2007)

Rail

Industry Guidelines

Rail Access Regime Dispute Resolution Guideline
(Aug. 2007)

Reform of the Victorian Rail Access Regime

Issues Paper – V/Line Access Arrangement Variation
(July 2007)
Draft Decision – V/Line Access Arrangement Variation
(Aug. 2007)
Final Decision – V/Line Access Arrangement Variation
(Sept. 2007)

Transport

Taxi Fare Review

Issues Paper – Taxi Fare Review 2007-08 (Dec. 2007)
Interim Report – Review of Taxi Fares 2007-08
(March 2008)
Draft Report – Taxi Fare Review 2007-08 (June 2008)

APPENDIX D

Legislation and Amendments

The following is a list of legislation applying to the Commission's responsibilities in relation to regulated industries as at 30 June 2008. Also listed is legislation that amended the principal Acts in 2007-08.

Essential Services Commission Act 2001

- *Essential Services Commission Amendment Act 2008*

Electricity Industry Act 2000

- *Energy and Resource Legislation Amendment Act 2008*

Gas Industry Act 2001

- *National Gas (Victoria) Act 2008*
- *Energy Legislation (Amendment) Act 2007*

Water Industry Act 1994

Water Act 1989

Grain Handling and Storage Act 1995

- *Grain Handling and Storage Amendment Act 2007*

Port Services Act 1995

- *Port Services (Amendment) Act 2007*

Rail Corporations Act 1996

National Electricity (Victoria) Act 2005

- *National Electricity (Victoria) Amendment Act 2007*

Gas Pipelines Access (Victoria) Act 1998

- *Energy Pipelines (Further Amendment) Act 2008*

Victorian Renewable Energy Act 2006

Victorian Energy Efficiency Target Act 2007

APPENDIX E

Section 33 Report

Price determinations made under section 33 of the *Essential Services Commission Act 2001* in the 2007-08 financial year – 21 determinations relating to water pricing.

APPENDIX F

Section 37 Report

Section 37 of the *Essential Services Commission Act 2001* empowers the Commission to obtain information or documents that may assist in the performance of its functions.

Notices issued under section 37 during 2007-08 – nil.

APPENDIX G

Section 38 Report

Section 38 of the *Essential Services Commission Act 2001* allows the Commission to disclose, under specified circumstances, information or the contents of a document given to the Commission under the Act.

Disclosure by the Commission under section 38 during 2007-08 – nil.

APPENDIX H

Consultancies

Consultant	Nature of work	Actual Fees 2007-08 \$	Future Fees \$
(a) Consultancies in excess of \$100,000			
Allen Consulting Group	Provision of specialist advice relating to rate of return and operating expenditure analysis in the Gas Access Arrangement Review	355,524	nil
Australian Project & Consulting Services P/L	Project management services for the delivery of an internet-based registry system	474,033	nil
Cardno (Qld) P/L	Professional advice on the review of expenditure forecasts relating to the 2008 water price review	106,427	nil
Deloitte Touche Tohmatsu	Provision of technical and strategic advice relating to the Gas Access Arrangement Review	175,612	nil
Gilbert & Tobin	Legal advice relating to the Gas Access Arrangement Review	214,263	nil
Gilbert & Tobin	Legal advice relating to the Commission's defence of Supreme Court proceedings initiated by Alinta Asset Management, including further advice relating to the subsequent appeal by AAM of the Supreme Court decision in favour of the Commission	1,251,147	nil
Motorbis Pty Ltd	Provision of modelling services relating to the Gas Access Arrangement Review	188,600	nil
Pacific Economics Group	Provision of econometric advice relating to the rate of change of operating expenditure calculations in the Gas Access Arrangement Review	144,052	nil
Pricewaterhouse Coopers	Professional advice on the review of demand forecasts relating to the 2008 water price review	254,000	nil
Pricewaterhouse Coopers	Contribution to a report on international best practice in container port terminal concessions and options for development	117,168	nil
Pricewaterhouse Coopers	Provision of technical and strategic advice relating to the Gas Access Arrangement Review	210,017	nil
Sinclair Knight Merz	Professional advice on the review of expenditure forecasts relating to the 2008 water price review	281,500	nil
Total		3,772,343	nil
(b) Number of consultancies less than \$100,000			
Number of Consultancies	68		
Total incurred Expenditure	5,132,977		

APPENDIX I

Freedom of Information

Details of Requests Received during 2007-08

Requests	2007-08	2006-07
Requests received	1	0
Requests granted in full	0	0
Requests granted in part	1	0
Requests denied	0	0
Requests transferred	0	0
Requests withdrawn	0	0
No document in existence	0	0
Requests pending as at 30 June 2008	0	0

Nominated Contact Person

Requests for access to documents should be addressed to:

Mr John Henry
Legal Counsel
Essential Services Commission
2nd Floor, 35 Spring Street
Melbourne Vic 3000

Further information

Further information concerning the *Freedom of Information Act* may be obtained from:

- *Freedom of Information Act 1982*
- Freedom of Information (Access Charges) Regulation 2004
- Freedom of Information Regulations 1998
- www.foi.vic.gov.au

Reports, Publications and Informal Requests

Details of reports and publications produced by the Commission can generally be obtained from the Commission's website: www.esc.vic.gov.au. Otherwise, requests may be directed to:

Essential Services Commission
Level 2, 35 Spring Street
Melbourne, Vic 3000
Telephone: (03) 9651 0222
or 1300 664 969

APPENDIX J

Compliance Index 2007-08

Compliance Index Disclosure Requirements

The Annual Report of the Essential Services Commission is prepared in accordance with the *Financial Management Act 1994* and the Directions of the Minister for Finance.

This index page facilitates the identification of compliance with the Directions of the Minister for Finance by listing references to disclosures in this financial report.

Information Available on Request

The *Financial Management Act 1994* determines the nature of information that must be included in a department's annual report. Under Financial Reporting Directions 22, certain additional information is required to be held by the department and made available, within the limitations of the *Freedom of Information Act 1982*.

Some of the additional data are included within this report. Requests for further information may be made in writing to the Freedom of Information Officer.

Financial Reporting Directions - Report of Operation

Legislation	Requirement	Page
Charter and purpose		
FRD 22B	Manner of establishment and relevant Ministers	8
FRD 22B	Objectives, functions, powers and duties	8,9
FRD 22B	Nature and range of services provided	8,9,10
Management and Structure		
FRD 22B	Organisational structure	10,11
Financial and other information		
FRD 22B	Operational and budgetary objectives and performance against objectives	36
FRD 22B	Statement of workforce data, merit and equity	37,39
FRD 22B	Occupational health and safety	40
FRD 15B	Executive officer disclosures	39
FRD 22B	Summary of the financial results for the year	47
FRD 22B	Significant changes in financial position during the year	N/A
FRD 22B	Major changes or factors affecting performance	N/A
FRD 22B	Subsequent events	N/A
FRD 22B	Application and operation of <i>Freedom of Information Act 1982</i>	76
FRD 22B	Compliance with building and maintenance provisions of <i>Building Act 1993</i>	46
FRD 29	Workforce Data Disclosures	38
Financial and other information		
FRD 25	Victorian Industry Participation Policy disclosures	N/A
FRD 22	Statement on National Competition Policy	46
FRD 22B	Application and operation of the <i>Whistleblowers Protection Act 2001</i>	80
FRD 22B	Details of consultancies over \$100,000	75
FRD 22B	Details of consultancies under \$100,000	75
FRD 12A	Disclosure of major contracts	N/A
FRD 24A	Reporting of office-based environmental impacts	N/A
FRD 22B	Statement of availability of other information	77
FRD 10	Disclosure Index	77
FRD 8A	Budget portfolio outcomes	N/A

Financial Reporting Directions - Report of Operation

Legislation	Requirement	Page
Financial Statements		
Financial Statements required under Part 7 of the FMA		
SD 4.2 (b)	Operating Statement	50
SD 4.2 (b)	Balance Sheet	51
SD 4.2 (b)	Statement of Recognised Income and Expense	52
SD 4.2 (b)	Cash Flow Statement	52
SD 4.2 (c)	Accountable officer's declaration	68
SD 4.2 (c)	Compliance with Ministerial Directions	53,54,55,56
SD 4.2 (d)	Rounding of amounts	N/A
SD 4.5.5	Risk management attestation	41
Other Disclosures in Notes to the Financial Statements		
FRD 13	Disclosure of parliamentary appropriations	N/A
FRD 9A	Departmental disclosure of administered assets and liabilities	67
FRD 11	Disclosure of ex-gratia payments	N/A
FRD 21	Responsible persons and executive officer disclosures	63
FRD 23	Superannuation liabilities and disclosure	66

Legislation

Freedom of Information Act 1982

Building Act 1983

Financial Management Act 1994

Audit Act 1994

Whistleblowers Protection Act 2001

Victorian Industry Participation Policy Act 2003

APPENDIX K

Whistleblowers Protection Act 2001

The Essential Services Commission is a public body required to produce annual reports of operations, in accord with Part 7 of the *Financial Management Act 1994*. The Commission is accordingly obliged to make certain disclosures pursuant to section 104 (a-j) of the *Whistleblowers Protection Act 2001*. These are set out below.

The Commission has developed procedures to satisfy its obligations under part 6 of the *Whistleblowers Protection Act 2001*. Those procedures are extensive and may be obtained by contacting the Commission.

Information required pursuant to *Whistleblowers Protection Act 2001*:

Statistics for 2007-08	
Number and types of disclosures made to the Commission	0
Number of disclosures referred by the Commission to the Ombudsman for determination as to whether they are public interest disclosures	0
Number and types of disclosed matters referred to the Commission by the Ombudsman	0
Number and types of disclosed matters referred by the Commission to the Ombudsman	0
Number and types of investigations of disclosed matters taken over by the Ombudsman from the Commission	0
Number of requests made under section 74 of the <i>Whistleblowers Protection Act</i> to the Ombudsman to investigate disclosed matters	0
Number and types of disclosed matters that the Commission declined to investigate	0
Number and types of disclosed matters that were substantiated on investigation and the action taken on completion of the investigation	0
Recommendations of the Ombudsman under the <i>Whistleblowers Protection Act</i> that relate to the Commission	0

APPENDIX L

Section 55 Report

Number of appeals lodged under section 55 of the *Essential Services Commission Act 2001* - nil.

