

ANNUAL REPORT

2014-15



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Chief Executive Officer

David Heeps

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Dominic L'Huillier

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8 October 2015

The Hon Robin Scott MP
Minister for Finance
Level 5
1 Macarthur Street
East Melbourne 3002

Dear Minister,

ESSENTIAL SERVICES COMMISSION ANNUAL REPORT 2014-15

We are pleased to present the Essential Services Commission's Annual Report for 2014-15.

The Annual Report has been 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*. It also satisfies the requirements of regulation 9 of the Essential Services Commission Regulations.

During 2014-15, the Commission completed a range of regulatory projects across energy, water, transport, local government and other industry sectors. Most notably, the Commission managed major inquiries into the hardship policies, practices and procedures of energy retailers, the establishment of a local government rates capping and variation framework, and the regulatory arrangements for the Victorian accident towing industry. In addition, it continued to invest in improving its administration of the Victorian Energy Efficiency Target, particularly through enhanced internet-based portals to reduce processing times for businesses.

We place on record our appreciation to the Commission's staff for their commitment to delivering our regulatory, administrative and advisory program throughout 2014-15.

Yours sincerely,

DR RON BEN-DAVID
Chairperson

RICHARD CLARKE
Commissioner

JULIE ABRAMSON
Commissioner



HIGHLIGHTS OF 2014–15

- Commenced an inquiry into the hardship policies, practices and procedures of energy retailers, along with a review of whether the regulatory framework governing retailers' obligations represents best practice.
- Approved seven new licences to sell energy to residential and small business customers and one new licence to sell to large customers, the greatest number of new licences to sell energy that the Commission has issued in any financial year to date.
- Commenced a review into the Commission's energy licensing framework to ensure the framework is able to respond to new technologies and new business models.
- Commenced an inquiry into the establishment of a local government rates capping and variation framework.
- Commenced a review of alternative approaches to regulation of the water sector.
- Registered 4.9 million certificates under the Victorian Energy Efficiency Target (VEET) scheme and enhanced the internet-based accreditation, application and product approval systems to reduce processing times.
- Undertook a survey of taxi operators in regional and country Victoria to develop a cost profile for use in the Commission's first price monitoring annual report.
- Investigated and addressed systemic energy retailer compliance issues, including billing issues and wrongful disconnections.
- Released reports into the annual performance of the water, retail electricity and gas and domestic building insurance sectors.

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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, subsuming the former Office of the Regulator-General (the economic regulator of regulated utility industries in Victoria from 1994).

On January 1 2009, responsibility for general administration of the *Victorian Energy Efficiency Target Act 2007* was assigned to the Commission.

At 30 June 2015, the industries regulated by the Commission were electricity, gas, water, taxis, ports and rail freight.

ABOUT THE ESSENTIAL SERVICES COMMISSION

WHY THE COMMISSION WAS ESTABLISHED

The Commission was established to provide 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. Since its establishment, the Commission has widened its program to include additional functions for Ministerial reviews and the administration of the Victorian Energy Efficiency Target scheme.

OBJECTIVES OF THE COMMISSION

The primary objective of the Commission is to 'promote the long-term interests of Victorian consumers with regard to the price, quality and reliability of essential services'.

Matters to which the Commission has regard in seeking to achieve its objectives in relation to each particular industry are the:

- Efficiency in the industry and incentives for long-term investment
- Financial viability of the industry
- Degree of, and scope for, competition within the industry, including countervailing market power and information asymmetries
- Relevant health, safety, environmental and social legislation applying to the industry
- Benefits and costs of regulation (including externalities and the gains from competition and efficiency) for consumers and users of products or services (including low income and vulnerable customers); and for regulated entities
- Consistency in regulation between States and on a national basis.

FUNCTIONS OF THE COMMISSION

The Act specifies the following functions of the Commission:

- 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 under specified legislation.

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 *Accident Towing Services Act 2007*, the *Transport (Compliance & Miscellaneous) Act 1983*, the *Port Services Act 1995* and the *Victorian Energy Efficiency Target Act 2007*.

PERFORMING THE COMMISSION'S FUNCTIONS

The Commission performs its functions via both formal and informal consultation 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. Consultation may 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 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.

GOALS

The Essential Services Commission's goals are to:

- Support productivity growth and Government reforms through innovative and practical solutions
- Promote incentive structures to minimise regulatory intervention
- Establish robust networks within government and industries
- Communicate clearly.

THE ESC'S ORGANISATIONAL STRUCTURE

The ESC is structured as a Commission comprising a Chairperson and two part-time Commissioners, supported by 62 staff (as at 30 June) led by a Chief Executive Officer.

THE CHAIRPERSON:

Dr Ron Ben-David B.Sc (Optometry), B.Comm (Hons), PhD (Economics)

Dr Ron Ben-David joined the Victorian Department of Treasury and Finance in 1998. This was followed by a number of years in the Department of Premier and Cabinet, where he became a Deputy Secretary in 2004. In 2007, he established Victoria's Office of Climate Change and then headed the Secretariat for the Garnaut Climate Change Review.

He has served as Chairperson of the Essential Services Commission of Victoria since late 2008.

Dr Ben-David has written and presented on a wide range of issues including: governance and regulation in the water industry, retail energy markets, climate change, sustainability, federalism, local government, taxi reform and economic philosophy.

In 2005, Dr Ben-David became a Fellow of the Institute of Public Administration Australia (Vic.)

COMMISSIONERS:

Richard Clarke B.Ec (Hons), M.Ec

Richard has had extensive experience working as an economist in both the public and private sectors. After graduating with a Master of Economics from Monash University, Richard worked for the Centre of Policy Studies at Monash University, Shell Australia (including five and a half years as chief economist), the Victorian Department of Treasury and Finance, the Australian and New Zealand Productivity Commissions, the Better Regulation Executive (London), and the Victorian Competition and Efficiency Commission.

Julie Abramson BA, LLB, LLM (Monash)

Julie Abramson was appointed part-time commissioner in August 2014. A lawyer with over 20 years regulatory experience, Julie has worked at both the State and Federal levels of government, as well as in the private sector. With experience across a broad range of policy areas, Julie has particular expertise in economic-related regulatory matters, including as an advocate for business groups and employer associations and senior risk roles with a major Australian bank. Julie also has senior public sector experience with the Australian Securities and Investments Commission (ASIC) and within Government.

CHIEF EXECUTIVE OFFICER:

David Heeps BE (Agric), MEngSci, GradDip Applied Corp Governance

David was appointed Chief Executive Officer in February 2010. His appointment followed 10 years at City West Water, with roles in corporate planning, pricing, government liaison and regulatory compliance.

Prior to City West Water David worked for six years in the Victorian Government on both federal and state-wide water resources issues, and later headed a group supporting the relevant Ministers in their role of over-viewing the performance of the various water businesses in the State. He worked in various roles over 16 years in the Melbourne Metropolitan Board of Works and spent three years as a research fellow at Monash University. He has attained qualifications in corporate governance with the Australian Institute of Company Directors and Governance Institute of Australia.

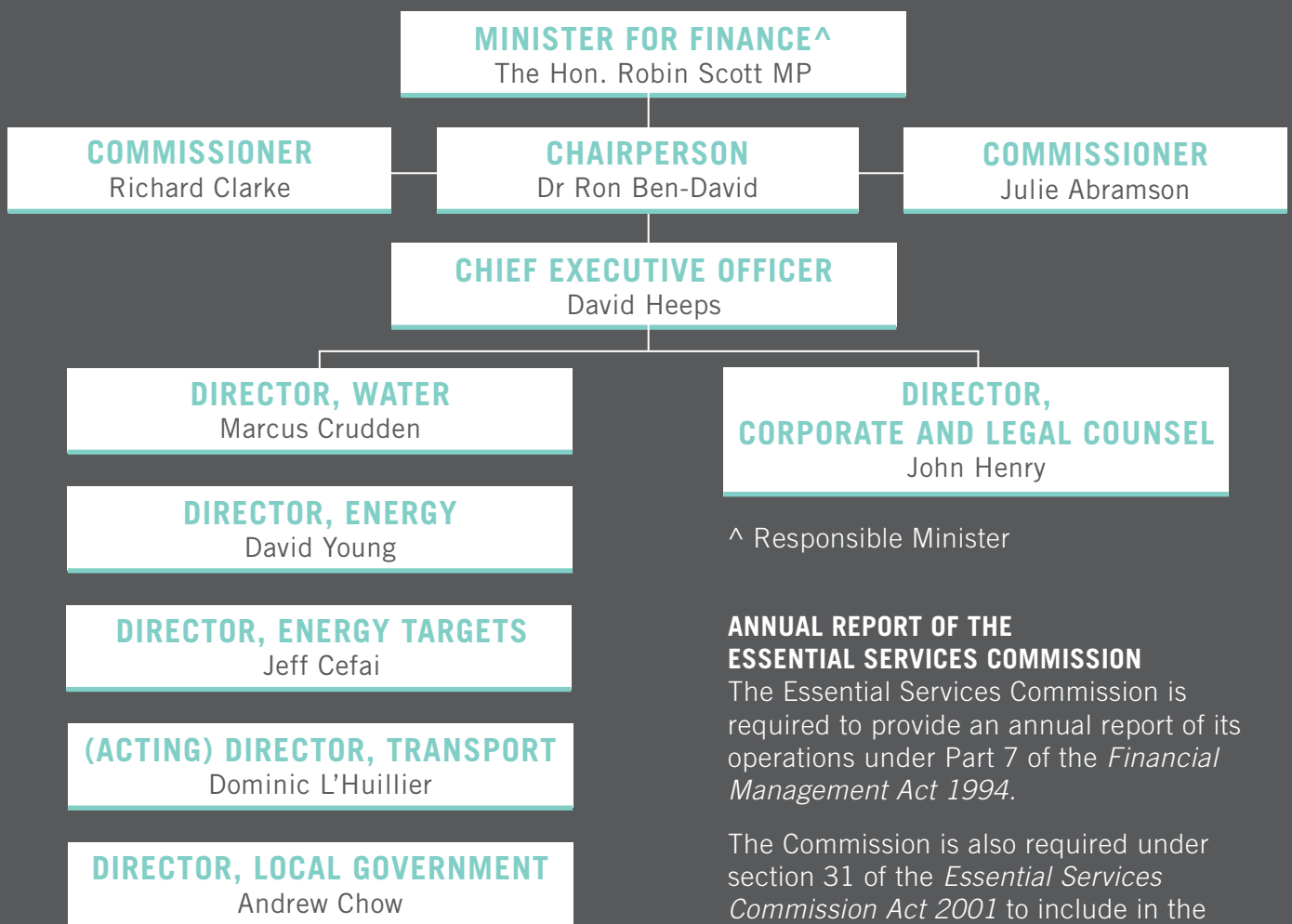
ORGANISATIONAL STRUCTURE



SENIOR ADMINISTRATIVE STRUCTURE

The Commission's organisational structure (as at 30 June 2015) 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.



[^] Responsible Minister

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*.

THE YEAR IN REVIEW

CHAIRPERSON

I am pleased to present the Annual Report for the year ending 30 June 2015.

The Commission welcomed Julie Abramson in August as a part-time commissioner. Julie brings a broad legal, regulatory and policy perspective, providing insight and thought leadership for the Commission and its staff.

Our work program over the past year has been broader and more ambitious than ever before. We have major reviews underway across all work streams. Each review is unique, but we have a common goal—economic regulation that effectively and efficiently responds to contemporary community expectations, policy priorities and market conditions.

The Commission commenced a review into its energy licensing framework. Promoting competition in the market, and maintaining appropriate consumer protections, will remain at the core of the licensing framework. Our review examines how to ensure the framework responds flexibly and proportionately to new technologies and new business models that are rapidly changing how energy is produced and supplied to Victorian customers.

We also commenced an inquiry into the hardship policies, practices and procedures of energy retailers, following a terms of reference from the Ministers for Energy and Resources, and Finance. Under the current regulatory framework, retailers have broad discretion over how they support customers who may be struggling to pay their energy bills in full and on time. As part of the inquiry, we are reviewing whether the framework represents best practice. We released an Issues Paper in March and received 22 submissions from retailers, consumer groups and regulators. We also engaged with more than 40 organisations around the state. We released a Draft Report in September 2015 and we will submit a Final Report later in the year, following further consultation, including establishing technical working groups.

The Commission is again working closely with the local government sector, following a request from the Ministers for Local Government and Finance to investigate establishing a local government rates capping and variation framework. We released a Consultation Paper in April seeking feedback from stakeholders on key issues, and received nearly 300 submissions from ratepayers, ratepayer associations, councils, unions and community organisations. We released a Draft Report in July and we have met with, and presented to, hundreds of stakeholders since then. We will submit our Final Report to Ministers by the end of September.

We are also conducting an inquiry into the economic regulatory arrangements for the Victorian accident towing industry. The inquiry examines whether the current arrangements remain fit-for-purpose given changes to how the accident towing industry operates. We will release our Draft Report in coming months.

Amendments to the Water Industry Regulatory Order (WIRO) now allow the Commission to consider alternative approaches for pricing water and sewage services. As a result, we have initiated the most extensive review in over a decade into setting prices for these services. We are reviewing best practice internationally as well as consulting with industry, community groups, academics and other experts. We commissioned five 'think pieces', which are available on our website.



A recurring theme is requiring regulated entities to better consult with their customers on the services they will deliver and the prices to be paid in return. Experience elsewhere shows that if service providers engage meaningfully with their customers, there is less need for regulatory intervention. This emerging emphasis on regulated entities engaging with consumers is the theme of this year's essay on the following page.

The Victorian Energy Efficiency Target (VEET) Scheme will expand in coming years, with the Victorian Government announcing the target will increase over the years to 2020. The scheme will also include new activities and, perhaps most importantly, project-based assessments will enter the scheme in the next year. This change presents a significant new enterprise for the Commission and we have initiated a full-scale project to ensure we are prepared for this important development.

Besides these large, new projects, the Commission's business-as-usual work program continues unabated. Some examples include:

- We granted seven new licences to sell energy to residential and small business customers and one new licence to sell to large customers. This is the largest number of new licences to sell energy that the Commission has issued in any financial year to date.
- We commenced preparations for the forthcoming Melbourne Water and Goulburn-Murray Water price reviews. We released Guidance Papers for their service and price proposals for the next pricing period, starting 1 July 2016.
- We registered 4.9 million certificates under the VEET scheme, created by 184 accredited businesses and individuals.

- We continued to invest in our audit and compliance program for the VEET scheme, and enhanced our internet-based accreditation, application and product approval systems.
- We surveyed taxi operators in regional and country Victoria, as part of our new statutory responsibility to monitor taxi fares. We used the information to develop a cost profile for our first price monitoring annual report, which will be released later this year. We will also use the information to prepare for our review into taxi fares in the metropolitan region, due in the next 12 months.

I would like to thank the members of the Commission's external Customer Insights Panel, formed this year to assist the Commission by offering consumer insights on a number of our projects. Your time and feedback has been most valuable.

Additionally, I would like to express my gratitude to David Heeps, our Chief Executive Officer, and all the team at the Essential Services Commission. We have faced many challenges together over the past year and I expect we will face many more in the times ahead. You have never wavered in your commitment or focus on the task at hand, and you have done so with good humour and with aplomb. That's why the Commission is such a great place to come to work every morning.



Dr Ron Ben-David
Chairperson

ECONOMIC REGULATION AND CUSTOMER ENGAGEMENT

In last year's annual report we described how economic regulation, if well implemented, enables market or market-like outcomes to emerge where they otherwise might not. This essay expands on the role of customer engagement by service providers operating under a regulatory framework.

In competitive markets, customers interact directly with the suppliers of goods and services. Customers can choose what they buy and who supplies it. To be viable, suppliers must compete for customers via the price, quality and service they offer. In competitive markets, suppliers compel the market forward as they vie to win custom. In this way, competition ensures suppliers endeavour to discover and respond to customer preferences. Suppliers failing to do so are likely to meet with commercial failure.

In monopoly markets, especially those involving providing essential services, customers cannot choose their supplier. Nor can customers voluntarily exit the markets for essential services. Customers and their suppliers are locked into a relationship. In such circumstances, there is a risk that monopoly suppliers become complacent and less responsive to customer preferences. Customers may also become complacent and disgruntled if they feel unable to influence the services their provider delivers — services for which they are nonetheless obliged to pay. Similar outcomes may also emerge in oligopolistic markets, especially where the relevant service is 'essential'.

In such markets, economic regulation attempts to emulate the incentive properties of competitive markets. Traditionally, economic regulation was an exercise almost exclusively involving the regulator and the regulated supplier. While there may have been some interaction between the regulator and customers, there was little expectation that regulated suppliers would involve their customers when preparing their submissions to the regulator.

A more contemporary model of economic regulation is now emerging. The regulator does not place itself between a regulated service provider and its customers. Instead, the regulator establishes the framework within which the parties must engage and then assesses the product of that interaction when exercising its regulatory authority as the decision maker.

If the service provider demonstrates it has a well-informed understanding of its customers' preferences and concerns, and that it can provide services at a price that customers are willing to pay, then the regulator less intrusively investigates the service provider's proposed prices. This approach offers outcomes that are more tailored to local circumstances. It also means faster and less costly approval processes.

This contemporary approach requires genuine and meaningful customer engagement to work. It should be tailored to the specific needs and circumstances of customers and service providers. Successful customer engagement cannot therefore be reduced to a simple template or checklist. Mandating a particular type of engagement strategy or mechanism ignores the diversity of interests that can arise.

We believe regulated businesses and their customers are best placed to find the optimal ways to engage, depending on the required content of the consultation.

We have already seen different engagement approaches emerging internationally and experimentation with different forms of customer engagement in Victoria. In our last water price review in 2013, we encouraged the state's 19 water authorities to engage more closely with their customers. It was pleasing to see the variety of techniques adopted across the state. We did not judge the approaches used; rather we encouraged the industry to share the lessons of their efforts and learn from each other's experiences.

To date, customer consultation in Victorian regulated industries has generally occurred quite late in the planning process. Service providers might spend up to three years developing their plans before involving customers. That is, service providers aimed engagement at informing customers about the plans that they have already developed. Customer engagement has effectively been seen as the last step before the proposal is submitted to the regulator.

We believe that in the future, customer engagement should occur long before a proposal is put to the Commission. Indeed, we expect to see far more elaborate customer consultation at the beginning of the service provider's planning process, so that the entire plan embeds the things that matter most to customers (while meeting all other statutory and regulatory obligations). The Commission's role would be to confirm meaningful engagement occurred, and that all relevant issues were identified and accounted for during the planning process and in communications with customers.

Effective customer engagement will better align consumer and provider interests. It does not, nor can it, guarantee all customers will be fully satisfied with the outcome. Unanimity is an unrealistic expectation, but good consultation will allow the service provider to hear, consider and address all concerns.

We do not intend to mandate specific techniques for customer engagement; that is not our area of expertise. Nonetheless, we intend to provide guidance on the outcomes we expect from customer engagement and how providers might use these outcomes to inform their submissions to the regulator. We expect our guidance material will include successful examples of engagement in Victoria and elsewhere. There clearly will be no golden rule for effective engagement and we acknowledge gains can be made only from 'learning by doing'. This is true for service providers, their customers and the Commission.

We will continue to seek ways to lighten the hand of the regulator and enable service providers and customers to agree upon solutions that provide mutual benefit. In the coming year, we will look to embed the principle of engagement in the frameworks that we administer. Most prominently, this will include the regulatory arrangements for pricing submissions from the Victorian water authorities and rate capping and variation framework we are establishing for local government.

We have published discussion papers to explore alternative regulatory approaches, albeit specific to the water sector, on our website. These papers also informed the material we produced for our role in local government.

REVIEW OF ORGANISATION AND OPERATIONS – CEO

In 2014-15 the Essential Services Commission spent \$16 million to achieve its forecast outputs. The main areas of expenditure included an inquiry into energy hardship policies, a local government rate capping and variation review, development of alternative pricing methodologies for the Victorian water sector, preparation of a taxi information database, and developing options for project based assessment in the Victorian Energy Efficiency Target scheme.

The Commission maintained effective corporate governance through 39 commission meetings, 12 board meetings and four Audit and Risk Committee meetings. In addition, our internal auditors conducted reviews of IT security, stakeholder management of the Victorian Energy Efficiency Target scheme, and the Commission's Business Continuity Plan, including its Disaster Recovery Plan, to ensure the Commission is operating within Victorian Government guidelines.

The Commission's Project Management Framework was updated to better reflect the nature of the Commission's regulatory projects and to ensure compliance with key financial and project controls during the life cycle of a project.

With an increasing workload in energy regulation the Commission placed responsibilities for the energy industry into a stand-alone division (previously this area and the Victorian Energy Efficiency Target scheme were combined).

Following extensive testing, the Commission enhanced its cloud-based computing by moving our disaster recovery site to a separate cloud facility. In addition, much effort has been directed towards the development of a new Commission website, including a database of its extensive library of reports and documents. The new site will be launched in the next financial year.

As part of its Environmental Action Plan, the Commission is replacing internal paper-based forms with online applications.

There were no occupational health and safety claims reported during the year.

Finally, the Commission, together with the Department of Treasury and Finance and the Department of Premier and Cabinet, commenced a Mentoring Program which will give its staff access to a wider group of mentors and the opportunity for personal and professional development.

I wish to thank staff for their dedication and diligence in meeting the challenges offered by many and varied regulatory, administrative and advisory tasks throughout the year.



David Heeps
Chief Executive Officer





COMMISSION OUTCOMES 2014–15



ENERGY DIVISION

The Essential Services Commission is responsible for licensing the supply and sale of electricity and gas in Victoria. The Commission is also responsible for regulating the retail and distribution of electricity and gas, although it has no role in determining price.

During 2014-15, in response to an evolving energy industry, the Commission commenced a process of review and modernisation of the regulatory framework. This process aims to ensure that the framework is able to respond flexibly and proportionately to current and future developments, in both products and business models, by facilitating innovation and promoting competition in the market, while maintaining appropriate consumer protections.

This context has driven the projects pursued by the Commission over the past year. This process of modernisation will continue into 2015-16.

The Commission's work in this area falls into a number of categories:

- **Monitoring and Reporting** - on the compliance and performance of licensees
 - **Compliance and Auditing** - of licensees to ensure statutory obligations are met
 - **Enforcement** - of requirements under the regulatory framework when breaches occur
 - **Inquiries** - as requested by Government, including the current Inquiry into the Hardship Arrangements of Energy Retailers.
- **Licensing and Standards** - ensuring licensing requirements and standards of operation for the supply of energy and gas are met

LICENSING AND STANDARDS

All businesses that generate, distribute and sell energy are required to hold and maintain a licence and comply with a set of standards.

The Commission works with the industry to assess applications for new licences; variations to licences; and revocation of licences.

Through its licensing obligations, the Commission defines and implements standards that safeguard the integrity of the market and help maintain consumer confidence in the industry.

LICENSING APPLICATIONS

The Commission assessed 17 energy licence applications over the year, resulting in grants, variations to, and revocations of licence. The Commission granted seven new licences to sell energy to residential and small business customers and one new licence to sell to large customers. This represents the greatest number of new licences to sell energy that the Commission has granted in any financial year to date.

The Commission also varied six existing licences; one which allowed the licensee to sell to residential/small business customers, as well as large and medium-sized customers; one which removed authorisation to perform licensable activities; and four to reflect changes in the licensee's name. Three licences were revoked in 2014-15 at the request of the licensees.

ENERGY LICENSING REVIEW

In June, the Commission released an Issues Paper reviewing the efficiency and effectiveness of Victoria's licence framework relating to the supply and sale of electricity and gas. This paper explored the current framework's ability to respond to an evolving industry and its ability to accommodate emerging technologies and business models.

A series of forums are scheduled for July, with the Draft Report due for release in early 2016.

HARMONISATION OF ENERGY RETAIL CODE WITH NATIONAL FRAMEWORK

In 2012 a national set of rules governing the supply and sale of energy was introduced. States were given the opportunity to sign up to the national agreement. The Victorian Government has decided to defer transition to the national scheme to ensure there is no reduction to key protections for Victorian consumers. However, the Commission was asked to harmonise Victorian energy regulation, to the extent possible, with the national code. In July 2014, the Commission published its final decision on the harmonisation of the *Energy Retail Code* with the rules that apply to retailers when they operate in other participating jurisdictions. The harmonised *Energy Retail Code (Version 11)* took effect on 13 October 2014.

Energy retailers were required to publish their new or updated contract terms and conditions by mid-December and the Commission reviewed all the retailers' published contracts to ensure that they complied with the harmonised code.

YOURCHOICE WEBSITE AND ADVERTISING CAMPAIGN

The Commission continues to play a role in informing customers of the competitive market and how to exercise choice of their retailer. Through the YourChoice initiative, the Commission provides advice and information to customers via a dedicated website and the Information Victoria call centre. A retail gas offers comparator and energy information was updated on the website throughout the year.

The Commission entered the third year of its dedicated YourChoice advertising campaign, providing the community with information regarding a range of billing issues. The aim was to ensure consumers were better informed about their rights and responsibilities under the Energy Retail Code when liaising with their energy retailer.

Online and mobile banner advertising, non-English speaking radio and regional newspapers were used to promote an information booklet, 'Managing your Energy Bill', provided on the Commission's website. Copies were available in Chinese, Arabic, Vietnamese, Italian, Greek and Turkish.

The advertising campaign generated substantial traffic to the YourChoice website during the campaign. Visits increased by over 300 per cent during the period, with around 15,000 energy customers visiting the site each week, over half of these being new customers.

MONITORING AND REPORTING

The Commission has a role in monitoring and reporting how licensees comply with and perform against the regulatory framework.

FLEXIBLE PRICING

Flexible pricing was launched in Victoria in September 2013. This model takes advantage of the smart meter technology and consumers are charged different rates for electricity at different times of the day, reflecting peak, off-peak and shoulder usage times. It aims to encourage customers to shift their energy consumption from peak demand times to lower demand times.

The Commission released its first comparative performance report on electricity flexible prices in December 2014 to fulfil its statutory requirement to report to the Minister for Energy and Resources on published standing and market offers and other features of the competitive market. The report shows the cost of the various retailers' available flexible pricing offers for typical usage profiles.

FEED-IN TARIFF REVIEW

In 2014, the Commission became responsible, under the *Electricity Industry Act 2000 (Vic)*, for annually setting the minimum price per kilowatt hour that electricity retailers must pay customers for the electricity they produce and feed back into the grid. This is referred to as a Feed-in-Tariff.

The majority of these customers are individuals who have solar panels fitted to their roofs.

COMPLIANCE AND AUDITING

COMPLIANCE

ENERGY RETAILERS COMPLIANCE REPORT

Energy retailers are required to report bi-annually to the Commission any non-compliance with their regulatory obligations. Over the past year the Commission released the 2012-13 and the 2013-14 Energy Retailers' Compliance Report. These reports provide an account of non-compliance, as reported by retailers.

During 2013-14, retailers reported 1,274 breaches of codes, guidelines and other regulatory instruments. This was a significant increase from the 675 breaches reported in the 2012-13 Report. A breach is counted when a retailer fails to meet one of the regulatory obligations that apply. The Commission drew particular attention to the number of breaches leading to wrongful disconnection.

Throughout 2015, the Commission expects to implement improvements to its compliance monitoring, reporting and enforcement frameworks, in line with the Government's policies. In preparation, the Commission is working with stakeholders to streamline the breach reporting process by reviewing the regulatory obligations and classifications that retailers report against, and preparing guidance for retailers to improve the consistency of their reports.

AUDITING

The Commission's auditing regime is designed to provide assurance that the system of licence compliance management and self-reporting is effective in ensuring licensees meet their statutory obligations.

In 2014-15, the audits conducted by the Commission identified a number of compliance matters, including non-compliant disconnection warning notices and marketing conduct.

RETAIL AUDIT PROGRAM

The retail audit program focuses on key licence obligations, including the obligation to comply with industry codes and guidelines and the reliability and quality of reported information.

Examples of areas covered by the audit include the practices and controls surrounding the licensee's compliance framework, life support, complaints handling, billing and credit management, financial hardship and marketing conduct.

The results of the audits assist the Commission to form an assessment of the licensee's current technical capacity. Audit results are published on the Commission's website.

ADVANCED METERING INFRASTRUCTURE AUDIT

The Commission reported on the findings of independent audits conducted of the five licensed electricity distributors to assess compliance with their Advanced Metering Infrastructure (smart meter) regulatory obligations.

As a result of these audits one electricity distributor (Ausnet Services) provided an administrative undertaking in which it committed to a series of targets for the installation of its smart meters.

ENFORCEMENT

Throughout the year, the Commission assessed, investigated and responded to reports of systemic issues and significant non-compliance with licence and code obligations, as reported by the retailers themselves, their customers, advocacy groups and the Energy and Water Ombudsman (Victoria) Limited (EWOV).

The Commission increased its focus on enforcement in 2014-15 as the result of an increasing number of complaints, reported breaches and wrongful disconnections.

WRONGFUL DISCONNECTION

The Energy and Water Ombudsman (Victoria) (EWOV) referred 11 cases of disconnection of supply to domestic customers by their energy retailers, to the Commission to determine whether the disconnection was wrongful. In addition, seven disconnection disputes were carried over from the 2013-14 financial year. Of this total of 18 referrals, three were withdrawn; in three cases the disconnection was not found not to be wrongful; in eight cases the disconnections were determined to be wrongful. Decisions on the remaining four referred cases are pending.

CASE STUDY

AUSNET SERVICES SMART METER UNDERTAKING

As a result of an audit of all Victorian distributors in October 2014 to assess compliance with their Advanced Metering Infrastructure (smart meter) regulatory obligations, the Commission identified that AusNet Services Pty Ltd (AusNet Services) had not met its smart meter obligations.

In June 2015, the Commission accepted an administrative undertaking from AusNet Services in relation to their non-compliance.

The audit found that AusNet Services, the licensed energy distributor responsible for servicing customers in Eastern Victoria:

- had not used its best endeavours to install smart meters by 31 December 2013, and
- the smart meters that had been installed, were not yet fully operational.

As at 15 June 2015, AusNet had installed 696,749 smart meters which are not yet fully operational.

The administrative undertaking, accepted by the Commission, commits AusNet Services to meet a series of targets for the operation of smart meters, with all smart meters meeting the required service standards by 31 March 2017.

The service standards require that all smart meters are:

- able to remotely communicate data about customer energy consumption levels, and meet accuracy and speed standards;
- fully functional, including being able to detect loss of electricity supply, whether a meter is not working, and to connect with other technology such as in-home displays.

The undertaking also included reporting and auditing requirements.

The Commission acknowledged AusNet Services' cooperation in developing the undertaking and will continue to work with AusNet Services as it progresses towards meeting its commitments, as set out in its undertaking.

The obligation to install fully operational smart meters in accordance with smart meter regulation is a condition of AusNet Services' distribution licence, issued by the Commission under the *Electricity Industry Act 2000 (Vic)*.

The Commission accepted this undertaking in accordance with its stated approach to non-compliance, set out in its Compliance Policy Statement For Victorian Energy Business (January 2012).

The commission will provide regular progress reports on its website.

INQUIRIES

FINANCIAL HARDSHIP INQUIRY

The *Electricity Industry Act 2000 (Vic)* and the *Gas Industry Act 2001 (Vic)* require energy retailers to implement a financial hardship policy, which outlines how they will deal with customers experiencing difficulties paying their energy bills to ensure disconnection is a last resort.

In February, the Minister for Energy and Resources and the Minister for Finance asked the Essential Services Commission to conduct an inquiry that reviewed the policies, practices and procedures of energy retailers in supporting customers struggling to pay their bills. The Commission was also asked to assess whether the regulatory framework governing retailers' obligations, represents best practice.

The inquiry was driven by an environment in which the level of disconnection for Victorian energy customers was at its highest in 18 years and also the highest in Australia. In addition, customer complaints to the Energy and Water Ombudsman of Victoria had increased significantly, as had participation in hardship programs. The inquiry sought to reveal the underlying reasons for these increases and make recommendations to address them.

The Commission released an Issues Paper in March and sought feedback from all interested parties on key issues for the inquiry. The Commission received 22 submissions from retailers, consumer groups and regulators. As part of the Commission's consultation strategy, more than 40 additional organisations around the State were contacted and 25 engaged in one-on-one discussions to address the issues raised.

The Commission also initiated research to review the design and operation of the current regulatory framework and how it assists customers struggling to pay their bills.

A Draft Report is due to be published in August, with a Final Report by the end of 2015.

COST OF ENERGY INDUSTRY REGULATION

In 2014-15, the total cost of energy industry regulation was \$3.85 million. The cost includes the direct costs incurred by the energy team, plus an allocation for overhead costs.



MAJOR PROJECTS COMMENCED AND BENEFITS GENERATED IN 2014-15

ENERGY LICENSING AND STANDARDS

| PROJECT | OUTPUT/RESULTS | BENEFITS/IMPACT |
|--|---|---|
| Energy Hardship Inquiry | Commenced an inquiry into how energy companies assist customers facing financial difficulties to pay for their energy while remaining connected. | Ensuring the policies, practices and procedures of retailers dealing with customers experiencing or likely to experience payment difficulties are giving consumers confidence that they will receive appropriate assistance from their retailers. |
| Modernising Victoria's Licensing Framework | Commenced a review of the efficiency and effectiveness of Victoria's licence framework relating to the supply of electricity and gas. | Ensure that the framework for licensing the supply of electricity and gas is fit for purpose. |
| Customer Liaison | Responded to energy customers' queries on a range of topics throughout the year, including prices, maintenance responsibilities, and information provision on customer bills. | Provided customers with a greater understanding of their rights and obligations in the retail energy sector. |

ENERGY MONITORING AND REPORTING

| PROJECT | OUTPUT/RESULTS | BENEFITS/IMPACT |
|------------------------------|---|---|
| Feed-in tariff Review | Finalised a review to set the feed-in tariff for 2015. Commenced a review to set the feed-in tariff for 2016. | Small renewable energy generators received a price that reflects the value of the electricity exported to the grid. |
| Energy Performance Reporting | Released 2013-14 Energy Retail Businesses Comparative Performance Report, including customer service and pricing in the competitive market. | Provided information to customers and key stakeholders on the comparative performance of 23 retailers servicing Victoria. |

ENERGY COMPLIANCE AND AUDITING

| PROJECT | OUTPUT/RESULTS | BENEFITS/IMPACT |
|--|---|--|
| Electricity Distribution Business AMI Audits | Finalised audit of AMI regulatory obligations on electricity distribution businesses. | Ensured distribution businesses were meeting their AMI regulatory obligations. Accepted undertaking from AusNet Electricity Services Pty Ltd in relation to non-compliance with their AMI obligations. |
| Retail Audit Program | Commenced a program of retailer audits. | Ensured the Commission and consumers that energy retail licensees understand their obligations and have policies, systems and processes in place to prevent harm. |

ENERGY ENFORCEMENT

| PROJECT | OUTPUT/RESULTS | BENEFITS/IMPACT |
|-------------------------|--|--|
| Wrongful disconnections | The Commission made decisions regarding a total of 18 wrongful disconnection cases referred by EWOV. | Consumers whose disconnections were found to be wrongful were reconnected and received compensation. |

ENERGY TARGETS DIVISION



During 2014-15, the Commission continued its administration of the Energy Saver Incentive scheme under the *Victorian Energy Efficiency Target Act 2007*. The Act requires large electricity and gas retailers to reduce greenhouse gas emissions through energy reduction improvements in homes and businesses.

The Act and the *Victorian Energy Efficiency Target Regulations 2008* set an annual target of abating 5.4m tonnes of carbon dioxide equivalent of greenhouse gases for each of the calendar years from 2012 to 2015. A tradeable energy efficiency certificate is created for each tonne of emissions deemed to have been abated.

By 30 June 2015, the Commission registered a total of approximately 27.1 million certificates, of which 4.9 million certificates were created during 2014-15. A total of 184 businesses and individuals (compared with 162 the previous financial year) were accredited to participate in the scheme and 1,712 new products were approved.

Approximately 88 per cent of certificates registered during the year were for lighting activities and 4 per cent for water heating. Of the remaining eight per cent, most were for efficient shower roses, weather sealing and space heating activities. Over the lifetime of the scheme to 30 June 2015, the most dominant activities have been lighting (43 per cent of certificates) and standby power controllers (38 per cent), with the balance including water heating, weather sealing and shower roses.

The Commission maintained its rigorous audit and compliance program, with systems and processes in place to support the assessment of businesses and individuals applying for accreditation to undertake energy efficiency installations under the scheme, as well as for the validating certificate claims.

A wide range of audits were completed during the year, including 25 audits of businesses seeking to be accredited, 10 audits of accredited businesses seeking to complete additional activities, detailed audits of five accredited businesses to assess the extent to which they have complied with VEET Act and Regulations, and 14 audit investigations where non-compliance was identified or suspected.

Two of the investigations undertaken tested lighting installation claims where existing halogen downlights were upgraded to more energy efficient LED downlights. These investigations resulted in the Commission introducing a specific administrative requirement on all accredited persons that only fully licensed electricians can undertake this activity. An investigation into one accredited person identified that it was not adhering to the new requirements and its accreditation to complete this activity was withdrawn.

During the year, the audit program increasingly focussed on the early assessment of created certificates that were pending registration. To achieve this, the Commission used a risk rating of the accredited person and the prescribed activity to determine certificates to be assessed. In addition, the Commission began conducting registry investigations where statistical analysis reported that there were grounds to suspect potential non-compliance of certificates submitted for creation by an accredited person. During the year, the Commission undertook 15 registry investigations of accredited persons.

In total the Commission's audit and registry validation program led to 60,000 certificates being withdrawn and 9,500 certificates being surrendered by accredited persons because of non-compliance issues.

The Commission also made decisions with respect to Energy Efficient Technologies Pty Ltd (EET). Pursuant to section 22 of the Act the Commission refused the registration of 9,142 pending certificates created by EET, and pursuant to section 40 of the Act ordered that EET surrender 16,454 certificates. Pursuant to section 56 of the Act, EET appealed the refusal decision – in February 2015 the Commission upheld its original decision to refuse the registration of 9,142 certificates.

For the 2014 (calendar) compliance year, 23 energy and gas retailers had a liability under the scheme, and 5,745,515 certificates were surrendered.

The Commission enhanced and strengthened technical and regulatory requirements for the commercial lighting activity and expanded its program of independent testing of the safety and performance characteristics of selected ‘emerging technology’ lighting products – in particular, light emitting diode (LED) lamps.

The Commission’s new internet based accreditation application and product approval systems were enhanced to reduce further the processing times for such applications. Efforts also continued to align the administrative processes of the NSW, SA, ACT and Victorian energy efficiency schemes.

Following an announcement by the Minister for Energy and Resources, the Commission has implemented a detailed work plan for 2015-16 to provide for increased annual targets and a widening of the scope of the scheme to include, among other initiatives, more complex new activities such as project based assessments.

COST OF ENERGY TARGET ADMINISTRATION

In 2014-15, the total cost of administration of the Victorian Energy Efficiency Target scheme was \$5.2 million. This cost includes the direct costs incurred by the energy targets team, plus an allocation for overhead costs.

ENERGY TARGETS

| PROJECT | OUTPUT/RESULTS | BENEFITS/IMPACT |
|--|--|--|
| Victorian Energy Efficiency Target (VEET) scheme | Maintained ongoing administration of the Victorian Energy Efficiency Target (VEET) scheme. | Reduced greenhouse gas emissions by promoting more energy efficient use of electricity and gas, initially in the residential sector. |
| | Enhanced risk flags in the online certificate creation system. | Increased scheme integrity focusing on certificates pending registration. |
| | Upgraded registry and audit investigation processes. | Increased scheme integrity focusing on higher risk activities and businesses. |
| | Updated and re-accredited the installer mandatory safety training course. | Increased scheme integrity through strengthened installer safety focus. |
| | Released Victorian Energy Efficiency Target (VEET) scheme Performance Report 2013. | Maintained public accountability for the scheme. |

WATER DIVISION

The role of the Water Division encompasses the regulation of prices as well as monitoring of service standards and market conduct with regard to Victoria's 19 water businesses.

During 2014-15 the Water Division completed a number of major projects and began preparation for several major reviews in 2015-16.

ALTERNATIVE PRICING APPROACHES

The Water Industry Regulatory Order (WIRO) was revised by Government in October 2014, and now allows the Commission to consider a broad range of alternative approaches for the pricing of water and sewerage services. As a result, the Commission instigated an extensive review into how these prices ought to be set, with the aim of seeing if there might be a better way to establish the lowest possible price while meeting all quality and reliability standards.

The Commission released a consultation paper outlining the review process and seeking ideas on our future pricing approach. To assist with ideas generation we engaged a number of regulatory experts to propose innovative approaches, aimed at facilitating further discussion. The Review will continue into 2015-16, with the selected pricing approach(es) to underpin the Commission's next major water price review period from 1 July 2018. Before an approach is chosen, we will host a water pricing conference in November 2015 and run a series of workshops to explore ideas with interested parties.



WATER PRICE REVIEWS

During the year, the Commission released Guidance Papers for the 2016 price reviews for Melbourne Water and Goulburn-Murray Water. The Guidance Papers set out our expectations on how the water businesses must justify and present their services and price proposals for the period from 1 July 2016. Among our key expectations are that the businesses consult with their customers in developing their proposals. The Commission will consult widely to inform our assessment of the submissions before making our final decision on the prices to apply from 1 July 2016.

PERFORMANCE REPORTING

The Commission released its Water Performance Report for 2013-14 in December 2014. The Report provides a basis for customers and other interested parties to compare the performance of urban water businesses in areas such as household bills, service reliability, approach to customer hardship, and customer service. A key finding in the 2013-14 Report was that water businesses generally maintained or improved service levels - water quality was high, water service reliability improved, and fewer customer complaints were received by businesses.

Also released was the Commission's first Report reviewing hardship measures taken by metropolitan water businesses. Additional funds were provided for in the 2013 water price review for the five years from 2013-14 to 2017-18. The review indicated that the metropolitan water businesses improved their ability to identify and support their customers experiencing financial hardship.

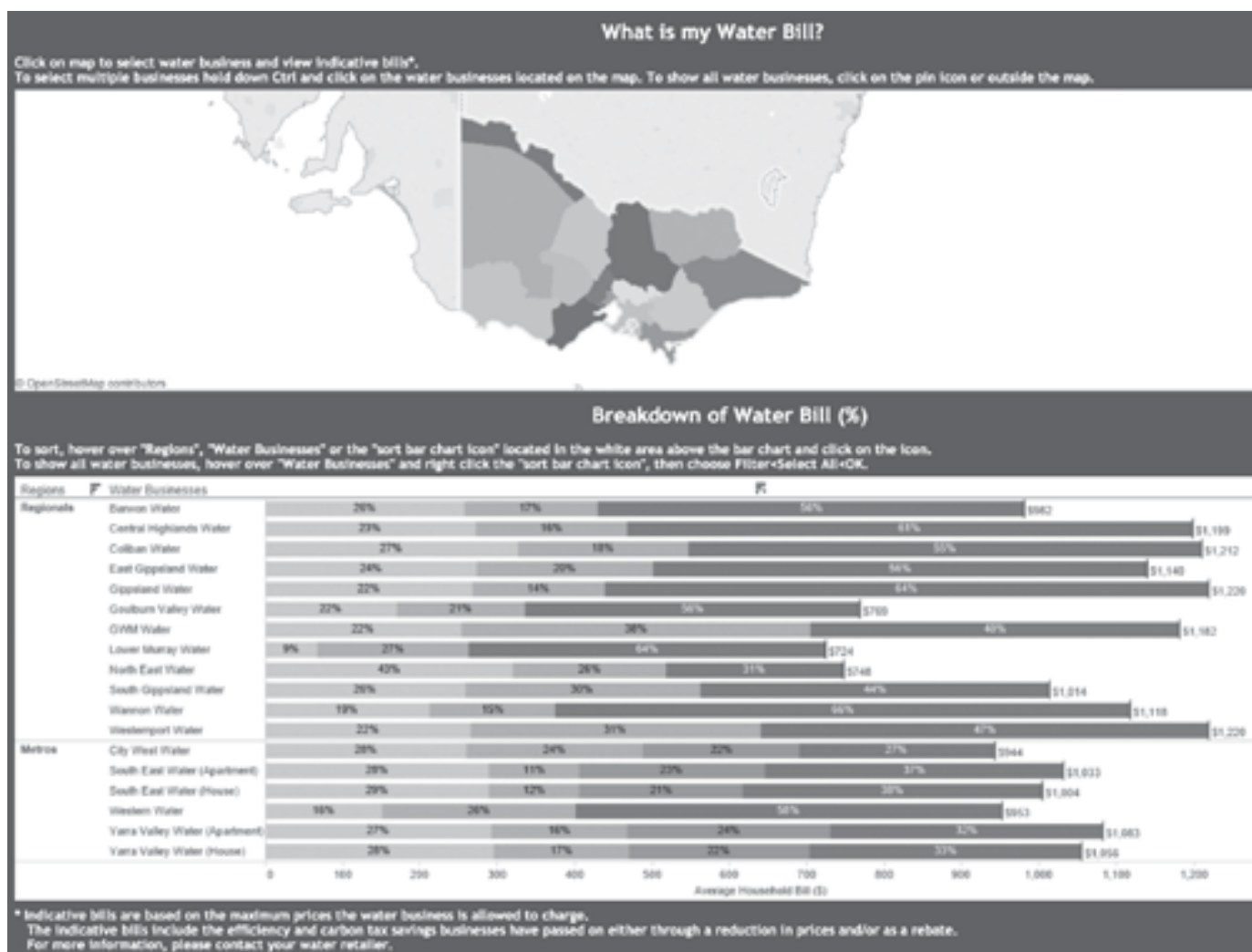
REVIEW OF WATER TARIFFS

In June 2015, the Commission reviewed and approved annual tariff price adjustments each of Victoria's 19 water businesses. Our review checked to ensure that the prices the businesses proposed to charge in 2015-16 were consistent with their price determination. An interactive version of the bill calculator was developed to enable customers to compare their water and sewerage bill with customers serviced by other water businesses. The link to the bill calculator is available on the Commission's website.

COST OF WATER INDUSTRY REGULATION

In 2014-15, the total cost of regulation of the Victorian water industry was \$2.36 million.

The costs include the direct costs incurred by the Water Division, plus an allocation for overhead costs.



MAJOR PROJECTS COMPLETED AND BENEFITS GENERATED IN 2014-15

| WATER | | |
|---|---|---|
| PROJECT | OUTPUT/RESULTS | BENEFITS/IMPACT |
| Review of Water Pricing Approach | The Water Industry Regulatory Order (WIRO) was revised in October 2014, which allowed the Commission to consider alternative pricing approaches for the water sector. Published a consultation paper setting out the background, objectives and purpose for the review. | Provided opportunity for the Commission to identify and implement new and improved approaches used to deliver efficient pricing and service outcomes for Victorian customers. |
| Responded to a review of the water regulatory framework | Provided an Information Paper and associated documents, including commissioned papers from relevant experts in response to the Office of Living Victoria's (OLV) report on the review of the water regulatory framework. | Resulted in the reform of the WIRO to provide greater focus on efficiency, clarification of objectives and flexibility in the regulatory approach. |
| Released Melbourne Water price review 2016 guidance paper | Guidance sets out the Commission's approach to the Melbourne Water price review and specifies information required for Melbourne Water's price submission under the WIRO. | Approved prices, which are set as low as possible but at a sufficient level to provide businesses with revenue to deliver valued services. |
| Released Goulburn-Murray Water price review 2016 guidance paper | Guidance sets out the Commission's minimum requirements for information in Goulburn-Murray's price submission for regulatory period 1 July 2016 - 30 June 2020 (this applied only to regulated services covered by the WIRO). | Proposed services and prices developed after robust customer consultation. |

MAJOR PROJECTS COMPLETED AND BENEFITS GENERATED IN 2014-15

| WATER | | |
|--|---|--|
| PROJECT | OUTPUT/RESULTS | BENEFITS/IMPACT |
| Published 2013-14 water performance report | Released annual performance report for metropolitan and regional urban water businesses. | Enhanced accountability and transparency of information on water industry performance, informed community and provided stimulation for competition between water businesses. |
| Conducted regulatory audits | Audit of urban and rural water businesses for compliance with reporting requirements, as requested by the Minister. | Demonstrated high level of compliance with customer service obligations, as well as accuracy of performance data. |
| Published report on hardship assistance | Report discussed how the additional revenue of \$5.25 million approved by the Commission at the 2013 Water Price Review for metropolitan water businesses was used to develop and improve programs for customers in hardship. | Ensured water businesses have used the additional revenue to develop and improve programs for customers in hardship. |
| Released Water Productivity Study | Showed the trends and comparative productivity levels of the Victorian water industry compared to other Australian water authorities. | Findings used to provide management and Boards of urban water businesses an indication of whether there is a need to focus more heavily on improving productivity. |
| Completed Review of Financial Viability Approach | Developed parameters and bounds to assess the financial viability of the businesses. | Ensured that the Commission's approach to assessing financial viability is appropriate. |
| Monitored the repeal of carbon tax | Consulted with the Victorian water businesses (except Goulburn-Murray, which is regulated under a Commonwealth pricing regime) on the removal of the carbon tax and adjusting the maximum prices set out in the price determinations. | All carbon tax savings identified by the water businesses were returned customers. |
| Approved annual 2015-16 tariffs | Reviewed and approved the maximum prices that the water businesses can charge their customers. The maximum approved prices and a household bill calculator were published on the Commission's website. | Ensured maximum prices charged in 2015-16 were consistent with the 2013 Water Price Determinations for each business. |
| Finalised 2013-14 regulatory accounts | Completed a review of all water businesses regulatory accounts. | Developed a database for comparison and assessment of future water price submissions. |
| Maintained urban/rural customer codes and charters | Reviewed and approved all Rural and Urban Customer Charters provided by the 19 water businesses. This included updates for changes to the <i>Water Act</i> and Regulations, as well as a revised WIRO. | Specifies the standards and conditions of service and supply that the water businesses must provide to customers. |

TRANSPORT DIVISION



The Transport Division is responsible for administering the Commission's regulatory responsibilities across numerous industries including taxis, accident towing, ports, and rail freight as well as undertaking domestic building insurance.

TAXIS

Since 2014, the Commission's regulatory roles in taxis have significantly increased. Previously, the Commission provided advice to the Minister on taxi fares as and when required. The Commission now has three new taxi roles:

- (i) taxi fare setting for the metropolitan, urban and large regional zones every two years;
- (ii) taxi price monitoring in country and regional Victoria on an annual basis; and
- (iii) a review of taxi non-cash payment service regulation.

In terms of taxi fare setting, new fares commenced on 1 July 2014. The next taxi fare review is scheduled to begin in January 2016 with new fares to be in place by 1 July 2016.

With regard to taxi fare monitoring, we have developed a template which allows us to analyse fare changes provided by the Taxi Services Commission. The monitoring covered prices, costs and return on assets for around 230 country and regional operators.

The Commission also undertook a survey of regional and country taxi zone operators in order to develop a cost profile and we reviewed the best approach to estimating return on assets for the taxi industry. All of this work will inform the 2014-15 Report, to be published before the end of 2015.

ACCIDENT TOWING

The Commission's role in relation to the accident towing services industry is to advise the Minister for Roads on the pricing of regulated accident towing and storage services within the Greater Melbourne metropolitan area every four years and undertake reviews as requested.

In August 2014, the Commission received a terms of reference for the broad review of accident towing and storage. The Review covers both regular and heavy vehicle accident towing and requires the Commission to report and make recommendations on the accident towing industry in Victoria, including the existing forms of regulation (e.g. fee regulation and allocation schemes) and the benefits and costs of existing regulation and alternatives.

PORTS

In August 2014, the Commission completed its five yearly review of economic regulation for prescribed services at the Port of Melbourne Corporation. The scope of the review was limited to the current prescribed services at the Port of Melbourne.

In its Final Report, the Commission recommended the continued regulation of prescribed services provided by the Port of Melbourne via a light-handed monitoring regime.

In 2015, the Commission issued a new Price Monitoring Determination to the Port of Melbourne which extends the current monitoring regime until the finalisation of the Port of Melbourne lease transaction, expected sometime in 2016.

RAIL

The Commission administers the State's third party access regime for Victoria's four declared rail freight access providers namely: VicTrack; V/Line; Metro Trains Melbourne; and Pacific National.

This year, the Commission received three applications from VicTrack, V/Line and Pacific National respectively, to extend the expiry dates of each of their access arrangements. The Commission assessed and approved each of these applications as they simply extend the current arrangements for a period of time.

DOMESTIC BUILDING INSURANCE

The Commission has an ongoing role in monitoring Victoria's Domestic Building Insurance (DBI) scheme.

In February 2015, the Commission released its annual report on the performance of the Victorian Managed Insurance Authority (VMIA) and outgoing private insurer's provision of DBI. This report examined trends in the number of eligible builders; the number of project certificates (policies); premium levels; and the number and volume of claims made under the DBI scheme.

In April 2015, the Commission released its bi-ennial report on the adequacy and validity of the DBI premiums charged by the VMIA. The report found that premiums were sufficient and not set above the level required to cover the VMIA's expenses, risks and long-term claim costs; and that the VMIA's underwriting standards conform to commercial standards.

COST OF TRANSPORT AND INDUSTRY SECTORS REGULATION

The costs of the Transport and Industry Sectors division in 2014-15 was \$3.27 million.

The costs include the direct costs incurred by the Transport and Industry Sectors division, plus an allocation for overhead costs.



MAJOR PROJECTS COMPLETED AND BENEFITS GENERATED IN 2014-15

| TRANSPORT | | |
|---|---|--|
| PROJECT | OUTPUT/RESULTS | BENEFITS/IMPACT |
| Ports Review | Final report (August 2014) | Protected users and consumers from the potential exercise of market power while reducing the regulatory burden of the price monitoring regime. |
| Ports Monitoring Determination | Determination issued (June 2015) | Extended current price monitoring framework for prescribed port services until Port of Melbourne lease transaction is finalised. |
| Administration of Victorian Rail Access Regime | Extension of three rail access arrangements for one to two years: <ul style="list-style-type: none"> • VicTrack decision (March 2015) • Pacific National decision (March 2015) • V/Line decision (June 2015) | Avoided unnecessary administration and compliance costs in establishing new access arrangements shortly before major reforms are made to the Victorian Rail Access Regime. |
| Performance of domestic building insurance (DBI) scheme | Report publicly released in February 2015 covering the 2013-14 financial year. | Informed the public on the performance of DBI scheme, providing information about scheme eligibility, premiums and claims performance from 2002 to June 2014. |
| DBI premium validation review | Report on the adequacy and validity of the DBI premiums set by the Victorian Managed Insurance Authority (VMIA) publicly released in April 2015. | Provided assurance to the Government, builders and consumers that DBI premiums were set at appropriate levels and conformed to commercial underwriting standards. |

LOCAL GOVERNMENT DIVISION



This is a new division set up in 2014-15 to conduct a review and report on a local government rates capping and variation framework.

In January 2015, the Commission received terms of reference from the Minister for Finance (in consultation with the Minister for Local Government). The Commission was asked to inquire into and advise the Ministers on options and a recommended approach for a rates capping framework for implementation from the 2016-17 financial year. The Commission was also required to provide advice on the processes and guidance to best give effect to the recommended approach for the rates capping and variation framework.

A consultation paper setting out the review's timelines and process, our approach and seeking feedback from stakeholders on the key issues was released in April. We received 287 submissions from a wide range of individuals and organisations.

The Commission consulted widely, including with:

- Local councils, through one-on-one meetings and various broader sector forums
- Ratepayer associations and individual ratepayers, both individually and via a Ratepayer forum
- Peak bodies such as MAV, VLGA, LGPro, FinPro and IPWEA

- Unions, private sector representatives and other peak bodies, and
- With our colleagues in New South Wales at the Office of Local Government, the Independent Pricing and Regulatory Tribunal; and a few NSW councils.

We also presented to the Fair Go Rates Reference Group established by the Minister for Local Government, as well as the Minister's Local Government Mayoral Advisory Panel.

A Draft Report setting out a proposed framework will be released in July 2015 and will form the basis for further consultation.

Public information sessions in Melbourne and regional Victoria, and deliberative discussions will be held with groups of randomly selected ratepayers and community members.

We will provide a final report to both Ministers in September 2015 and expect the report to be released publicly in October. If the recommended framework is adopted by Government, the Commission will be required to set a cap and to assess variation applications from councils for the 2016-17 rates year.

COST OF LOCAL GOVERNMENT DIVISION

The total costs of the Local Government Rates Capping and Variation Framework Review in 2014-15 was \$0.83 million. This total includes direct costs incurred in undertaking the review plus an allocation for overhead costs.

MAJOR PROJECTS COMPLETED AND BENEFITS GENERATED IN 2014-15

| LOCAL GOVERNMENT | | |
|--|---|--|
| PROJECT | OUTPUT/RESULTS | BENEFITS/IMPACT |
| Rates Capping and Variation Framework Review | Development of a Consultation Paper for public comment. | Feedback from interested parties on key matters will lead to a better Rates Capping and Variation Framework. |



OUTPUT PERFORMANCE

MAJOR OUTPUTS/DELIVERABLES PERFORMANCE MEASURES

| QUANTITY | UNIT OF MEASURE | 2014-15 TARGET | 2014-15 ACTUAL |
|---|-----------------|----------------|----------------|
| Performance reviews and compliance audits of regulated businesses | Number | 102 | 103 |
| New or revised regulatory instruments issued | Number | 6 | 6 |
| Performance reports for regulated businesses or industries | Number | 4 | 4 |
| Price approvals of regulated businesses | Number | 19 | 20 |
| Reviews, investigations or advisory projects | Number | 3 | 2* |
| Registration and accreditation decisions/approvals in relation to the Victorian Energy Efficiency Target Scheme | Number | 3 000 | 5 578** |
| QUALITY | | | |
| Decisions upheld where subject to review, appeal or disallowance | Per cent | 100 | 100 |
| TIMELINES | | | |
| Deadlines met for major milestones | Per cent | 100 | 100 |
| COST | | | |
| TOTAL OUTPUT COSTS | Million | \$17.0 | \$16.3# |

* The 2014-15 outcome is lower than target due to the Accident Towing Review being delayed to 2015-16.

** The 2014-15 outcome is higher than target due to a doubling of the 2015 certificate target.

The 2014-15 underspend is partly due to lower expenditure on the Taxi Price Review and the Accident Towing Review.

OUTPUT TARGETS 2015-16

MAJOR OUTPUTS/DELIVERABLES PERFORMANCE MEASURES

| ECONOMIC REGULATORY SERVICE | UNIT OF MEASURE | 2015-16 TARGET |
|---|-----------------|------------------|
| QUANTITY | | |
| Performance reviews and compliance audits of regulated businesses | Number | 106 ^a |
| New or revised regulatory instruments issued | Number | 8 [*] |
| Performance reports for regulated businesses or industries | Number | 6 ^{**} |
| Price approvals of regulated businesses | Number | 20 |
| Reviews, investigations or advisory projects | Number | 4 ^{***} |
| Registration and accreditation decisions/approvals | Number | 5000 |
| QUALITY | | |
| Decisions upheld where subject to review, appeal or disallowance | Per cent | 100 |
| TIMELINES | | |
| Deadlines met for major milestones | Per cent | 100 |
| COST | | |
| TOTAL OUTPUT COST | Million | \$17.5 |

^a The 2015-16 target is higher than the 2014-15 target with two additional energy audits and two additional water audits.

^{*} The higher 2015-16 target reflects the number of new or revised regulatory instruments proposed to be made within the current legislative schedule for 2015-16.

^{**} The higher 2015-16 target reflects the number of performance reports for regulated business or industries.

^{***} The higher 2015-16 target reflects the carry-over of the Accident Towing review from 2014-15.

WORKFORCE DATA BY DIVISION

TOTAL EMPLOYMENT* AS AT 30 JUNE 2015 (BY DIVISION):

| | |
|------------------|-----------|
| Water | 6 |
| Energy | 16 |
| Energy Targets | 25 |
| Corporate | 10 |
| Transport | 7 |
| Local Government | 8 |
| Total | 72 |

* Includes ongoing and fixed term and casual employees as at 30 June, excluding Commissioners (includes personnel on paid leave arrangements, but excludes those on unpaid leave).

WORKFORCE DATA* STAFFING TRENDS

| YEAR AT 30 JUNE 2015 | HEADCOUNT | FTE |
|----------------------|-----------|-----|
| 2004 | 58 | 55 |
| 2005 | 63 | 61 |
| 2006 | 62 | 61 |
| 2007 | 71 | 69 |
| 2008 | 66 | 66 |
| 2009 | 56 | 54 |
| 2010 | 74 | 72 |
| 2011 | 71 | 69 |
| 2012 | 70 | 68 |
| 2013 | 65 | 61 |
| 2014 | 68 | 63 |
| 2015 | 72 | 69 |

* Includes ongoing and fixed term and casual employees as at 30 June, excluding Commissioners (includes personnel on paid leave arrangements, but excludes those on unpaid leave).

| | ONGOING EMPLOYEES | | | | FIXED TERM & CASUAL |
|--------|--------------------|---------------------|---------------------|-------|---------------------|
| | EMPLOYEE HEADCOUNT | FULL-TIME HEADCOUNT | PART-TIME HEADCOUNT | FTE | FTE |
| Jun-15 | 62 | 53 | 9 | 58.77 | 9.8 |
| Jun-14 | 59 | 50 | 9 | 56.64 | 6.73 |

| | 2014 | | | 2015 | | |
|--------|--------------------|-------|---------------------|--------------------|-------|---------------------|
| | ONGOING EMPLOYEES | | FIXED TERM & CASUAL | ONGOING EMPLOYEES | | FIXED TERM & CASUAL |
| GENDER | EMPLOYEE HEADCOUNT | FTE | FTE | EMPLOYEE HEADCOUNT | FTE | FTE |
| Female | 30 | 28.04 | 3.83 | 31 | 28.17 | 5 |
| Male | 29 | 28.60 | 2.90 | 31 | 30.6 | 4.8 |

| AGE | | | | | | |
|--------------|--------------------|--------------|-------------|--------------------|--------------|-------------|
| | EMPLOYEE HEADCOUNT | FTE | FTE | EMPLOYEE HEADCOUNT | FTE | FTE |
| Under 25 | 3 | 3.00 | 0.19 | 2 | 2.00 | 0.00 |
| 25-34 | 15 | 14.80 | 4.64 | 18 | 18.00 | 6.00 |
| 35-44 | 26 | 24.24 | 1.60 | 25 | 22.17 | 2.00 |
| 55-64 | 2 | 2.00 | 0.00 | 3 | 3 | 1.00 |
| Over 64 | 2 | 2.00 | 0.00 | 2 | 2.00 | 0.00 |
| TOTAL | 59 | 56.64 | 6.73 | 62 | 58.77 | 9.80 |

| CLASSIFICATION | | | | | | |
|----------------|--------------------|--------------|-------------|--------------------|--------------|-------------|
| | EMPLOYEE HEADCOUNT | FTE | FTE | EMPLOYEE HEADCOUNT | FTE | FTE |
| VPS1 | 0 | 0.00 | 0.00 | 0 | 0.00 | 0.00 |
| VPS2 | 3 | 3.00 | 0.00 | 0 | 0.00 | 0.00 |
| VPS3 | 10 | 9.60 | 2.00 | 12 | 11.57 | 1.00 |
| VPS4 | 13 | 12.20 | 1.00 | 15 | 14.00 | 1.00 |
| VPS5 | 12 | 10.84 | 1.60 | 13 | 11.60 | 3.00 |
| VPS6 | 13 | 13.00 | 1.00 | 14 | 13.60 | 0.00 |
| STS | 1 | 1.00 | 0.00 | 1 | 1.00 | 1.00 |
| SRM | 4 | 4.00 | 0.00 | 3 | 3.00 | 0.00 |
| Executive | 3 | 3.00 | 0.00 | 4 | 4.00 | 0.80 |
| Casual | 0 | 0.00 | 1.13 | 0 | 0.00 | 3.00 |
| TOTAL | 59 | 56.64 | 6.73 | 62 | 58.77 | 9.80 |

Note: Excludes 1.8 FTE Commissioners (2015) and 1.8 FTE Commissioners (2014)

EXECUTIVE OFFICER DISCLOSURES

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 | +2 | 3 | +1 | 1 | +1 |
| TOTAL | 5 | +2 | 4 | +1 | 1 | +1 |

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 | 3 | +1 | 0 | 0 | 0 | +1 | 1 | 0 | 0 | 0 | 0 |
| TOTAL | 4 | +1 | 0 | 0 | 0 | +1 | 1 | 0 | 0 | 0 | 0 |

RECONCILIATION OF EXECUTIVE NUMBERS

| | 2014 | 2015 |
|---|----------|----------|
| Executives with remuneration over \$100,000 | 3 | 5 |
| <i>add</i> Vacancies (table 2) | 1 | 0 |
| Executives employed with total remuneration below \$100,000 | 0 | 0 |
| Accountable Officer* (Secretary) | 1 | 1 |
| <i>less</i> separations | 0 | 0 |
| TOTAL NO. OF EXECUTIVES | 4 | 5 |

* Includes ongoing and fixed term and casual employees as at 30 June, excluding Commissioners (includes personnel on paid leave arrangements, but excludes those on unpaid leave).

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 and an OH&S Committee, which meets quarterly.

PRIVATE INTEREST DECLARATIONS

Declarations of private interests were completed by relevant officers. New staff were required to complete declarations.

WORKCOVER

| WORKCOVER STATISTICS | 2013-14 | 2014-15 |
|------------------------|---------|---------|
| Claims during the year | 0 | 0 |

EMPLOYEE RELATIONS

No employee time was lost in 2014-15 due to industrial disputes.

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, strategic planning, management of resources, monitoring of project activity and overseeing compliance with corporate governance standards. The Commission met 39 times and the Board met 12 times during 2014-15.

In 2014-15 the Audit and Risk Committee comprised two part-time Commissioners (Mr Richard Clarke and Ms Julie Abramson) and one external independent appointment (an accountant, Mr David Ashmore). Internal and external auditors also attended the meetings as required.

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.

The Audit and Risk Management Committee reviews and provides recommendations to the Commission's board of management on the adequacy of the processes for identifying and managing significant risks. It also provides a direct link between the Commission's board of management and the internal and external auditors, and enables any concerns of the auditors to be conveyed to the Commission's board independently of management. In 2014-15, the Audit and Risk Committee met four times.

RISK MANAGEMENT FRAMEWORK ATTESTATION

I, Ron Ben-David certify that the Essential Services Commission has complied with the Ministerial Standing Direction 4.5.5 – Risk Management Framework and Processes. The Essential Services Commission Audit and Risk Committee verifies this.



Ron Ben-David
Chairperson
Essential Services Commission



MEMORANDA OF UNDERSTANDING

The *Essential Services Commission Act 2001 (Act)* (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.

In 2014-15, Memoranda of Understanding were held with the following organisations:

- Australian Energy Market Commission*
- Australian Competition and Consumer Commission*
- Consumer Affairs Victoria
- Department of Human Services
- Department of Health
- Energy Safe Victoria
- Energy and Water Ombudsman (Victoria) Limited (EWOV)*
- Environment Protection Authority (EPA Victoria)
- Environment and Sustainable Development Directorate (ACT)*
- IPART*
- Marine Safety Victoria (Department of Transport Safety)
- Port of Melbourne Corporation*
- Sustainability Victoria
- Victorian Regional Channels Authority
- Taxi Services Commission*
- Victorian Workcover Authority*

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

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 published in 2003, an updated version of the Charter was released in July 2012.

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.

CUSTOMER INSIGHTS PANEL

In early 2015, the Commission held the first of two forums during the financial year with its newly formed Customer Insights Panel. Consisting of eight members with expertise in consumer marketing, behavioural economics, ethics and service delivery, the aim of the Panel was to gather insights about markets and the role that customers and citizens play in driving the way those markets work.

Valuable insights helped to shape the Hardship Review and customer engagement methods.

Meetings were held in February and May 2015, with an additional meeting planned for September.

STAKEHOLDER CONSULTATION

The Commission encourages stakeholder participation in its regulatory, advisory and administrative activities.

This is achieved through the Commission's public forums and the ability to respond by providing a written submission to publicly advertised projects and reviews.



SUBMISSIONS

During 2014-15, the Commission received over 390 submissions across a wide range of projects. The number of submissions to major pricing and other regulatory reviews and activities received during 2014-15 included:

- Variations to Standing Offer Tariffs following the removal of the Carbon Price-Position Paper - 8 submissions
- Review of Accident Towing Regulation: Issues Paper - 6 submissions
- Inquiry into Financial Hardship Arrangements for Energy Retailers: Our Approach – Issues Paper - 20 submissions
- Review of Water Pricing Approach: Consultation Paper - 15 submissions
- Proposed approach to Melbourne Water's 2016 Water Price Review: Consultation Paper - 2 submissions
- Local Government Rates Capping & Variation Framework Consultation Paper - 287 submissions
- Survey of Taxi Operators - 50 submissions.

In addition, the Commission's consultation processes included:

- Regular meetings with members of consumer advocacy organisations
- Draft decisions and issues papers for public comment
- Consultation with prescribed agencies, under the Commission's Memoranda of Understanding
- Input from working parties and workshops of community-based groups and industry sectors
- Input from the Commission's Customer Insights Panel.

OTHER DECLARATIONS

NATIONAL COMPETITION POLICY

The Commission promotes, and complies with, the National Competition Policy.

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*.

FIVE-YEAR FINANCIAL SUMMARY: CONTROLLED ACTIVITIES

| EXCLUDING DTF OVERHEAD | 2010-11 \$ | 2011-12 \$ | 2012-13 \$ ⁽¹⁾ | 2013-14 \$ ⁽¹⁾ | 2014-15 \$ |
|---|---------------|---------------|------------------------------|------------------------------|---------------|
| Income from Government | 12 641 789 | 15 439 162 | 17 023 361 | 15 878 000 | 15 956 224 |
| Total income from transactions | 12 641 789 | 15 439 162 | 17 023 361 | 15 878 000 | 15 956 224 |
| Total expenses from transactions | 14 187 002 | 14 342 970 | 17 133 461 | 15 374 808 | 15 536 460 |
| Net result from transactions | (1 545 213) | 1 096 192 | (110 100) | 503 192 | 419 764 |
| Net result | (1 539 294) | 1 041 127 | 328 629 | 503 677 | 407 506 |
| Net cash flow from operating activities | 327 596 | 789 850 | 476 603 | 35 450 | 24 101 |
| Total assets | 9 944 028 | 11 130 876 | 11 037 075 | 11 602 652 | 12 879 451 |
| Total liabilities | 3 739 375 | 3 885 096 | 3 434 415 | 3 496 315 | 4 298 912 |

Note: (1) In 2013-14 the Commission applied AASB 119 Employee Benefits (Sept 2011, as amended) and the related consequential amendments for the first time. This impacted the way annual leave provisions are measured. Comparative figures for 2012-13 have been restated accordingly.

LICENCE FEE REVENUE

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 for Finance.

| TYPE OF LICENCE | TOTAL REVENUE 2014-15 \$ |
|-------------------------------|--------------------------|
| ELECTRICITY INDUSTRY | |
| Electricity generation | 171 000 |
| Electricity transmission | 30 000 |
| Electricity distribution | 308 908 |
| Electricity trader | 750 |
| Retail (electricity and gas) | 1 986 348 |
| GAS INDUSTRY | |
| Distribution | 77 227 |
| PORTS INDUSTRY | |
| Port of Melbourne Corporation | 127 559 |
| WATER INDUSTRY | |
| Water and sewerage | 2 463 865 |



APPENDICES

APPENDIX A

ESSENTIAL SERVICES COMMISSION FINANCIAL STATEMENTS FOR YEAR ENDED 30 JUNE 2015

Essential Services Commission

Comprehensive operating statement For the year ended 30 June 2015

| | Notes | 2015 \$ | 2014 \$ |
|---|-------|-------------------|-------------------|
| Income from transactions | | | |
| Grants | 2 | <u>15,956,224</u> | <u>15,878,000</u> |
| Total income from transactions | | <u>15,956,224</u> | <u>15,878,000</u> |
| Expenses from transactions | | | |
| Employee benefits | 3 | 9,687,629 | 9,317,111 |
| Depreciation | 3 | 305,912 | 334,622 |
| Finance lease interest | | 4,565 | 3,872 |
| Capital asset charge | | 44,674 | 16,257 |
| Supplies and services | 3 | <u>5,493,680</u> | <u>5,702,946</u> |
| Total expenses from transactions | | <u>15,536,460</u> | <u>15,374,808</u> |
| Net result from transactions | | <u>419,764</u> | <u>503,192</u> |
| Other economic flows included in net result | | | |
| Net gain/(loss) on disposal of property, plant and equipment | | (1,890) | 3,965 |
| Net gain/(loss) arising from revaluation of leave liabilities | | <u>(10,368)</u> | <u>(3,480)</u> |
| Total other economic flows included in net result | | <u>(12,258)</u> | <u>485</u> |
| Net result | | <u>407,506</u> | <u>503,677</u> |
| Comprehensive result | | <u>407,506</u> | <u>503,677</u> |

The above comprehensive operating statement should be read in conjunction with the accompanying notes.

Essential Services Commission

Balance sheet *As at 30 June 2015*

| | Notes | 2015 \$ | 2014 \$ |
|-----------------------------------|-------|-------------------|-------------------|
| Financial assets | | | |
| Cash on hand | | 500 | 500 |
| Receivables | 4 | <u>11,856,737</u> | <u>10,427,247</u> |
| Total financial assets | | <u>11,857,237</u> | <u>10,427,747</u> |
| Non-financial assets | | | |
| Prepayments | | 157,333 | 69,254 |
| Property, plant and equipment | 5 | 280,191 | 438,773 |
| Intangible assets | 6 | <u>584,690</u> | <u>733,574</u> |
| Total non-financial assets | | <u>1,022,214</u> | <u>1,241,601</u> |
| Total assets | | <u>12,879,451</u> | <u>11,669,348</u> |
| Liabilities | | | |
| Payables | | 1,594,258 | 1,150,598 |
| Provisions | 7 | 2,638,762 | 2,256,059 |
| Borrowings | 8 | <u>65,892</u> | <u>89,658</u> |
| Total liabilities | | <u>4,298,912</u> | <u>3,496,315</u> |
| Net assets | | <u>8,580,539</u> | <u>8,173,033</u> |
| Equity | | | |
| Contributed capital | | 873,921 | 873,921 |
| Accumulated surplus | | <u>7,706,618</u> | <u>7,299,112</u> |
| Total equity | | <u>8,580,539</u> | <u>8,173,033</u> |

The above balance sheet should be read in conjunction with the accompanying notes.

Essential Services Commission

Statement of changes in equity *For the year ended 30 June 2015*

| | Contributed capital \$ | Accumulated surplus \$ | Total \$ |
|--------------------------------|------------------------------|------------------------------|------------------|
| Balance at 1 July 2013 | 873,921 | 6,795,435 | 7,669,356 |
| Net result for the year | | 503,677 | 503,677 |
| Balance at 30 June 2014 | 873,921 | 7,299,112 | 8,173,033 |
| Net result for the year | | 407,506 | 407,506 |
| Balance at 30 June 2015 | 873,921 | 7,706,618 | 8,580,539 |

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Essential Services Commission

Cash flow statement *For the year ended 30 June 2015*

| | Notes | 2015 \$ | 2014 \$ |
|---|-------|-------------------|-------------------|
| Cash flows from operating activities | | | |
| Receipts from government | | 15,067,182 | 15,519,020 |
| Payments to suppliers and employees | | (14,993,842) | (15,463,441) |
| Capital asset charge paid | | (44,674) | (16,257) |
| Interest and other finance costs paid | | (4,565) | (3,872) |
| Net cash flows from operating activities | 16a | <u>24,101</u> | <u>35,450</u> |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | | (336) | (15,769) |
| Proceeds from sale of property, plant and equipment | | - | 13,636 |
| Net cash flows used in investing activities | | <u>(336)</u> | <u>(2,133)</u> |
| Cash flows from financing activities | | | |
| Repayment of finance leases | | (23,765) | (33,317) |
| Net cash flows used in financing activities | | <u>(23,765)</u> | <u>(33,317)</u> |
| Net increase in cash held | | - | - |
| Cash at the start of the year | | <u>500</u> | <u>500</u> |
| Cash at the end of the year | | <u><u>500</u></u> | <u><u>500</u></u> |
| Non-cash financing and investing activities | 16b | | |

The above cash flow statement should be read in conjunction with the accompanying notes.

Note 1. Summary of significant accounting policies

(a) Statement of compliance

These general purpose financial statements have been prepared in accordance with the *Financial Management Act 1994* and applicable Australian Accounting Standards (AASs), including Interpretations issued by the Australian Accounting Standards Board (AASB). In particular, they are presented in a manner consistent with the requirements of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*. Where relevant, those paragraphs of the AASs applicable to not-for-profit entities have been applied.

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.

(b) Basis of preparation

The accrual basis of accounting has been applied in the preparation of these financial statements whereby assets, liabilities, equity, income and expenses are recognised in the reporting period to which they relate, regardless of when cash is received or paid.

Judgements, estimates and assumptions are required to be made about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on professional judgments derived from historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Revisions to accounting estimates are recognised in the period in which the estimate is revised and in future periods that are affected by the revision. Judgements and assumptions made by management in the application of AASs that have significant effects on the financial statements relate to:

- the fair value of plant and equipment (see note 1(i)); and
- employee benefits provisions based on likely tenure of existing staff, patterns of leave claims, future salary movements and future discount rates (see note 1(j)).

The financial statements are presented in Australian dollars, and prepared in accordance with the historical cost convention, except where noted. Historical cost is based on the fair values of the consideration given in exchange for assets.

Consistent with AASB 13 *Fair Value Measurement*, the Essential Services Commission (the Commission) determines the policies and procedures for both recurring fair value measurements such as property, plant and equipment and financial instruments in accordance with the requirements of AASB 13 and the relevant Financial Reporting Directions.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For the purpose of fair value disclosures, the Commission has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

In addition, the Commission determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Commission monitors changes in the fair value of each asset and liability through relevant data sources to determine whether revaluation is required.

The accounting policies set out in this note have been applied in preparing these financial statements.

(c) Reporting entity

The financial statements include all the controlled activities of the Essential Services Commission. The Commission was established under the *Essential Services Commission Act 2001*. Its principal address is: Level 37, 2 Lonsdale Street
Melbourne Victoria 3000

Administered resources

The Commission acts on behalf of the Victorian Government in collecting licence fees administered by the Commission under the *Electricity Industry Act 2000*, the *Gas Industry Act 2001*, the *Water Industry Act 1994* and the *Port Services Act 1995*. 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 17). Such amounts are required to be paid to the Consolidated Fund.

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 2015 the regulated industries included electricity, gas, water, ports, taxis and rail facilities and water associated services. The Commission also has economic regulatory roles in other industries.

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

(d) Scope and presentation of financial statements

Comprehensive operating statement

The comprehensive operating statement comprises two components, being ‘net result from transactions’ and ‘other economic flows included in net result’. The sum of these represents the net result which is equivalent to profit or loss derived in accordance with AASs. This classification is consistent with the whole of government reporting format and is allowed under AASB 101 *Presentation of Financial Statements*.

Balance sheet

Assets and liabilities are presented in liquidity order with assets aggregated into financial assets and non-financial assets. Current and non-current assets and liabilities are disclosed in the notes, where relevant. In general, non-current assets or liabilities are expected to be recovered or settled more than 12 months after the reporting period, except for provisions for employee benefits, which are classified as current liabilities if the Commission does not have the unconditional right to defer the settlement of the liabilities within 12 months after the end of the reporting period.

Statement of changes in equity

The statement of changes in equity presents reconciliations of non-owner and owner changes in equity from opening balance at the beginning of the year to the closing balance at the end of the year. It also shows separately changes due to amounts recognised in the comprehensive result and amounts related to transactions with the owner in its capacity as owner.

Cash flow statement

Cash flows are classified according to whether they arise from operating, investing, or financing activities. This classification is consistent with requirements of AASB 107 *Statement of Cash Flows*.

(e) Income from transactions

Income is recognised to the extent that it is probable that the economic benefits will flow to the Commission and the income can be reliably measured.

Grants

Income from grants (other than contributions by owners) is recognised when the Commission obtains control over the contribution. Where grants are reciprocal (i.e. equal value is given by the Commission to the provider), the Commission is deemed to have assumed control when it has satisfied its performance obligations under the terms of the grant. Non-reciprocal grants are recognised as income when the grant is received or receivable. Conditional grants may be reciprocal or non-reciprocal depending on the terms of the grant.

(f) Expenses from transactions

Employee benefits

Employee benefits comprise all costs related to employment including wages and salaries, superannuation (see note 15), fringe benefits tax, leave entitlements, redundancy payments and Work Cover premiums. Superannuation expenses represent the employer contributions for members of both defined benefit and defined contribution superannuation plans that are paid or payable during the reporting period.

The Department of Treasury and Finance centrally recognises, on behalf of the State as the sponsoring employer, the net defined benefit cost and the defined benefit liability or surplus related to the members of these plans as administered items.

Depreciation

All plant and equipment and intangible produced assets that have finite useful lives are depreciated. Depreciation is calculated on a straight line basis at rates that allocate the asset's value, less any estimated residual value, over its expected useful life. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method.

Intangible produced assets with finite useful lives are depreciated as an expense from transactions on a straight-line basis over the asset's useful life. Depreciation begins when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Typical estimated useful lives applicable for the years ended 30 June 2015 and 30 June 2014 are as follows:

| | |
|------------------------------------|------------|
| Leasehold improvements | 4-10 years |
| Office and computer equipment | 3-10 years |
| Motor vehicles under finance lease | 2-3 years |
| Capitalised software development | 3-7 years |

The estimated useful lives, residual values and depreciation method are reviewed at least annually.

Finance lease interest

Finance lease interest charges are recognised as expenses in the period in which they are incurred.

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.

Supplies and services

Supplies and services are recognised as an expense in the reporting period in which they are incurred. The carrying amounts of any inventories held for distribution are expensed when distributed.

(g) Other economic flows included in net result

Other economic flows measure the change in volume or value of assets or liabilities that do not result from transactions. They include net gain and loss on financial and non-financial assets and liabilities and other gains and losses from other economic flows.

Net gains and losses on non-financial assets include realised and unrealised gains and losses from impairments, and disposals of property, plant and equipment and intangible assets. Net gains and losses on financial instruments include impairment and reversal of impairment for financial instruments at amortised cost, and disposals of financial assets. Other gains and losses from other economic flows include the transfer of amounts from reserves and/or accumulated surplus to net result due to disposal, derecognition, or reclassification and the revaluation of the present value of leave liabilities due to changes in bond interest rates.

Disposal of non-financial assets

Any gain or loss on the disposal of non-financial assets is recognised at the date of disposal and is determined after deducting from the proceeds the carrying value of the asset at that time.

Impairment of non-financial assets

All non-current physical assets and intangible 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 as another economic flow except to the extent that the write-down can be debited to an asset revaluation reserve amount applicable to that class of asset.

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. 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.

Impairment of financial assets

The Commission assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. All financial assets, except those measured at fair value through profit or loss, are subject to annual review for impairment.

Bad and doubtful debts are assessed on a regular basis. Those bad debts considered as written off by mutual consent are classified as a transaction expense. The allowance for doubtful receivables and bad debts not written off by mutual consent are adjusted as other economic flows.

(h) Financial assets

The financial assets held by the Commission include cash and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The Commission assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

Receivables

Receivables consist of:

- contractual receivables, which include mainly debtors in relation to goods and services; and
- statutory receivables, which include predominantly amounts owing from the Victorian Government and GST input tax credits recoverable.

Receivables that are contractual are classified as financial instruments. Receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less any allowance for impairment. Statutory receivables are recognised and measured on the same basis as contractual receivables (except for impairment) but are not classified as financial instruments as they do not arise from a contract.

Collectability of debtors is reviewed on an ongoing basis. A provision for doubtful debts is raised when there is objective evidence that the debts may not be collected. Bad debts are written off when identified.

(i) Non-financial assets

Prepayments

Prepayments represent payments in advance of receipt of goods or services or that part of expenditure made in one accounting period covering a term extending beyond that period.

Property, plant and equipment

Property, plant and equipment are recognised initially at cost and subsequently measured at fair value less accumulated depreciation and impairment.

The initial cost for non-financial physical assets under a finance lease (see note 1(k)) is measured at amounts equal to the fair value of the leased assets or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

The fair value of plant, equipment and vehicles, is normally determined by reference to the asset's depreciated replacement cost. For plant, equipment and vehicles, existing depreciated historical cost is generally a reasonable proxy for depreciated replacement cost because of the short lives of the assets concerned. Unless otherwise disclosed, the current use of these non-financial physical assets will be their highest and best use.

Intangible assets

Intangible assets represent identifiable non-monetary assets without physical substance. Intangible assets are measured at cost less accumulated depreciation and impairment. Costs incurred subsequent to initial acquisition are capitalised when it is expected that additional future economic benefits will flow to the Commission.

(j) Liabilities

Payables

Payables consist of:

- contractual payables, such as accounts payable, which represent liabilities for goods and services provided to the Commission that are unpaid at the end of the financial year, and arise when the Commission becomes obliged to make future payments in respect of the purchase of those goods and services; and
- statutory payables, such as goods and services tax and fringe benefit tax payables.

Contractual payables are classified as financial instruments and categorised as financial liabilities at amortised cost. The amounts are unsecured and are usually paid within 30 days of recognition. Statutory payables are recognised and measured similarly to contractual payables, but are not classified as financial instruments and not included in the category of financial liabilities at amortised cost.

Provisions

Provisions are recognised when the Commission has a present obligation where the future sacrifice of economic benefits is probable and the amount of the provision can be measured reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows, using a discount rate that reflects the time value of money and risks specific to the provision.

Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service 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 wholly 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 wholly 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. The long service leave liability is classified as non-current where the Commission has an unconditional right to defer the settlement of the entitlement until the employee has completed the required years of service.

(k) 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.

Finance leases are recognised as assets and liabilities of the Commission at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The leased asset is depreciated over the shorter of the estimated useful life of the asset or the term of the lease.

Minimum finance lease payments are apportioned between reduction of the lease liability and periodic finance charges which are calculated using the interest rate implicit in the lease and charged directly to the comprehensive operating statement.

Operating lease payments are recognised as an expense in the comprehensive operating statement on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern of the benefits derived from the use of the leased asset. The leased asset is not recognised in the balance sheet.

(l) Goods and services tax

Income, expenses and assets are recognised net of goods and services tax (GST), unless the GST incurred is not recoverable from the Australian Taxation Office (ATO). In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included as part of receivables or payables.

Cash flows are presented on a gross basis. The GST component of cash flows arising from investing and financing activities which was recovered from, or paid to, the ATO is classified as operating cash flows.

Commitments and contingent assets and liabilities are also stated inclusive of GST.

(m) Contributions by owners

Additions to net assets which have been designated as contributions by owners are recognised as contributed capital. Other transfers that are in the nature of contributions or distributions are also designated as contributed capital. Transfers of net assets or liabilities arising from administrative restructurings are treated as distributions to or contributions by owners.

(n) Commitments

Commitments for future expenditure include operating and capital commitments arising from contracts. These commitments are disclosed in note 10 at their nominal value and inclusive of GST payable. These future expenditures cease to be disclosed as commitments once the related liabilities are recognised in the balance sheet.

(o) Contingent assets and contingent liabilities

Contingent assets and contingent liabilities are not recognised in the balance sheet, but are disclosed by way of a note and, if quantifiable, are measured at nominal value. Contingent assets and liabilities are presented inclusive of GST receivable or payable respectively.

(p) New Accounting Standards and Interpretations

As at 30 June 2015, the following standards and interpretations (applicable to the Commission) had been issued but were not mandatory for the 30 June 2015 reporting period.

AASB 2015-7 *Amendments to Australian Accounting Standards – Fair Value Disclosures of Not-for-Profit Public Sector Entities*, applicable for reporting periods commencing 1 July 2016. This standard provides scope-limited relief for not-for-profit public sector entities from making certain specified disclosures about the fair value measurement of assets within the scope of AASB 116 *Property, Plant and Equipment*. In accordance with FRD 7A *Early adoption of authoritative accounting pronouncements*, the Commission has elected to early adopt AASB

2015-7 for the 2014-15 reporting period. Specifically, for fair value measurements that have been categorised within Level 3 of the fair value hierarchy, the Commission is no longer required to provide quantitative information about the 'significant unobservable inputs' used in the fair value measurement.

The Commission has elected not to early adopt the following new standards:

AASB 9 Financial Instruments. The key changes include simplified requirements for the classification and measurement of financial assets, a new hedging accounting model and a revised impairment loss model to recognise impairment losses earlier, as opposed to the current approach that recognises impairment only when incurred. Applicable for annual reporting periods beginning on 1 January 2018. The assessment has identified that the financial impact of available for sale assets will now be reported through other comprehensive income and no longer recycled to the profit and loss. While the preliminary assessment has not identified any material impact arising from AASB 9, it will continue to be monitored and assessed.

AASB 15 Revenue from Contracts with Customers. The core principle of AASB 15 requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer. Applicable for annual reporting periods beginning on 1 January 2017 (Exposure Draft 263 – potential deferral to 1 January 2018). The changes in revenue recognition requirements in AASB 15 may result in changes to the timing and amount of revenue recorded in the financial statements. The Standard will also require additional disclosures on service revenue and contract modifications.

AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation [AASB 116 & AASB 138]. Amends AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets* to:

- establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset;
- prohibit the use of revenue-based methods to calculate the depreciation or amortisation of an asset, tangible or intangible, because revenue generally reflects the pattern of economic benefits that are generated from operating the business, rather than the consumption through the use of the asset.

Applicable for annual reporting periods beginning on 1 January 2016. There is no expected impact as the revenue-based method is not used for depreciation and amortisation.

AASB 2015-6 Amendments to Australian Accounting Standards – Extending Related Party Disclosures to Not-for-Profit Public Sector Entities [AASB 10, AASB 124 & AASB 1049]. The amendments extend the scope of AASB 124 *Related Party Disclosures* to not-for-profit public sector entities. A guidance has been included to assist the application of the Standard by not-for-profit public sector entities. Applicable for annual reporting periods beginning on 1 January 2016. The amending standard will result in extended disclosures on the Commission's key management personnel, and related party transactions.

| | 2015 \$ | 2014 \$ |
|--|-------------------|-------------------|
| Note 2. Income from transactions | | |
| Income from transactions includes: | | |
| Grants | | |
| Grants from Department of Treasury and Finance (note 1(c)) | <u>15,956,224</u> | <u>15,878,000</u> |
| Total grants | <u>15,956,224</u> | <u>15,878,000</u> |
| Note 3. Expenses from transactions | | |
| Expenses from transactions includes: | | |
| Employee benefits | | |
| Salaries and wages | 7,710,125 | 7,436,595 |
| Superannuation (see note 15) | | |
| - Defined contribution plans | 642,209 | 598,591 |
| - Defined benefit plans | 16,185 | 15,671 |
| Annual and long service leave expense | 914,496 | 854,300 |
| On-costs | <u>404,614</u> | <u>411,954</u> |
| Total employee benefits | <u>9,687,629</u> | <u>9,317,111</u> |
| Depreciation | | |
| Leasehold improvements | 109,574 | 111,361 |
| Office and computer equipment | 23,940 | 50,293 |
| Motor vehicles under finance lease | 23,515 | 24,084 |
| Intangible assets | <u>148,883</u> | <u>148,884</u> |
| Total depreciation | <u>305,912</u> | <u>334,622</u> |
| Supplies and Services | | |
| Rentals and outgoings | 857,989 | 844,377 |
| Purchase of Services | 3,451,876 | 3,610,669 |
| Other | <u>1,183,815</u> | <u>1,247,900</u> |
| Total supplies and services | <u>5,493,680</u> | <u>5,702,946</u> |

Notes to the financial statements
30 June 2015

| | 2015 \$ | 2014 \$ |
|--|--------------------------|--------------------------|
| Note 4. Receivables | | |
| Current | | |
| Contractual Debtors | 550 | - |
| Statutory | | |
| Amounts receivable from government departments | 11,492,295 | 10,131,035 |
| GST recoverable | <u>133,081</u> | <u>91,582</u> |
| Total current receivables | <u>11,625,926</u> | <u>10,222,617</u> |
| Non-current | | |
| Statutory | | |
| Amounts receivable from government departments | <u>230,811</u> | <u>204,630</u> |
| Total non-current receivables | <u>230,811</u> | <u>204,630</u> |
| Total receivables | <u><u>11,856,737</u></u> | <u><u>10,427,247</u></u> |

Please see Note 9 for ageing analysis of contractual receivables

Note 5. Property, plant and equipment

| | | |
|---|-----------------------|-----------------------|
| Leasehold improvements – at fair value | 462,762 | 462,762 |
| Less: accumulated depreciation | <u>(263,103)</u> | <u>(153,529)</u> |
| | <u>199,659</u> | <u>309,233</u> |
| Office and computer equipment – at fair value | 91,575 | 314,957 |
| Less: accumulated depreciation | <u>(75,985)</u> | <u>(273,874)</u> |
| | <u>15,590</u> | <u>41,083</u> |
| Motor vehicles under finance lease – at cost | 112,538 | 112,538 |
| Less: accumulated depreciation | <u>(47,596)</u> | <u>(24,081)</u> |
| | <u>64,942</u> | <u>88,457</u> |
| Total property, plant and equipment | <u><u>280,191</u></u> | <u><u>438,773</u></u> |

Notes to the financial statements
30 June 2015

| | 2015 | 2014 |
|---|------------------|------------------|
| | \$ | \$ |
| Reconciliation of carrying amounts | | |
| <i>Leasehold improvements</i> | | |
| Carrying amount at start of the year | 309,233 | 420,594 |
| Depreciation expense (note 3) | <u>(109,574)</u> | <u>(111,361)</u> |
| Carrying amount at end of the year | <u>199,659</u> | <u>309,233</u> |
| <i>Office and computer equipment</i> | | |
| Carrying amount at start of the year | 41,083 | 75,607 |
| Additions | 337 | 15,769 |
| Disposals | (1,890) | - |
| Depreciation expense (note 3) | <u>(23,940)</u> | <u>(50,293)</u> |
| Carrying amount at end of the year | <u>15,590</u> | <u>41,083</u> |
| <i>Motor vehicles under finance lease</i> | | |
| Carrying amount at start of the year | 88,457 | 85,469 |
| Additions | - | 36,744 |
| Disposals | - | (9,672) |
| Depreciation expense (note 3) | <u>(23,515)</u> | <u>(24,084)</u> |
| Carrying amount at end of the year | <u>64,942</u> | <u>88,457</u> |

Classification by 'purpose group'

| | Public Administration | |
|---|-----------------------|----------------|
| | \$ | \$ |
| Nature based classification | | |
| Leasehold improvements | 199,659 | 309,233 |
| Office and computer equipment | 15,590 | 41,083 |
| Motor vehicles under finance lease | 64,942 | 88,457 |
| Total carrying amount of property, plant and equipment | <u>280,191</u> | <u>438,773</u> |

| | Carrying amount | Fair value measurement using: | | |
|---|-----------------|-------------------------------|---------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Fair value measurement hierarchy* at 30 June 2015 | \$ | \$ | \$ | \$ |
| Leasehold improvements | 199,659 | | | 199,659 |
| Office and computer equipment | 15,590 | | | 15,590 |
| | | | | |
| Fair value measurement hierarchy* at 30 June 2014 | | | | |
| Leasehold improvements | 309,233 | | | 309,233 |
| Office and computer equipment | 41,083 | | | 41,083 |

*See fair value hierarchy in note 1(b)

There have been no transfers between levels during the period.

Property, plant and equipment

Leasehold improvements and office and computer equipment are held at fair value. When an item is specialised in use, such that it is rarely sold other than as part of a going concern, fair value is determined using the depreciated replacement cost method.

There were no changes in valuation techniques throughout the period to 30 June 2015. For all assets measured at fair value, the current use is considered the highest and best use.

Notes to the financial statements
30 June 2015

Reconciliation of Level 3 fair value

| | Leasehold improvements | Office and computer equipment |
|-------------------|---------------------------|-------------------------------------|
| 2015 | \$ | \$ |
| Opening balance | 309,233 | 41,083 |
| Purchases/(sales) | - | (1,553) |
| Depreciation | (109,574) | (23,940) |
| Closing balance | <u>199,659</u> | <u>15,590</u> |
| 2014 | | |
| Opening balance | 420,594 | 75,607 |
| Purchases/(sales) | - | 15,769 |
| Depreciation | (111,361) | (50,293) |
| Closing balance | <u>309,233</u> | <u>41,083</u> |

Description of significant unobservable inputs to Level 3 valuations

| | Valuation technique | Significant Unobservable Inputs |
|-------------------------------|------------------------------|--|
| Leasehold improvements | Depreciated replacement cost | Cost per unit Useful life of building component |
| Office and computer equipment | Depreciated replacement cost | Cost per unit Useful life |

| | 2015 \$ | 2014 \$ |
|---|-----------------------|-----------------------|
| Note 6. Intangible assets | | |
| Capitalised software development | 1,383,037 | 1,383,037 |
| Less: accumulated depreciation | (798,347) | (649,463) |
| Total intangible assets | <u>584,690</u> | <u>733,574</u> |
| Reconciliation of carrying amounts | | |
| Carrying amount at the start of the year | 733,573 | 882,457 |
| Depreciation expense (note 3) | (148,883) | (148,883) |
| Carrying amount at the end of the year | <u>584,690</u> | <u>733,574</u> |

Note 7. Provisions

| | 2015 | 2014 |
|--------------------------------------|------------------|------------------|
| | \$ | \$ |
| Current: | | |
| Employee benefits | | |
| - Annual leave | | |
| Expected to be paid within 12 months | 532,763 | 450,205 |
| Expected to be paid after 12 months | 149,497 | 162,649 |
| - Long service leave | | |
| Expected to be paid within 12 months | 134,600 | 140,850 |
| Expected to be paid after 12 months | 1,478,274 | 1,203,908 |
| - Performance bonus | 112,817 | 93,817 |
| | 2,407,951 | 2,051,429 |
| Non-current: | | |
| Employee benefits | | |
| - Long service leave | 230,811 | 204,630 |
| | 230,811 | 204,630 |
| Total provisions | 2,638,762 | 2,256,059 |

Note 8. Borrowings

Secured

Current:

| | | |
|---------------------------|--------|--------|
| Finance lease liabilities | 48,049 | 23,765 |
|---------------------------|--------|--------|

Non-current:

| | | |
|---------------------------|--------|--------|
| Finance lease liabilities | 17,843 | 65,893 |
|---------------------------|--------|--------|

Total borrowings

| | | |
|--|---------------|---------------|
| | 65,892 | 89,658 |
|--|---------------|---------------|

Lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

Assets pledged as security

The carrying amounts of non-current assets pledged as security are:

| | | |
|------------------------------------|---------------|---------------|
| Motor vehicles under finance lease | 64,942 | 88,457 |
|------------------------------------|---------------|---------------|

Note 9 discloses the maturity analysis of borrowings and the nature and extent of risks arising from borrowings.

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

| Financial assets | Note | Category | Carrying amount | |
|---|------|---|------------------|------------------|
| | | | 2015 \$ | 2014 \$ |
| Cash on hand | | Cash | 500 | 500 |
| Receivables * | 4 | Loans and receivables | 550 | - |
| | | | <u>1,050</u> | <u>500</u> |
| Financial liabilities | | | | |
| Payables | | Financial liabilities at amortised cost | 1,594,258 | 1,150,598 |
| Borrowings | 8 | Financial liabilities at amortised cost | 65,892 | 89,658 |
| | | | <u>1,660,150</u> | <u>1,240,256</u> |
| Net holding gain/(loss) on financial instruments by category: | | | | |
| Financial assets | | Category | | |
| Cash on hand | | Cash | - | - |
| Receivables * | | Loans and receivables | - | - |
| | | | <u>-</u> | <u>-</u> |
| Financial liabilities | | | | |
| Payables | | Financial liabilities at amortised cost | - | - |
| Borrowings | | Financial liabilities at amortised cost | (4,565) | (3,872) |
| | | | <u>(4,565)</u> | <u>(3,872)</u> |

* Receivables and payables disclosed here exclude statutory receivables (i.e. amounts receivable from government departments and GST recoverable).

The net holding gains or losses disclosed above are determined as follows:

- For cash and receivables, the net gain or loss is calculated by taking the interest revenue, minus any impairment recognised in the net result; and
- For financial liabilities measured at amortised cost, the net gain or loss is the related interest expense.

(c) Credit risk

Credit risk arises from the financial assets of the Commission, which comprise cash, and trade and other receivables. The Commission's 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 insignificant 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

There are no material financial assets which are individually determined to be 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 was 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.

Ageing analysis of contractual financial assets is as follows:

| | Carrying amount \$ | Nominal amount \$ | Maturity* | | | |
|-------------|-----------------------|----------------------|----------------------------|------------------|----------------------------|-----------------|
| | | | Less than 1 month \$ | 1-3 months \$ | 3 months - 1 year \$ | 1-5 years \$ |
| 2015 | | | | | | |
| Receivables | 550 | 550 | 550 | | | |
| | <u>550</u> | <u>550</u> | <u>550</u> | | | |
| 2014 | | | | | | |
| Receivables | - | - | - | | | |
| | <u>-</u> | <u>-</u> | <u>-</u> | | | |

(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 Commission manages its liquidity risk by maintaining an adequate level of uncommitted funds that can be drawn at short notice to meet its short term obligations.

The contractual maturity analysis of the Commission's financial liabilities is as follows:

| | Carrying amount \$ | Nominal amount \$ | Maturity* | | | |
|-------------|-----------------------|----------------------|----------------------------|------------------|----------------------------|-----------------|
| | | | Less than 1 month \$ | 1-3 months \$ | 3 months - 1 year \$ | 1-5 years \$ |
| 2015 | | | | | | |
| Payables | 1,594,258 | 1,594,258 | 1,594,258 | | | |
| Borrowings | 65,892 | 68,331 | 2,361 | 4,722 | 43,212 | 18,036 |
| | <u>1,660,150</u> | <u>1,662,589</u> | <u>1,596,619</u> | <u>4,722</u> | <u>43,212</u> | <u>18,036</u> |
| 2014 | | | | | | |
| Payables | 1,150,598 | 1,150,598 | 1,150,598 | | | |
| Borrowings | 89,658 | 96,661 | 2,361 | 4,721 | 21,248 | 68,331 |
| | <u>1,240,256</u> | <u>1,247,259</u> | <u>1,152,959</u> | <u>4,721</u> | <u>21,248</u> | <u>68,331</u> |

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

(e) Market risk

The Commission has no exposure to interest rate, foreign currency or other price risks. Interest rates on the Commission's finance lease liabilities are fixed.

(f) Fair value

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values because of the short term nature of the financial instruments and the expectation that they will be paid in full.

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

- Level 1 – the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- Level 2 – the fair value is determined using inputs other than quoted prices that are observable for the financial asset or liability, either directly or indirectly; and
- Level 3- 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 using unobservable market inputs.

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

| | 2015 | 2014 |
|--|-----------|-----------|
| | \$ | \$ |
| Note 10. Commitments for expenditure | | |
| Outsourcing commitments | | |
| Information technology services, payable: | | |
| Within one year | 566,364 | 460,000 |
| Later than one year but not later than five years | 330,379 | - |
| | 896,743 | 460,000 |
| 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 | 863,393 | 832,116 |
| Later than one year but not later than five years | 590,777 | 1,450,543 |
| | 1,454,170 | 2,282,658 |
| Finance lease liabilities | | |
| Liabilities in relation to finance leases are payable as follows: | | |
| Within one year | 50,295 | 28,330 |
| Later than one year but not later than five years | 18,036 | 68,331 |
| Minimum lease payments | 68,331 | 96,661 |
| Less: Future finance charges | (2,439) | (7,003) |
| Total lease liabilities | 65,892 | 89,658 |
| Shown in the financial statements (see note 8) as: | | |
| Current | 48,049 | 23,765 |
| Non-current | 17,843 | 65,893 |
| | 65,892 | 89,658 |

Note 11. Contingent liabilities and contingent assets

The Commission had no contingent liabilities or contingent assets at 30 June 2015 or 30 June 2014.

Note 12. Responsible persons

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. Robin Scott, MP, Minister for Finance (from 4 December 2014) The Hon. Robert Clark, MP, Minister for Finance (up to 4 December 2014) |
| Accountable Officer | Dr Ron Ben-David, 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:

\$350,000 - \$359,999 (2014: \$330,000 - \$339,999)

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 13. 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 | |
|--------------------------------------|---------------------------|---------------------|--------------------------|---------------------|
| | 2015 No. | 2014 No. | 2015 No. | 2014 No. |
| \$150,000 - \$159,999 | | | 1 | - |
| \$160,000 - \$169,999 | | | - | 1 |
| \$180,000 - \$189,999 | - | 1 | | |
| \$190,000 - \$199,999 | 1 | - | | |
| \$200,000 - \$209,999 | - | 1 | 2 | 2 |
| \$210,000 - \$219,999 | 2 | 1 | | |
| \$260,000 - \$269,999 | - | 1 | - | 1 |
| \$270,000 - \$279,999 | | | 1 | - |
| \$280,000 - \$289,999 | 1 | - | | |
| Total numbers | 4 | 4 | 4 | 4 |
| Total amount (\$) | 903,359 | 871,812 | 839,751 | 832,146 |
| Total annualised employee equivalent | 4.0 | 3.9 | 4.0 | 3.9 |

Note 14. Remuneration of auditors

| | 2015 | 2014 |
|---|----------------------|---------------|
| | \$ | \$ |
| Audit fees paid or payable to the Victorian Auditor-General's Office | | |
| Audit of the annual financial statements | <u>15,800</u> | <u>15,400</u> |

No other services were provided by the Victorian Auditor-General's Office.

Note 15. Superannuation

Employees of the Commission are entitled to receive superannuation benefits and the Commission contributes to both defined benefit and defined contribution plans. The defined benefit plans provide benefits based on years of service and final average salary. The basis for contributions are determined by the various schemes.

The Commission does not recognise any defined benefit liability in respect of the plans 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 recognises and discloses the State's defined benefit liabilities as an administered item in its financial statements.

Superannuation contributions paid or payable for the reporting period are included as part of employee benefits in the comprehensive operating statement of the Commission.

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

| | |
|----------------------------|---|
| Defined benefit funds | Emergency Services and State Super - New Scheme |
| Defined contribution funds | VicSuper |

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

Note 16. Reconciliation of net result to net cash flows from operating activities

(a) Reconciliation of net result to net cash flows from operating activities

| | | |
|---|----------------------|---------------|
| Net result for the period | 407,506 | 503,677 |
| Depreciation | 305,912 | 334,622 |
| Gain on disposal of property, plant and equipment | 1,890 | (3,965) |
| Change in operating assets and liabilities | | |
| (Increase)/decrease in receivables | (1,429,491) | (857,540) |
| (Increase)/decrease in prepayments | (88,079) | 183 |
| Increase/(decrease) in creditors and accruals | 443,660 | (29,199) |
| Increase/(decrease) in provisions | 382,703 | 87,672 |
| Net cash flows from operating activities | <u>24,101</u> | <u>35,450</u> |

(b) During the year, there were no non-cash financing or investing activities (2014 - \$36,744).

Note 17. Administered items

In addition to the specific controlled operations which are included in the balance sheet, comprehensive 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 a determination made by the Minister for Finance.

| | 2015 \$ | 2014 \$ |
|--|-------------------|------------------|
| Administered income from transactions | | |
| Licence and other fees | 9,747,064 | 8,843,985 |
| Other income | 292,545 | - |
| | <u>10,039,609</u> | <u>8,843,985</u> |
| Administered expenses from transactions | | |
| Payments to Consolidated Fund | 10,353,854 | 9,813,414 |
| | <u>10,353,854</u> | <u>9,813,414</u> |
| Administered net result | <u>(314,245)</u> | <u>(969,429)</u> |
| Administered assets | | |
| Financial assets | | |
| Debtors | 285,355 | 67,176 |
| Accrued income | 5,165,658 | 5,602,627 |
| | <u>5,451,013</u> | <u>5,669,803</u> |
| Administered liabilities | | |
| Unearned income | 200,000 | 104,545 |
| | <u>200,000</u> | <u>104,545</u> |
| Administered net assets | <u>5,251,013</u> | <u>5,565,258</u> |

Note 18. Glossary of terms

Annualised employee equivalent

Annualised employee equivalent is based on paid working hours of 38 ordinary hours per week over 52 weeks for a reporting period.

Comprehensive result

The net result of all items of income and expense recognised for the period. It is the aggregate of operating result and other comprehensive income.

Capital asset charge

The capital asset charge represents the opportunity cost of capital invested in the non-current physical assets used in the provision of outputs.

Commitments

Commitments include those operating, capital and other outsourcing commitments arising from non-cancellable contractual or statutory sources.

Depreciation

Depreciation is an expense that arises from the consumption through wear or time of a produced physical or intangible asset. This expense is classified as a transaction and so reduces the net result from transactions.

Employee benefits expenses

Employee benefits expenses include all costs related to employment including wages and salaries, fringe benefits tax, leave entitlements, redundancy payments and superannuation contributions.

Financial asset

A financial asset is any asset that is:

- (a) cash;
- (b) an equity instrument of another entity;
- (c) a contractual right:
 - to receive cash or another financial asset from another entity; or
 - to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or
- (d) a contract that will or may be settled in the entity's own equity instruments and is:
 - a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
 - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Financial instrument

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets or liabilities that are not contractual (such as statutory receivables or payables that arise as a result of statutory requirements imposed by governments) are not financial instruments.

Financial liability

A financial liability is any liability that is:

- (a) a contractual obligation:
 - to deliver cash or another financial asset to another entity; or
 - to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
- (b) a contract that will or may be settled in the entity's own equity instruments and is:
 - a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
 - a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.

Financial statements

A complete set of financial statements comprises:

- a) a comprehensive operating statement for the period;
- b) a balance sheet as at the end of the period;
- c) a statement of changes in equity for the period;
- d) a cash flow statement for the period;
- e) notes, comprising a summary of significant accounting policies and other explanatory information;
- f) comparative information in respect of the preceding period as specified in paragraph 38 of AASB 101 *Presentation of Financial Statements*; and
- g) a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraph 41 of AASB 101.

Grants

Transactions in which one unit provides goods, services, assets (or extinguishes a liability) or labour to another unit without receiving approximately equal value in return. Grants can either be operating or capital in nature. While grants to governments may result in the provision of some goods or services to the transferor, they do not give the transferor a claim to receive directly benefits of approximately equal value. Receipt and sacrifice of approximately equal value may occur, but only by coincidence. For example, governments are not obliged to provide commensurate benefits, in the form of goods or services, to particular taxpayers in return for their taxes. For this reason, grants are referred to by the AASB as involuntary transfers and are termed non-reciprocal transfers.

Grants can be paid as general purpose grants which refer to grants that are not subject to conditions regarding their use. Alternatively, they may be paid as specific purpose grants which are paid for a particular purpose and/or have conditions attached regarding their use.

Interest expense

Costs incurred in connection with the borrowing of funds. Interest expense includes interest on bank overdrafts and short term and long term borrowings, amortisation of discounts or premiums relating to borrowings, interest component of finance leases repayments, and the increase in financial liabilities and non-employee provisions due to the unwinding of discounts to reflect the passage of time.

Net result

Net result is a measure of financial performance of the operations for the period. It is the net result of items of income, gains and expenses (including losses) recognised for the period, excluding those that are classified as 'other economic flows – other comprehensive income'.

Net result from transactions

Net result from transactions or net operating balance is a key fiscal aggregate and is revenue from transactions minus expenses from transactions. It is a summary measure of the ongoing sustainability of operations. It excludes gains and losses resulting from changes in price levels and other changes in the volume of assets. It is the component of the change in net worth that is due to transactions and can be attributed directly to government policies.

Non-financial assets

Non-financial assets are all assets that are not 'financial assets'.

Other economic flows included in net result

Other economic flows included in net result are changes in the volume or value of an asset or liability that do not result from transactions. They include gains and losses from disposal, revaluation and impairment of non-current physical and intangible assets; actuarial gains and losses arising from defined benefit superannuation plans and fair value changes of financial instruments. In simple terms, they are changes arising from market re-measurements.

Other economic flows - other comprehensive income

Other economic flows - other comprehensive income comprises items (including reclassification adjustments) that are not recognised in net result. The components of 'other economic flows - other comprehensive income' include changes in physical asset revaluation surplus.

Payables

Includes short and long term trade debt and accounts payable, grants and interest payable.

Receivables

Includes short and long term trade credit and accounts receivable, grants, taxes and interest receivable.

Supplies and services

Supplies and services generally represent cost of goods sold and the day to day running costs, including maintenance costs, incurred in the normal operations of the entity.

Transactions

Transactions are those economic flows that are considered to arise as a result of policy decisions, usually an interaction between two entities by mutual agreement. They also include flows within an entity such as depreciation where the owner is simultaneously acting as the owner of the depreciating asset and as the consumer of the service provided by the asset. Taxation is regarded as mutually agreed interactions between the government and taxpayers. Transactions can be in kind (e.g. assets provided/given free of charge or for nominal consideration) or where the final consideration is cash. In simple terms, transactions arise from the policy decisions of the government.

ESSENTIAL SERVICES COMMISSION

Accountable Officer's and Chief Financial Officer's declaration

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, including Interpretations, and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the comprehensive operating statement, balance sheet, statement of changes in equity, cash flow statement and notes to the financial statements, presents fairly the financial transactions during the year ended 30 June 2015 and financial position of the Commission as at 30 June 2015.

At the time of signing, we are not aware of any circumstance, which would render any particulars included in the financial statements to be misleading or inaccurate.

We authorise the attached financial statements for issue on 8 September 2015.



Joe Bonnici
Chief Financial Officer
Department of Treasury and Finance

Melbourne
8 September 2015



Ron Ben-David
Chairperson
Essential Services Commission

Melbourne
8 September 2015

INDEPENDENT AUDITOR'S REPORT

To the Chairperson and Commissioners, Essential Services Commission

The Financial Report

The accompanying financial report for the year ended 30 June 2015 of the Essential Services Commission which comprises comprehensive operating statement, balance sheet, statement of changes in equity, cash flow statement, notes comprising a summary of significant accounting policies and other explanatory information, and the Accountable Officer's and Chief Financial Officer's has been audited.

The Chairperson and Commissioners' Responsibility for the Financial Report

The Chairperson and Commissioners of the Essential Services Commission are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, and the financial reporting requirements of the *Financial Management Act 1994*, and for such internal control as the Chairperson and Commissioners determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

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. Those standards require compliance with relevant ethical requirements relating to audit engagements and that the audit be planned and performed to obtain reasonable assurance about 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 the 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 Chairperson and Commissioners, as well as evaluating the overall presentation of the financial report.

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

Independent Auditor's Report (continued)

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.

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 2015 and of its financial performance and its cash flows for the year then ended in accordance with applicable Australian Accounting Standards, and the financial reporting requirements of the *Financial Management Act 1994*.

MELBOURNE
9 September 2015



for John Doyle
Auditor-General

APPENDIX B

REGULATORY FRAMEWORK

REGULATED INDUSTRIES AND RELEVANT LEGISLATION

At 30 June 2015, the following industries were regulated industries within the ambit of the Commission by virtue of the relevant legislation specified below:

- The electricity industry – retailing and distribution (licensing and non-economic rule-making), under the *Electricity Industry Act 2000*
- The gas industry – retailing and distribution (licensing and non-economic rule-making), 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 15 regional and rural businesses under the *Water Act 1989*
- The port industry in the Port of Melbourne from 1 January 1996, under the *Port Management Act 1995*
- The rail industry from 29 April 1999 (access only) under the *Rail Management Act 1996*
- The taxi industry – regulating prescribed prices, regional price monitoring and non-cash payment transactions under the *Transport (Compliance and Miscellaneous) Act 1983*.

In addition, the Commission is responsible for the administration of the Victorian energy efficiency target scheme under the *Victorian Energy Efficiency Target Act 2007*.

APPENDIX C

ESSENTIAL SERVICES COMMISSION PUBLICATIONS 2014-2015

CORPORATE

- ESC Work Program 2014-15
- ESC Annual Report 2013-14
- ESC 20th Anniversary – Reflecting on 20 Years of Economic Regulation in Victoria 1994-2014.

ENERGY INDUSTRY

ENERGY INDUSTRY CODES

- Harmonisation of the Energy Retail Code Harmonisation Project: Consequential Amendments to Victorian Energy Instruments – Final Decision
- Energy Retail Code Version 11, effective 13 October 2014
- Gas Distribution System Code Version 11, effective 13 October 2014
- Electricity Customer Transfer Code, effective 13 October 2014
- Electricity Customer Metering Code, effective 13 October 2014
- Electricity Distribution Code Version 8, effective 13 October 2014
- Correcting Clause 25 of the Energy Retail Code Version 11

ENERGY INDUSTRY GUIDELINES

- Guideline No.13 – Greenhouse Gas Disclosure on Electricity Customer's Bills

ENERGY INDUSTRY PERFORMANCE REPORTS

- Energy Retailers Comparative Performance Report Pricing 2013-14
- Energy Retailer's Comparative Performance Report Customer Service 2013-14
- Energy Retailer's Compliance Report 2013-14

VICTORIAN ENERGY EFFICIENCY TARGET SCHEME (VEET)

- Victorian energy Efficiency Target Scheme (VEET) Performance Report

ENERGY LICENCES

- Alcoa of Australia Limited: Electricity Generation Licence Application
- Electricity Retail Licence Application – Next Business Energy Pty Ltd
- Notice of Application for licence to sell gas CovaU Pty Ltd
- Notice of Application for licence to sell electricity CovaU Pty Ltd
- Notice of Application for licence to sell electricity SparQ Pty Ltd
- Electricity Retail Licence – Pacific Hydro Retail Pty Ltd (variation to existing licence)
- Electricity Retail Licence Application – Stanwell Corp Ltd
- Gas Retail Licence Application – Click Energy Pty Ltd
- GloBird Energy Pty Ltd Electricity Retail Licence

ENERGY COMPLIANCE

- Electricity Distributors' Compliance with AMI Regulatory Obligations
- Assurance of Final Remediation Energy Australia Compliance
- Information on SAP (Ausgrid) electricity bills Acceptance of Assurances
- Energy Australia Compliance ESC Assurance and Administrative Undertaking
- Energy Australia: Regulatory Audit of Customer Billing prepared by ESC
- Operating Procedure Compensation for Wrongful Disconnection, 13 October 2014
- Compliance Reporting Manual (Energy Retail Businesses), 13 October 2014
- Customer I and Click Energy – wrongful disconnection
- Customer M and Click Energy – wrongful disconnection
- Customer K and AGL – wrongful disconnection
- Customer S and Australian Power & Gas – wrongful disconnection
- Customer P and Australian Power & Gas – wrongful disconnection
- Customer Q and AGL – wrongful disconnection
- Customer A and Lumo – wrongful disconnection
- Customer B and Lumo – wrongful disconnection

ENERGY HARDSHIP REVIEW

- Issues Paper: Inquiry into Financial Hardship Arrangements of Energy Retailers – Our Approach

MINIMUM ELECTRICITY FEED-IN TARIFF

- Minimum Electricity Feed-in Tariff to apply from 1 January 2015: Final Decision
- Minimum Electricity Feed-in Tariff to apply from 1 January 2016: Draft Decision

OTHER ENERGY REPORTS

- Variations to Standing Offer Tariffs following removal of Carbon Price – Final Decision
- Standing & market electricity offers for all retailers
- 2014 Caravan Park Electricity Tariffs – Amended for Carbon Price Removal
- Review of Energy Regulatory Audit Framework: Tripartite Audit Deed

WATER INDUSTRY

WATER INDUSTRY CODES

- Trade Waste Customer Service Code

WATER PRICE REVIEW

- Consultation Paper: Review of Water Pricing Approach
- Goulburn Murray Water: Guidance on Water Price Submission (for Water Price Review 2016)
- WIRO Guidance on Water Price Submission Goulburn-Murray Water
- Consultation Paper – Proposed Approach to Melbourne Water's 2016 Water Price Review
- Tariffs Schedule 2014-15 for 19 water businesses
- Lower Murray Water tariff application for 2015-16: Schedule
- Goulburn Murray Water tariff application for 2015-16: Schedule

OTHER WATER INDUSTRY REPORTS

- Annual water & sewerage bill pricing estimator (Greater Melbourne) 2014-15
- Annual water & sewerage bill pricing estimator (Regional Victoria) 2014-15
- Essential Services Commission's Water News No. 30
- ESC Submission to the Independent Review of the Economic Regulatory Framework by Office of Living Victoria

TRANSPORT INDUSTRY

TAXI INDUSTRY

- Taxi Fare Review 2013-14 - Final Report
- Survey of Taxi Operators

ACCIDENT TOWING & STORAGE

- Accident Towing & Storage Economic Regulation Review – Issues Paper

RAIL INDUSTRY

- Decision: Vic Track proposed access arrangement extension
- Decision: Pacific National proposed access arrangement extension
- Decision: V/Line proposed application for variation

LOCAL GOVERNMENT

- Local Government Rates Capping & Variation Framework Consultation Paper

OTHER INDUSTRY

- Performance of Victorian Domestic Building Insurance Scheme 2013-14

The Commission's publications are available on its website: www.esc.vic.gov.au

APPENDIX D

LEGISLATION

The following is a list of legislation applying to the Commission's responsibilities in relation to regulated industries as at 30 June 2015.

- *Essential Services Commission Act 2001*
- *Electricity Industry Act 2000*
- *Gas Industry Act 2001*
- *Water Industry Act 1994*
- *Water Act 1989*
- *Port Management Act 1995*
- *Rail Management Act 1996*
- *National Electricity (Victoria) Act 2005*
- *National Gas (Victoria) Act 2008*
- *Victorian Energy Efficiency Target Act 2007*
- *Accident Towing Services Act 2007*
- *Transport (Compliance & Miscellaneous) Act 1983*
- *Grain Handling & Storage Act 1995*

APPENDIX E

PRICE DETERMINATIONS

Section 33 of the *Essential Services Commission Act 2001* empowers the Commission to make price determinations.

No price determinations were made during 2014-15.

APPENDIX F

NOTICES ISSUED BY THE COMMISSION

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.

No notices were issued under section 37 during 2014-15.

APPENDIX G

DISCLOSURE BY THE COMMISSION

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.

No disclosures were made by the Commission under section 38 during 2014-15.

APPENDIX H

OFFICE BASED ENVIRONMENTAL IMPACTS

The Essential Services Commission identified a series of actions aimed at:

- Reducing energy, paper, water and transport intensity within its operations;
- Reducing the amount and environmental impact of waste produced;
- Increasing sustainable procurement of office goods and services; and
- Integrating environmental considerations into business and operational planning.

The Commission developed action plans and targets for the period 2014-15, with a view to continual improvement.

The Commission complies with relevant environmental legislation and Victorian Government environmental policy.

OVERVIEW OF PERFORMANCE 2014-15

| CATEGORY | QUANTITY USED | QUANTITY PER EMPLOYEE | GREENHOUSE GAS EMISSIONS (TONNES CO2) |
|---------------------------------------|-------------------------|-----------------------------|---------------------------------------|
| Energy consumption | 413,190 MJ | 5,988 MJ per FTE | 135 tonnes |
| Waste management | 9,408.19 Kg | 136.35 Kg | 2.58 tonnes |
| Paper procurement | 845 reams | 12.3 reams per FTE | 3.1 tonnes |
| Transport utilisation - Car | 2,673 km; 247 L fuel | 38.74 km/FTE; 3.58 L/FTE | 6.62 tonnes |
| - Aeroplane | 78,639 km | 1,139.71 km/FTE | 17.17 tonnes |
| Water Consumption | n/a | n/a | n/a |
| TOTAL GREENHOUSE GAS EMISSIONS | | | 164.49 |

n/a not available

FTE Full time employee

ENERGY

Energy consumption data is taken from the Commission's energy retailer billing information. Data was available for nine months of 2014-15. The 12 month figure uses an average for the remaining three months. Usage per employee is based on an annual employee average for the whole year.

| INDICATOR | 2014 - 15 | |
|--|-------------|---------|
| | ELECTRICITY | TOTAL |
| Total energy usage segmented by primary source (MJ) | 413,190 | 413,190 |
| Greenhouse gas emissions associated with energy use, segmented by primary source and offsets (t CO2-e) | 135 | 135 |
| Percentage of electricity purchased as Green Power | | |
| Units of energy used per FTE (MJ/FTE) | 5 988 | 5 988 |
| Units of energy used per unit of office area (MJ/m ²) | 296 | 296 |

WASTE

The Commission conducted two waste audits for 2014-15 to obtain waste data and recycling levels. The audits identify four streams of waste at the Commission – landfill, co-mingled recycling, organic recycling and paper/cardboard recycling.

From the waste data collected, a number of initiatives were undertaken by the Commission's Environmental Committee to help reduce waste going to landfill and decrease recycling contamination. This included encouraging staff to use less disposable coffee cups, and introducing a new bin management system.

| WASTE & RECYCLING BY WEIGHT | TOTAL UNITS OF WASTE DISPOSED PER YEAR BY DESTINATION (KG/YEAR) | PERCENTAGE | UNITS OF OFFICE WASTE DISPOSED OF PER FTE PER YEAR (KG/FTE/YEAR) |
|-----------------------------|---|------------|--|
| General waste / landfill | 1 868.75 | 20% | 27.08 |
| Co-mingled recycling | 1 345.00 | 14% | 19.49 |
| Organic recycling | 737.50 | 8% | 10.69 |
| Paper & cardboard recycling | 5 456.94 | 58% | 79.09 |
| Total | 9 408.19 | 100% | 136.35 |

PAPER

The paper data is based on supplier billing information and paper storage auditing.

The Commission's overall consumption of paper increased slightly in 2014-15, as did the consumption per full-time equivalent employee. The Commission has maintained a high level of 75-100 per cent recycled paper content, in keeping with its environmental goals.

| INDICATOR | 2014-15 | 2013-14 |
|---|---------|---------|
| Total units of copy paper used (reams) | 845 | 751 |
| Units of copy paper used per FTE (reams/FTE) | 12.3 | 11.9 |
| Percentage of 75–100 recycled content copy paper purchased | 98% | 97.6% |
| Percentage of 0–50 recycled content copy paper purchased | 2% | 2.4% |
| Greenhouse gas emissions associated with paper use, segmented by primary source and offsets (t CO ₂ e) | 3.1 | 2.8 |

WATER

Water consumption for the Commission is not available. Water consumption is measured for the entire building and not specifically for the floors that the Commission occupies. Building management is not able to provide individual water consumption data to occupants.

The building, however, has a black water treatment plant with onsite sewage processing and high efficiency water fixtures and fittings. The building has been awarded a 3.5 NABERS water certification.

TRANSPORT

Transport data was collected from VicFleet logs and Commission air travel records. The Commission uses the State Government Vehicle Pool for all its operational car travel. Use of hybrid fuel vehicles by staff is encouraged.

| TRANSPORT TYPE | INDICATOR | 2014-15 | | |
|----------------|--|---------|-----|--------|
| | | ULP | LPG | TOTAL |
| Car | Total travel associated with entity operations (km) | 2 673 | | 2 673 |
| | Total greenhouse gas emissions from fleet (t CO ² -e) | 6.62 | | 6.62 |
| | Greenhouse gas emission from fleet per 1000km travelled (t CO ² -e) | 2.48 | | 2.48 |
| | | 2014-15 | | |
| Plane | Total distance travelled (km) | | | 78 639 |
| | Greenhouse gas emission (t CO ² -e) | | | 17.17 |

SUMMARY OF GREENHOUSE GAS EMISSIONS

| INDICATOR | 2014-15 |
|---|---------------|
| Total greenhouse gas emissions associated with energy use (t CO ² -e) | 135 |
| Total greenhouse gas emissions associated with vehicle fleet (t CO ² -e) | 6.62 |
| Total greenhouse gas emissions associated with air travel (t CO ² -e) | 17.17 |
| Total greenhouse gas emissions associated with waste production (t CO ² -e) | 2.58 |
| Greenhouse gas emissions offsets purchased (t CO ² -e) | 0 |
| Any other known greenhouse gas emissions associated with other activities (t CO ² -e)* | 3.12 |
| Total greenhouse gas emissions(t CO²-e) | 164.49 |

* Emissions associated with paper production and use.

CONSULTANCIES OVER \$10,000

| CONSULTANT | PURPOSE OF CONSULTANCY | TOTAL APPROVED PROJECT FEE (EX GST) \$ | EXPENDITURE 2014-15 (EX GST) \$ | FUTURE EXPENDITURE (EX GST) \$ |
|---|--|---|--|---------------------------------------|
| ACIL ALLEN CONSULTING | Research into methods used by energy retailers to assist customers experiencing financial hardship | 214 148 | 32 646 | 181 502 |
| CARBON MARKET ECONOMICS | Technical advice on pricing methodologies for water sector | 34 800 | 34 800 | Nil |
| CARBON MARKET ECONOMICS | Classification of energy offers and analysis of price competition | 60 909 | 60 909 | Nil |
| CARBON MARKET ECONOMICS | Advice in relation to customer engagement methodologies for pricing in Victoria's water sector | 47 000 | 14 100 | 32 900 |
| CARBON MARKET ECONOMICS | Economic and financial advice on Pacific Hydro Retail Pty Ltd's electricity retail licence application | 18 000 | 18 000 | Nil |
| CENTRE FOR INTERNATIONAL ECONOMICS | Design and administration of survey on country and regional taxi operator costs. Provision of technical advice on cost index and fare comparison templates | 135 454 | 100 937 | 34 517 |
| CUSTOMER SERVICE BENCHMARKING AUSTRALIA | Victorian ratepayers and community members focus groups facilitation and reporting for Local Government Review | 32 046 | 13 162 | 18 884 |
| CUSTOMER SERVICE BENCHMARKING AUSTRALIA | Benchmarking report of water businesses call centre performance for 2014-15 and 2015-16 | 43 507 | Nil | 43 507 |
| DELOITTE TOUCHE TOHMATSU | Review of repeal of clean energy legislation for water businesses | 30 205 | 18 900 | Nil |
| FRONTIER ECONOMICS | Advice on measuring fire safety efficiency | 24 300 | 24 300 | Nil |
| FRONTIER ECONOMICS | Advice on approach for measuring productivity of fire services provided by the MFB and CFA | 37 800 | 37 800 | Nil |
| FRONTIER ECONOMICS | Technical advice on economic regulation of accident towing | 90 909 | 43 656 | 47 253 |
| FRONTIER ECONOMICS | Advice in setting efficiency measures for the MFB and the CFA | 24 300 | 24 300 | Nil |
| FRONTIER ECONOMICS | Technical advice on pricing methodologies for water sector | 70 000 | 56 000 | 14 000 |

| CONSULTANT | PURPOSE OF CONSULTANCY | TOTAL APPROVED PROJECT FEE (EX GST) \$ | EXPENDITURE 2014-15 (EX GST) \$ | FUTURE EXPENDITURE (EX GST) \$ |
|-------------------------------|---|--|---------------------------------|--------------------------------|
| FRONTIER ECONOMICS | Peer Review of 2016 feed-in tariff Draft Decision | 13 966 | 13 966 | Nil |
| FRONTIER ECONOMICS | Report on Victoria's economic regulation framework for water sector | 17 004 | 13 954 | Nil |
| KJA | Communication advice on Local Government Rates Capping Review | 54 545 | 50 950 | Nil |
| KPMG | Technical advice on pricing methodologies for water sector | 77 530 | 66 030 | Nil |
| KREAB GAVIN ANDERSON | Communication advice for energy Hardship Review | 20 455 | 8 740 | Nil |
| MAURICE STABB | Advice on Local Government Rates Capping Review | 20 000 | 2 240 | 17 760 |
| PITT GROUP | VEET audit services | 56 364 | 46 200 | 10 164 |
| PREDICTIVE ANALYTICS GROUP | Data analysis of proximity based accident towing allocations | 26 000 | 26 000 | Nil |
| PREDICTIVE ANALYTICS GROUP | Assessment, collation and cleansing of taxi industry data and development of taxi database and data specification documents | 97 659 | 97 659 | Nil |
| PRICEWATERHOUSE COOPERS | Assistance in the Energy Hardship Review | 71 364 | 23 550 | 47 814 |
| SAPERE RESEARCH GROUP | Technical advice on pricing methods for water sector | 48 015 | 48 015 | Nil |
| SYNERGIES ECONOMIC CONSULTING | Technical advice on benchmarking in price setting for water sector | 50 000 | 50 000 | Nil |
| WALLIS CONSULTING GROUP | Surveys for review of hardship measures by metropolitan water businesses | 43 660 | 43 660 | Nil |

APPENDIX J

FREEDOM OF INFORMATION

| DETAILS OF REQUESTS RECEIVED DURING 2014-15 | | |
|---|---------|---------|
| REQUESTS | 2013-14 | 2014-15 |
| Requests received | 1 | 0 |
| Requests granted in full | 2 | 0 |
| Requests granted in part | 0 | 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 | 0 | 0 |

NOMINATED CONTACT PERSON

Requests for access to documents should be addressed to:
Mr John Henry - Legal Counsel
Essential Services Commission,
Level 37, 2 Lonsdale Street, Melbourne Vic 3000

FURTHER INFORMATION

Further information may be obtained from:
Freedom of Information Act 1982
Freedom of Information (Access Charges) Regulation 2014
Freedom of Information Regulations 2009
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 37, 2 Lonsdale Street, Melbourne, Vic 3000
Telephone: (03) 9032 1300 or 1300 664 969
publications@esc.vic.gov.au

APPENDIX K

COMPLIANCE INDEX 2014-15

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 OPERATIONS

| LEGISLATION | REQUIREMENT | PAGE |
|--|---|------|
| CHARTER AND PURPOSE | | |
| FRD 22C | Manner of establishment and relevant Ministers | 10 |
| FRD 22C | Objectives, functions, powers and duties | 7 |
| FRD 22C | Nature and range of services provided | 8 |
| MANAGEMENT AND STRUCTURE | | |
| FRD 22C | Organisational structure | 10 |
| FINANCIAL AND OTHER INFORMATION | | |
| FRD 22C, SD 4.2(k) | Operational and budgetary objectives and performance against objectives | 37 |
| FRD 22C | Employment and conduct principles | 39 |
| FRD 22C | Occupational health and safety policy | 41 |
| FRD 15B | Executive officer disclosures | 41 |
| FRD 22C | Summary of the financial results for the year | 50 |
| FRD 22B | Significant changes in financial position during the year | N/A |
| FRD 22C | Major changes or factors affecting performance | N/A |
| FRD 22C | Subsequent events | N/A |
| FRD 22C | Application and operation of <i>Freedom of Information Act 1982</i> | 86 |
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| FRD 25A | Victorian Industry Participation Policy disclosures | N/A |
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| FRD 22C | Details of consultancies over \$10,000 | 85 |
| FRD 12A | Disclosure of major contracts | N/A |

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APPENDIX L

The Essential Services Commission is a public body required to make certain disclosures pursuant to section 70 of the *Protected Disclosures Act 2012*.

The Commission has developed procedures to satisfy its obligations under Part 9 of the *Protected Disclosures Act 2012*. Those procedures are extensive and may be obtained by contacting the Commission.

No disclosures were notified to IBAC by the Commission under Section 21 (2) of the *Protected Disclosure Act* during 2014-15.

APPENDIX M

APPEALS

No appeals were lodged by the Commission under section 55 of the *Essential Services Commission Act 2001* during 2014-15.



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