



**2015–16**  
ANNUAL REPORT

## CONTACT DETAILS

### ESSENTIAL SERVICES COMMISSION

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### CHAIRPERSON

Dr Ron Ben-David

### COMMISSIONERS

Richard Clarke  
Julie Abramson

### SENIOR STAFF

#### Chief Executive Officer

David Heeps (left 19 February 2016)  
John Hamill (started 16 February 2016)

#### (Acting) Director, Transport

Dominic L'Huillier

#### Director, Water

Marcus Crudden

#### Director, Energy Targets

Jeff Cefai

#### Director, Energy

David Young

#### Director, Local Government

Andrew Chow

#### Director Corporate & Legal Counsel

John Henry

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## OUR VALUES

### INTEGRITY

- Being transparent and consistent in making decisions
- Explaining clearly the rationale behind decisions
- Acting openly and honestly

### COLLABORATION

- Sharing information and knowledge across the organisation
- Adopting an open and constructive approach to addressing and resolving issues with stakeholders
- Providing or taking opportunities across the organisation to jointly deliver influential outcomes

### IMPARTIALITY

- Basing advice and decisions on merit, without bias, caprice, favouritism or self-interest
- Acting fairly by objectively considering all relevant facts and fair criteria

### EXCELLENCE

- Being rigorous in the assessment of data and information
- Exhibiting clear, evidence-based decision-making
- Challenging traditional approaches and exploring new ideas based on the latest economic and regulatory thinking

### RESPECT

- Treating people fairly and objectively, with dignity
- Considering the views of others to improve outcomes on an ongoing basis

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21 September 2016  
The Hon Robin Scott MP  
Minister for Finance  
Level 5  
1 Macarthur Street  
East Melbourne 3002

Dear Minister,

## ESSENTIAL SERVICES COMMISSION ANNUAL REPORT 2015-16

We are pleased to present the Essential Services Commission's Annual Report for 2015-16.

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.

Most notably, the Commission completed an inquiry into the hardship policies, practices and procedures of energy retailers and commenced a two-part inquiry into the true value of distributed generation. The Commission also released a position paper outlining a new model for the pricing of services in Victoria's water sector and completed water prices reviews for Melbourne Water and Goulburn-Murray Water. The Commission completed a taxi fare review for Melbourne and the urban and large regional taxi zones. It was also the first year of administering the new rate capping framework for Victorian councils with nine rate variation applications being assessed. During the year, the Commission registered 6.2 million certificates under the Victorian Energy Efficiency Target scheme as well as completing annual performance reports of the water, retail electricity and gas and domestic building insurance sectors.

We place on record our appreciation to the Commission's staff for their commitment to delivering our regulatory, administrative and advisory program throughout 2015-16.

Yours sincerely,

**Dr Ron Ben-David**  
Chairperson

**Richard Clarke**  
Commissioner

**Julie Abramson**  
Commissioner

## 2015–16 HIGHLIGHTS

- Completed an inquiry into the hardship policies, practices and procedures of energy retailers and recommended changes to the regulatory framework governing retailers' obligations.
- Commenced a two-part inquiry into the true value of distributed generation. The inquiry examines the economic, social and environmental benefits of the energy and network value of distributed generation.
- Released an interim approach to compliance and enforcement for energy businesses to facilitate the smooth implementation of legislative reforms introduced as part of the *Energy Legislation Amendment (Consumer Protection) Act 2015*.
- Registered 6.2 million certificates under the Victorian Energy Efficiency Target scheme.
- Released a position paper outlining a new model for the pricing of services in Victoria's water sector.
- Completed water price reviews for Melbourne Water and Goulburn Murray Water.
- Completed a taxi fare review to determine the maximum charges for taxi services in the Melbourne metropolitan taxi zone and the urban and large regional taxi zone.
- Completed advice to Government on the administration and implementation of a rate capping framework for Victorian Councils.
- Determined nine rate variation applications from Victorian Councils under the Fair Go Rates System framework.
- Released reports detailing the annual performance of the water, retail electricity and gas and domestic building insurance sectors.
- Completed a review of accident towing in Victoria and made recommendations to the Victorian Government.





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 2016, the industries regulated by the Commission were electricity, gas, water, taxis, ports, local government and rail freight. The Victorian Minister for Finance is the Responsible Minister.



# ABOUT THE ESSENTIAL SERVICES COMMISSION



## WHY THE COMMISSION WAS ESTABLISHED

The Commission was established to provide support to the Victorian Government's broader economic program. This program was designed to improve the efficiency and competitiveness of the state's economy while ensuring the long-term interests of consumers are protected.

At the time, the government regarded the establishment of an independent regulatory body as necessary to ensure the benefits of industry restructuring were passed on to household, commercial and industrial customers. Since its establishment, the Commission's responsibilities have widened to include additional functions for ministerial reviews, administration of the government's Fair Go Rates System and the administration of the Victorian Energy Efficiency Target scheme.

## OBJECTIVES OF THE COMMISSION

The 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 include:

- 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 a number of functions of the Commission including:

- 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: *Electricity Industry Act 2000*, *Gas Industry Act 2001*, *Water Industry Act 1994*, *Rail Corporations Act 1996*, *Accident Towing Services Act 2007*, *Transport (Compliance & Miscellaneous) Act 1983*, *Port Services Act 1995*, *Victorian Energy Efficiency Target Act 2007* and *Local Government Act 1989*.

## PERFORMING THE COMMISSION'S FUNCTIONS

The Commission performs its functions by 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 papers and 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 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.



## ORGANISATIONAL STRUCTURE

The Essential Services Commission is made up of an appointed Commission comprising a Chairperson and two part-time Commissioners supported by 91 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 (TO FEBRUARY 2016)

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

David was appointed chief executive in February 2010. His appointment followed 10 years at City West Water, with roles in corporate planning, pricing, government liaison and regulatory compliance. David also worked for six years in the Victorian Government on both federal and state-wide water resources issues, and headed a group over-viewing the performance of the state's water businesses. 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.

### CHIEF EXECUTIVE OFFICER (COMMENCED FEBRUARY 2016)

**Dr John Hamill BA (Hons), MA (English), Phd (English)**

Dr Hamill was appointed chief executive in February 2016. He has a strong public sector background, primarily gained from roles in strategic micro economic analysis, budget management, organisational performance and policy development. Most recently, he was the General Manager Regulation of the Commerce Commission of New Zealand (CCNZ) and held the position of Manager of Input Methodologies for the previous two years. Prior to this role, John held several positions at the Ministry of Justice. He has a PhD in English Literature from Victoria University of Wellington.

## ORGANISATIONAL STRUCTURE

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 Commission is made up of six divisions representing the five sectors for which the organisation has regulatory responsibilities plus the corporate division which provides financial, human resources, IT and communication support to the organisation.

The Commission's regulatory and analytical staff are qualified in economics, accounting, engineering and other analytical disciplines.



# THE YEAR IN REVIEW



## FROM THE CHAIRPERSON



In 2015-16, the Essential Services Commission made its mark more perhaps than at any other time in its 21 years of operation.

While our output across the organisation was prolific, it was not the volume of projects that made 2015-16 a standout year.

It was creativity of our thinking, the level of engagement with key stakeholders and our willingness to be bold that were the hallmark achievements of 2015-16.

This new level of aspiration was not limited to one or two divisions, nor was it a feature of just one or two of our bigger projects. It was evident in every element of our work across the entire organisation.

For example, our energy team developed a new compliance and enforcement policy to support new powers granted by the Victorian Government to ensure customers are treated reasonably and fairly by their energy retailers.

We also completed the most profound review of hardship arrangements ever undertaken in Victoria, possibly Australia, resulting in a complete rethink about how customers who experience difficulty in paying their bills ought to be assisted by their energy retailer.

Meanwhile, our water team completed price reviews for two of the State's largest water businesses, Melbourne Water and Goulburn Murray Water, and also led a project exploring how to improve the process of setting water prices for the State's 19 water authorities.

This ground breaking work is now drawing the attention of the regulatory community across Australia and internationally.

Meanwhile, a comprehensive review of the economic regulation of the accident towing industry as well as a taxi fare determination for metropolitan Melbourne and urban zones kept the transport team very busy. In proposing a number of new and innovative solutions to give taxi operators greater flexibility, we set out to create options so taxis could compete in an increasingly competitive market.

Our VEET team continued its diligent administration of the largest 'white certificate' scheme in the country and

prepared for an expected 20 per cent expansion of the scheme over the next five years. The team also began laying the groundwork for the introduction of project-based activities to take the scheme in new and exciting directions in the future.

In 2015-16, we assumed a new role in developing and administering the Victorian Government's Fair Go Rates System. After initially conducting an inquiry into how a rate capping and variation framework might work, we then managed its implementation, including the first round of applications for above-the-cap variations from nine Victorian councils.

Of course, the work of the divisions is ably supported by the corporate team who provide services across finance, legal, IT, human resources and communication.

This was also the year chief executive David Heeps wrapped up six years at the Commission. A much loved member of our team, David brought a strong sense of purpose to our work and we wish him all the best in his retirement.

With David's departure, we welcomed Dr John Hamill as the Commission's new chief executive. John arrived in February from the New Zealand Commerce Commission and immediately brought a new energy to the organisation with his very clear focus on embedding a culture of excellence. It is our very good fortune to have John come aboard at this exciting time for the Commission.

It has been an extraordinary year and it has placed great demands on our two part time Commissioners, Richard Clarke and Julie Abramson. I want to record my thanks to them for the wonderful support and advice they provided me and the entire team during the year.

**Dr Ron Ben-David**  
Chairperson

# FROM THE CEO

*Demonstrating thought leadership, delivering great performance*



The past year has been one of transition and expansion for the Essential Services Commission.

We are taking on significant new roles. The sectors we work with are experiencing significant transformation. Growth in the sharing economy and new technologies all impact on the role of the consumer in relation to the industries we regulate.

In 2015-16 we administered, for the first time, the implementation of the Fair Go Rates System. We now have a stronger role to play in compliance and enforcement in the energy sector following the passage of legislation in December 2015 and we will have a role in monitoring the lease arrangements with the Port of Melbourne. The VEET scheme continues to expand as the government sets new targets aimed at reducing greenhouse gas emission.

We are working hard to ensure we are well positioned to deliver on these new responsibilities, and adapt our regulatory approaches to the changing environment.

We have been recruiting to ensure we have the right staff on board to deliver our new functions and responsibilities. We have begun the process of reviewing our corporate function to ensure we have the right level and kind of support given the size of our organisation.

As a consequence of this additional demand for our services, our expenditure in 2015-16 rose from \$18.4 million compared to \$16 million in the previous year and our headcount has increased to 91.

Our vision for the Commission is for an organisation that promotes thought leadership and delivers great performance. Being a thought leader means being innovative, original and willing to challenge conventional ways of doing things, saying things and framing things.

**We need a culture where everyone in the organisation can challenge and question what we do and how we do it - so we get the best outcomes for consumers.**

In order to set ourselves up to deliver great performance we have developed a comprehensive

operational plan for the year ahead and an organisational health strategy to put us in the best position to achieve our goals.

Being willing to challenge conventional ways of doing things is critical for operating successfully as a modern regulator.

We live in a digital world which has fundamentally changed the role consumers play in the market and how they engage with their service providers. The digital world is changing consumers' expectations on multiple levels.

**Coming to grips with digital disruption is critical to our ability to effectively engage, and regulate.**

The performance of the ESC we regulate is also critical for Victorian consumers. Our job is to set incentives for these businesses – not to tell them how to do their job. This means we need to pay close attention to what is happening in our markets and understand what is driving business and market performance.

We also recognise that government has high expectations for regulators. We welcome this. Demonstrating best practice in regulation is high on our agenda. This involves focusing on outcomes, engaging effectively with our stakeholders, understanding risk, and ensuring we fully consider the costs and benefits of what we are doing.

**Dr John Hamill**  
**Chief Executive**



# ECONOMIC REGULATION AND CUSTOMER ENGAGEMENT

*Refocusing economic regulation where it belongs: on customers, not regulators*



In many of the markets we regulate, change has become the new constant. New products, new service providers and new business models are emerging at a rate probably not seen before.

Regulatory frameworks are not particularly adept at dealing with markets with such potential for change. As a regulator tasked with promoting the long term interests of Victorian consumers, we are keen to support innovation in the markets we regulate. Doing so does not, however, come at the cost of abandoning our role in protecting customers' capacity to engage with those markets.

It can be a wasted endeavour for regulators to try to keep up with the market when changes in that market are manifold. Regulatory constructs can be outdated before they are even implemented and inadequate regulation can stifle innovation. In the first instance, customers can be exposed to situations for which they are not well prepared. In the latter case, customers might be denied access to better services.

There is one constant in both scenarios, however. For as long as there is a market, there will be customers. In the changing environment we face, the Commission is rethinking how it goes about fulfilling its regulatory objective. The traditional approach has

seen us build our frameworks around compliance with *our* regulatory requirements. We are now refocusing these frameworks so regulated businesses' obligations are squarely centered on meeting their customers' needs.

In the case of energy markets, the rapid and profound transformation underway is already approaching something of a cliché. Time will tell just how profound will be the disruption in this sector. For now, the opportunities look plentiful, but change can also be confronting for customers if they are not well prepared.



Across the world, energy service providers are wondering how to confront the forces of change rising before them. At the same time, their regulators are also facing a dilemma ensuring their frameworks remain relevant and effective. If we fail to rise to this challenge, the rules and principles on which our regulation is based will soon begin to look aged and rigid, irrelevant and ineffective. Before too long, regulatory tweaks will no longer be enough to enable regulatory decisions to be reached and enforced.

Whatever the future brings, we know consumers will still be there, therefore, their interests need to be at the centre of the Commission's thinking. The Commission is rising to this challenge.

Over the past year, the Commission has embarked on a number of projects designed to place the relationship between customers and their service providers at the centre — indeed, as the essential purpose — of the regulatory frameworks we administer.

The three examples include:

- (i) a new payment difficult framework for energy retail customers
- (ii) a new approach to pricing water services
- (iii) responding to the Royal Commission into Family Violence.

These examples demonstrate a new approach that manifests the full force of the commission's legislative objective to promote the long term interests of consumers. It does so by exposing regulated entities and their customers directly to each other. This requires that our frameworks focus on principles not absolutes, outcomes not compliance.

We are seizing the moment by placing outcomes ahead of rules in the *objectives* of our new frameworks, by placing consumers ahead of regulators in the *design* of our new frameworks and by placing responsibility ahead of mere compliance in the *effect* of our new frameworks.

**Dr Ron Ben-David**  
**Chairperson**

# OUR WORK



## 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 2015-16, the Commission continued its review and modernisation of the regulatory framework in response to rapid evolution in the energy industry, and changes to legislation that gave the Commission new powers to ensure customers are treated reasonably and fairly by their energy retailers.

Promoting outcomes that are in the interests of consumers has been at the heart of our review and modernisation program and can be seen most clearly in the recommendations of the [Financial Hardship Inquiry](#) completed this year.

The *Energy Legislation Amendment (Consumer Protection) Act 2015* came into effect on 1 January 2016. This has required the Commission to initiate significant changes to its policies, systems and processes to enable it to meet the new objectives, functions, reporting obligations and powers.

These include developing the capacity to administer penalty notices in accordance with new regulations, which came into effect on 1 June 2016.

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.

The Commission implements the regulatory framework through five key functions:

- energy licensing and standards
- compliance reporting
- compliance audits
- enforcement
- inquiries and reviews

**Energy licensing and standards** involves administering the licensing regime for electricity generation and transmission, and electricity and gas distribution and retail businesses. It also involves developing and maintaining industry standards as set out in codes and guidelines.

**Compliance reporting** involves preparing and publishing reports that inform customers and stakeholders about the compliance of the energy industry with regulations, and the performance of the Victorian energy market. It also involves managing a range of day-to-day non-compliance issues.

**Compliance audits** involve providing assurance that energy businesses are aware of their regulatory obligations, have systems and processes in place to ensure compliance and are reporting accurately in actual compliance. It also involves managing a range of day-to-day non-compliance issues.

**Enforcement** involves maintaining and implementing the Commission's enforcement policy, including initiating and managing investigations and enforcement actions.

**Inquiries and reviews** involves managing a range of energy regulation modernisation and transformation initiatives, inquiries and reviews.

## LICENSING AND STANDARDS

All businesses that generate, transmit, 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.

## LICENCE APPLICATIONS

The Commission granted one new transmission licence, one new licence to generate electricity and one new licence to sell energy to residential and small business customers.

The Commission also varied one existing licence to generate electricity. The variation removed a licence condition, once the Commission was satisfied that the condition had been met. A variation was also made to one existing licence to sell electricity to extend the expiry date of the licence.

## ENERGY LICENCE FRAMEWORK REVIEW

In June 2015, 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. The issues paper received 33 submissions.

In light of the submissions, the changes to legislation and changes to Orders in Council that determine the types of energy supply activities that do not need a licence, the Commission is now undertaking a stocktake of the project to determine which aspects of the review to progress in the second half of 2016.

## MONITORING AND REPORTING

The amendments to the legislation created a new function for the Commission to monitor and report on compliance by energy licensees. This formalised and extended the Commission's previous monitoring and reporting activities.

## ANNUAL REPORTS

As well as preparing for its new reporting functions, the Commission published its final annual report on the compliance and performance of retailers.

The 2014-15 [Energy Retailers' Compliance Report](#) reported 1,200 breaches of codes, guidelines and other regulatory instruments. This compared with 1,141 breaches reported in 2013-14, continuing the trend of high levels of reported breaches compared to previous years. The Commission drew particular attention to the number of breaches leading to wrongful disconnection.

The Commission's 2014-15 performance report on customer service highlighted growth and change in the retail market over time as well as noting individual retailer results against the defined performance indicators.

The Commission also continued to report on retail pricing, with its annual report published in January 2016. The report introduced a new methodology for categorising and comparing the published offers available to residential and small business customers.

## 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 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.

The Feed-In-Tariff for 2016 was set at 5.0 cents per KW hour.

In April 2016, the Commission released its draft report in the [True Value of Distributed Generation Inquiry](#). This draft report considered the energy value of distributed generation and looks at options for how these payments are made in future years. The final report will be presented to the government in August 2016.

In June 2016, the Commission also released an issues paper, as part of the second part of its inquiry. This paper looks at the network value of distributed generation while the inquiry is discussed further in the inquiry section of this report.

## COMPLIANCE AND AUDITING

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, their customers, advocacy groups and the [Victorian Energy and Water Ombudsman](#).

### 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 2015-16, 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.

## ENFORCEMENT

From 1 January 2016, the Commission was provided with new and updated powers, which include the capacity to:

- issue a Wrongful Disconnection Penalty Notice of \$5,000 (in addition to the payments made to the customer)
- issue an Energy Industry Penalty Notice of up to \$20,000 for particular breaches of licence conditions as specified by regulation
- accept a written undertaking that is enforceable in court
- vary an energy licence or condition of licence in the case of non-compliance.

The maximum penalty amount the Commission can impose using its existing Civil Penalty Notice power also increased from \$18,200 to \$103,000.

In December 2015, the Commission released an Interim Approach to Compliance and Enforcement that modified the Compliance Policy Statement for Victorian Energy Businesses (January 2012). This was designed to facilitate the smooth implementation of the legislative reforms and to provide industry with certainty as to when the Commission may use its new and updated enforcement powers. The Commission was released its final decision on its [Energy Compliance and Enforcement Policy](#) in July 2016.

On 1 June 2016, the *Essential Services Commission (Energy Industry Penalty Regime) Regulations 2016* commenced. The regulations prescribe the particular breaches of licence conditions for which the Commission may issue an [Energy Industry Penalty Notice](#) and when a penalty amount below \$20,000 applies.

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).

## WRONGFUL DISCONNECTION

The Energy and Water Ombudsman (Victoria) (EWOV) referred 21 cases of disconnection of supply to domestic customers by their energy retailers to the Commission to determine whether the disconnection was wrongful. In addition, eight disconnection disputes were carried over from the 2014-15 financial year. Of this total of 29 referrals, eight were withdrawn, two were dismissed and 10 were determined to be wrongful. Decisions on the remaining nine referred cases are pending.

## CASE STUDY

### RETAILER OF LAST RESORT EVENT

The regulatory framework includes measures to ensure that when a retailer is unable to maintain supply, its customers do not lose access to energy. [Retailer of Last Resort](#) procedures are designed to provide reliable default arrangements for customers if their chosen retailer suddenly exits the market. In such an event in Victoria, customers are transferred to Origin, AGL or Energy Australia depending on the location of the property.

In April 2016, Go Energy Pty Ltd was suspended from participation in the wholesale market by the Australian Energy Market Operator triggering a retailer of last resort event. Go Energy had approximately 2,500 customers across Australia including a little over 300 in Victoria.

The Commission immediately started consultation with Go Energy, the Australian Energy Market Operator, electricity distribution businesses and the three retailers taking on Go Energy's customers.

Commission staff also worked with the Australian Energy Regulator to ensure the event was handled consistently between states.

Customers were transferred from Go Energy as of 1 April and all affected customers were sent a letter explaining the circumstances of their transfer and their options. Over the following three weeks, the Commission provided an information hub for those affected by the event.

A Retailer of last resort event is rare but not unexpected in a privatised, competitive retail market. The Go Energy experience confirmed that the commission has the necessary plans and resources available to ensure customer supply is maintained in such an event.

## INQUIRIES

### DISTRIBUTED GENERATION INQUIRY

In September 2015, the Commission received a terms of reference to carry out an inquiry into the [true value of distributed generation](#).

The inquiry involves two separate but related stages. The first looks at the energy value of distributed generation, and the second looks at the network value. In both stages, the Commission is looking at the economic, social and environmental benefits arising from distributed generation.

In December 2015, the Commission published a paper outlining our proposed approach to the inquiry which was accepted by the Government. This paper attracted 2,553 submissions.

In May, the Commission published its draft report relating to the energy value of distributed generation. The draft report proposed changes to the way payments are made to Victorians who install distributed generation, including solar panels.

Three key changes were proposed to the single flat tariff that currently constitutes the Feed-in-Tariff:

- higher rates for exporting electricity at times of highest demand
- different rates depending on the geographical location in which the distributed generation is installed
- a mechanism for reflecting the environmental benefit of the distributed generation.

Following a series of information sessions at nine locations across the state, the Commission received 38 submissions responding to its draft report. The final report on this stage of the inquiry is due in August.

In late June, the Commission released a discussion paper outlining its approach to the second stage of the inquiry, looking at the [network value of distributed generation](#). A draft report on this stage of the inquiry is due later in the year.

### FINANCIAL HARDSHIP INQUIRY

During the year, the Commission completed its Inquiry into the policies, practices and procedures energy retailers use in supporting customers facing payment difficulty.

This is the most comprehensive review of hardship arrangements ever undertaken in Victoria.

The Commission released its draft report in August 2015 – *Supporting Customers, Avoiding Labels*. The draft report recommended a new framework to provide a set of clear and enforceable minimum standards. These standards give customers a right to assistance, which is tailored to their individual circumstances.

The draft report received 19 submissions and information sessions were held at seven centres across the state.

The final report, released in March 2016, responded to the feedback and refined the original proposal.

The State Government accepted the Commission's proposed new framework and work has begun on a detailed implementation plan. The new framework is due to come into effect on July 1, 2017.

### COST OF ENERGY INDUSTRY REGULATION

In 2015-16, the total cost of the energy division was \$4.34 million. The cost includes the direct costs incurred by the energy team, plus an allocation for overhead costs.

#### WHAT IS DISTRIBUTED GENERATION?

The term 'distributed generation' (also known as embedded generation) refers to any electricity generation connected to the electricity distributed network, as opposed to the transmission network. This includes a small solar photovoltaic (PV) system of a few kilowatts (kW) of capacity installed on a householder's roof, up to large multi megawatt (MW) power stations, such as the 160 MW gas-fired Somerton power station in Melbourne. Typically, distributed generation supplies electricity to the site on which it is installed. However, sometimes it is installed to supply the power to the grid. For the purposes of the distributed generation inquiry, our focus is on distributed generation of less than 5 MW in capacity. Electricity from distributed generation of this size can be generated from a range of sources including wind, solar, biomass, hydro and natural gas. Solar and wind are the most common.

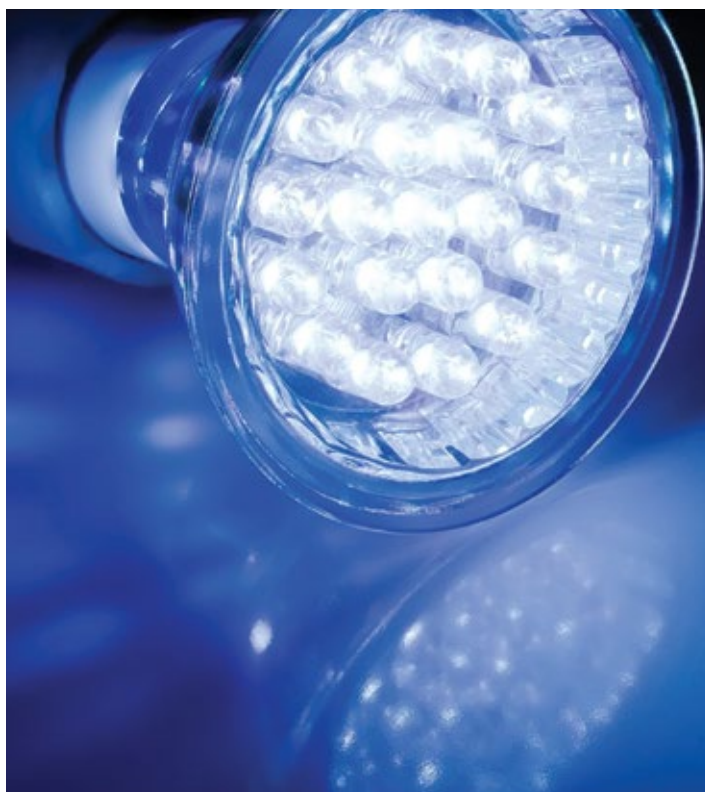


## MAJOR PROJECTS COMMENCED AND BENEFITS GENERATED IN 2015-16

ENERGY LICENSING AND STANDARDS		
PROJECT	OUTPUT/RESULTS	BENEFITS/IMPACT
True Value of Distributed Generation Inquiry	Started a review into the economic, environmental and social value of distributed generation.	Delivers recommendations to ensure the Victorian feed-in tariff framework provides payments to distributed generators that reflect the true value of their contribution to the energy industry and consumers.
Energy Hardship Inquiry	Completed 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 they will receive appropriate assistance from their retailers.
Payment Difficulty Framework	Started developing a framework to provide protections for customers facing payment difficulty.	Customers experiencing payment difficulty will be entitled to receive assistance to avoid getting into energy debt and repay debt in a manageable way.
Review of Distributor Guaranteed Service Levels	Finalised a review into the Victorian Guaranteed Service Level payments scheme.	Ensure the guaranteed service level payments scheme provides for appropriate payments from distribution businesses to consumers who experience service disruptions.
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 the framework for licensing the supply of electricity and gas is flexible and durable and proportionate to the changes in the Victorian energy market.

ENERGY MONITORING AND REPORTING		
PROJECT	OUTPUT/RESULTS	BENEFITS/IMPACT
Revised reporting instruments	<p>A new Compliance Performance and Reporting Guideline was published in June 2016.</p> <p>Finalised a review to set the feed-in tariff for 2015.</p> <p>Commenced a review to set the feed-in tariff for 2016.</p>	Ensuring the Commission will receive the information it requires to meet its statutory reporting arrangements.
2014-15 Pricing Report	Pricing report published in January 2016.	Provided information to customers and stakeholders about retail energy prices. Introduced a new methodology for categorising and analysing retail offers.
Feed-in tariff review	Finalised 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 based on the price of wholesale energy.
Energy Performance Reporting	Released 2014-15 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 32 retailers servicing Victoria.
ENERGY COMPLIANCE AND AUDITING		
PROJECT	OUTPUT/RESULTS	BENEFITS/IMPACT
Retail Audit Program	Finalised 12 audits as part of a retailer audit program.	Ensured the Commission and consumers that energy retail licensees understand their obligations and have policies, systems and processes in place to prevent harm.
Wrongful disconnections	The Commission made decisions on a total of 20 wrongful disconnection cases referred by the Energy and Water Ombudsman of Victoria.	Consumers whose disconnections were found to be wrongful received compensation.
ENERGY ENFORCEMENT		
PROJECT	OUTPUT/RESULTS	BENEFITS/IMPACT
Energy Compliance and Enforcement Policy	<p>Interim Approach to Energy Compliance and Enforcement (December 2015)</p> <p>Draft Energy Compliance and Enforcement Policy, Draft Decision Paper (April 2016)</p>	The interim approach facilitated the smooth implementation of the <i>Energy Legislation Amendment (Consumer Protection) Act 2015</i> and provided industry with certainty as to when the Commission may use its new and updated enforcement powers during the interim period from the date the Act took effect (1 January 2016) until the date the final Energy Compliance and Enforcement Policy is published.

# ENERGY TARGETS DIVISION



During 2015-16, the Commission continued to administer the Victorian Energy Efficiency Target Scheme under the *Victorian Energy Efficiency Target Act 2007* (the Act). The Act requires large electricity and gas retailers to reduce greenhouse gas emissions through energy reduction improvements in homes and businesses.

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 2016. In January 2016, the Act was amended to specify a gradual increase in the scheme target from 5.4m tonnes to 6.5m tonnes of carbon dioxide equivalent of greenhouse gases annually over the calendar years 2016–2020. A tradeable energy efficiency certificate is created for each tonne of emissions deemed to have been abated.

By 30 June 2016, the Commission had registered a total of approximately 33.3 million certificates, of which 6.2 million certificates were registered during 2015-16.

A total of 189 businesses and individuals (compared with 184 the previous financial year) were accredited to participate in the scheme and 1748 new products were approved.

Approximately 91 per cent of certificates registered during the year were for lighting activities and three per cent for water heating. Of the remaining six per cent, most were for efficient shower roses, weather sealing and space heating activities. Over the lifetime of the scheme (from 1 January 2009 to 30 June 2016), the most dominant activities have been lighting (51 per cent of certificates) and standby power controllers (30 per cent), with the balance including water heating, weather sealing and shower roses.

During 2015-16, a number of regulatory amendments were introduced. In particular, changes to the commercial lighting activity, which resulted in a significant increase that accounted for 56 per cent of all certificates created in June 2016. Additional residential lighting upgrade activities were also introduced that were quickly taken up by the market.

The Commission also started projects to provide a future capability to deliver project based and non-building based lighting activities. These projects are being delivered by a new team established in 2015-16, the Planning and Development group.

## AUDIT & COMPLIANCE

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. This program also helped validate certificate claims.

A wide range of audits were completed during the year, including 11 audits of businesses seeking to be accredited, seven audits of accredited businesses seeking to complete additional activities, detailed audits of 14 accredited businesses to assess the extent to which they have complied with the *Victorian Energy Efficiency Target Act 2007 and Regulations*, and 18 audit investigations where non-compliance was identified or suspected.

The Commission undertook an investigation that tested lighting installation claims where existing incandescent reflector lamps were upgraded to more efficient LED reflector lamps. This investigation resulted in the Commission clarifying regulatory requirements for outdoor installations for this activity.

During the year, the audit program expanded its focus 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 type of activity to determine certificates to be assessed. The Commission broadened its assessment of first certificate creations for newly accredited business. Businesses were provided feedback to ensure their processes satisfied scheme requirements and created certificates complied with the Act and Regulations.

## REGISTRY INVESTIGATIONS

In addition, the Commission continued registry investigations where statistical analysis indicated there may be non-compliance of certificates submitted for creation by an accredited person. During the year, the Commission undertook 17 registry investigations of accredited persons.

In total, the audit and registry validation program led to 69,490 certificates being withdrawn and 49,340 certificates being voluntarily surrendered by accredited persons because of non-compliance issues.

For the 2015 (calendar) compliance year, 22 energy and gas retailers had a liability under the scheme, and 5,573,897 certificates were surrendered.

## INDEPENDENT TESTING

The Commission continued its program of independent verification of the safety and performance characteristics of selected 'emerging technology' lighting products – in particular, light emitting diode (LED) lamps. The Commission also expanded testing of documentation submitted in support of product approval applications. These testing and verification programs led to 127 products being removed from the scheme's statutory product registers.

## ALIGNMENT WITH OTHER STATES

Efforts also continued to align the administrative processes of the NSW, SA, ACT and Victorian energy efficiency schemes.

## REINTRODUCTION OF INSULATION

Following an announcement by the Minister for Energy, Environment and Climate Change, the Commission has implemented a detailed work plan for the proposed re-introduction of insulation activities. The work plan addresses the recommendations of the Royal Commission into the Commonwealth's Home Insulation Program. The Commission expects the new VEET insulation administrative processes to be in place during 2016-17.

## COST OF ENERGY TARGET ADMINISTRATION

In 2015-16, the total cost of administration of the Victorian Energy Efficiency Target scheme was \$6.24 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 Scheme	Maintained ongoing administration of the Victorian Energy Efficiency Target Scheme	Reduced greenhouse gas emissions by promoting more energy efficient use of electricity and gas, initially in the residential sector
	Updated Victorian Energy Efficiency Target Guidelines and Explanatory Notes	Increased scheme integrity focusing on new activities, certificate creation and relevant entity certificate surrenders
	Upgraded registry and audit investigation processes	Increased scheme integrity focusing on higher risk activities and businesses
	Reviewed Mandatory Safety Training Requirements policy	Increased scheme integrity through strengthened installer safety focus
	Released Victorian Energy Efficiency Target scheme Performance Report 2014	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 of Victoria's 19 water businesses.

During 2015-16, the water team completed a number of major projects and started a review of the Commission's water pricing approach for the Victorian water sector.

## WATER PRICING APPROACH

The Commission released a position paper, [A New Model for Pricing Services in Victoria's Water Sector](#) in May 2016. This paper outlines a new model for the pricing of services in Victoria's water sector, transitioning from a "one-size-fits-all" pricing approach to one that provides flexibility for water businesses to meet customer expectations.

The framework proposed in this paper was informed by 12 months of research and consultation. Over the second half of 2015 the Commission hosted several forums and a water pricing conference that featured Australian and international speakers including

regulatory experts, consumer representatives and water and energy businesses. Attendees included members of the water industry, customer representative groups, government departments, and other economic regulators and academics. Following these events the Commission invited and received submissions.

The Commission believes the proposed changes for the pricing approach will yield broader, deeper and longer engagement with customers, improved accuracy and reliability of forecasts and innovations that deliver improved value-for-money to customers.

The review will continue into 2016-17, with the selected pricing approach to underpin the Commission's next major water price review period from 1 July 2018.

## WATER PRICE REVIEWS

In June 2016, we released our final decision on the [Melbourne Water](#) and [Goulburn-Murray Water](#) price submissions. The Commission consulted widely to inform our assessment of the submissions before making our final decision on the prices to apply from 1 July 2016.

Melbourne Water's final decision completes our review of the maximum prices that Melbourne Water may charge for its bulk water, sewage treatment, recycled water and waterways and drainage services for a five year regulatory period from 1 July 2016 to 30 June 2021. Our final decision means bills for most end-use customers in Melbourne will decrease slightly for the years 2016-17 to 2020-21.

Goulburn-Murray Water's final decision approves the allowable revenue that Goulburn-Murray Water may recover from 1 July 2016 to 30 June 2020. Over the four years, medium-to-large irrigation customers will benefit from price reductions of up to 10 per cent. The Commission also approved the service standards Goulburn-Murray Water proposed in its 2015 submission, which will be reported annually on its website and to its Water Service Committees on its performance against these service targets.

## PERFORMANCE REPORTING

The Commission released its water [Performance Report for 2014-15](#) in December 2015. 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, assistance for customers experiencing hardship, and customer service. The report found water businesses generally provided good levels of service and most residential customers saw their bills decrease as a result of water businesses passing through cost savings.

In December 2015, the Commission issued its [second report on hardship measures](#) taken by metropolitan water businesses in 2014-15. The review drew attention to how metropolitan businesses raise awareness of hardship support available to culturally and linguistically diverse (CALD) communities, who can be particularly vulnerable to hardship. Also, customers and customer advocates have noted the need for water businesses to focus on early intervention to help avoid customers accumulating high levels of unpaid bills.

## ANNUAL APPROVAL OF WATER TARIFFS

In June 2016, the Commission reviewed and approved annual tariff price adjustments for 17 water businesses. Our review checked to ensure the prices the businesses proposed to charge in 2016-17 were consistent with their price determination.

A link to a bill calculator, which enables customers to compare their water and sewerage bill with customers serviced by other water businesses, is available on the Commission's website.

## COST OF WATER INDUSTRY REGULATION

In 2015-16, the total cost of regulation of the Victorian water industry was \$3.26 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
Water Pricing Review	Published a position paper – A new model for pricing services in Victoria's water sector and commenced consultation to develop the detail to support the implementation.	An improved approach to water pricing that delivers the best outcome for Victoria's water customers.
Final Decision on Melbourne Water price submission	Released the Final Decision that approves the maximum prices that Melbourne Water may charge for its bulk water, sewage treatment, recycled water and waterways and drainage services over the regulatory period.	Approved prices, which are set as low as possible but at a sufficient level to provide businesses with revenue to deliver valued services.
Final Decision on Goulburn-Murray Water price submission	Released the Final Decision that approves the maximum prices and allowable revenue. It also approves common changes to tariff structures for irrigation customers.	Approved prices, which are set as low as possible but at a sufficient level to provide businesses with revenue to deliver valued services.
2014-15 water performance report	Released annual performance report for metropolitan and regional urban water businesses.	Enhanced accountability and transparency for the water industry. An informed community. Increased competition between water businesses.
Review of hardship measures	Released the second annual report that examined how metropolitan water businesses are assisting customers in hardship.	Ensured water businesses continue to develop and improve programs for customers in hardship
Regulatory audits	Audit of urban and rural water businesses for compliance with reporting requirements.	Demonstrated high level of compliance with customer service obligations, as well as accuracy of performance data.
Finalised 2014-15 regulatory accounts	Completed a review of all water businesses regulatory accounts.	Validates price submission data during price reviews.
Approved annual 2016-17 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 2016-17 were consistent with the 2013 Water Price Determinations for each business.
Maintained urban/rural customer codes and charters	Reviewed and approved Rural and Urban Customer Charters as provided by the water businesses.	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

The Commission has three regulatory roles in relation to taxis:

- i. determining maximum fares for the metropolitan taxi zone and the urban and large regional taxi zone, with reviews required at least every two years
- ii. annual monitoring of fares notified by regional and country taxi operators
- iii. a review of the taxi non-cash payment surcharge.

In November 2015, the Commission published its first annual price monitoring report for regional and country taxi operators, following deregulation of regional and country fares in June 2014. The report concluded

it is too early to suggest market power is being exercised. It noted that some fare increases were significantly above estimated changes in costs, while approximately 70 per cent of taxi operators had left their fares unchanged.

In June 2016, the Commission completed a review of maximum fares for the metropolitan and urban and large regional taxi zones. The review found demand for taxis is declining as alternative service offerings emerge in the commercial passenger vehicle market. The Commission's final decision determined to leave metropolitan taxi fares unchanged; while in Geelong, Ballarat and Bendigo, the times at which peak surcharges may be charged were extended.

## ACCIDENT TOWING

In January 2016, the Commission released its final report on the review of accident towing in Victoria. The review was commissioned via a terms of reference issued by the Minister for Finance under section 41 (our inquiry function) of the *Essential Services Commission Act 2001*. The report made recommendations to Government regarding three broad areas:

- improving the processes by which accident tows are allocated to tow truck operators where allocation schemes exist, to best promote consumers' interests
- ensuring fees for accident towing services are fair and reasonable for consumers, regardless of whether accidents occur in the controlled area, self-managed area or in the rest of Victoria
- ensuring consumers are appropriately informed of their rights and responsibilities once involved in an accident.

## PORTS

In 2015-16 we continued to administer the price monitoring regime for the Port of Melbourne Corporation.

In October 2015, the Commission issued an Information Notice to Port of Melbourne Corporation setting out the specific business and financial information (including key performance indicators) to be provided to the Commission on an annual basis for price monitoring purposes.

The Commission's role in administering price monitoring of channels and berths servicing containers and motor vehicle cargoes at the Port of Melbourne ceases to apply from 1 July 2016 following the proposed lease process for the Port of Melbourne.

On 10 March 2016, legislation to enable the leasing of the Port of Melbourne, the *Delivering Victorian Infrastructure (Port of Melbourne Lease Transaction) Bill 2015*, was passed by the Victorian Parliament. The government commenced a tender for expressions of interest for the 50-year lease of the Port of Melbourne.

The legislation provides for a new economic regulatory regime for the Port of Melbourne, including a pricing order. The Pricing Order broadens the existing price monitoring regime and covers all trade charges for cargo and shipping movements. Annual price increases for prescribed port services are capped to CPI for a minimum of 15 years under the Pricing Order.

The Commission has six roles under the new economic regulatory framework. These are to:

- monitor the port licence holder's compliance with the pricing order on an annual basis and publish a report on compliance every five years
- conduct periodic inquiries into the port licence holder's process for setting rents to determine if there has been misuse of market power in providing access to Port of Melbourne Land
- investigate complaints made by port users in relation to instances of non-compliance with the pricing order
- conduct inquiries into whether services at a state-sponsored port (should one be developed) are provided at competitively neutral prices
- assess and certify whether capacity expansion proposals by the port licence holder are the least cost means of expanding capacity
- set and monitor service quality standards in the provision of prescribed services (if requested by the ESC Minister)

## 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
- Pacific National.

In 2016, the Commission received two applications, from V/Line and Metro Trains Melbourne respectively, to extend the expiry dates of each of their access arrangements.

In anticipation of major reforms to the Victorian Rail Access Regime (expected to occur in 2016), the Commission extended Metro Trains Melbourne's access arrangement for one year and V/Line's access arrangement for six months.

## DOMESTIC BUILDING INSURANCE

The Commission has an ongoing role in monitoring Victoria's Domestic Building Insurance Scheme.

In November 2015, the Commission released its annual report on the performance of the Victorian Managed Insurance Authority and outgoing private insurers' provision of Domestic Building Insurance. This report examined:

- trends in the number of eligible builders
- the number of project certificates (policies)
- premium levels
- the number and volume of claims made under the Domestic Building Insurance scheme.

## COST OF TRANSPORT AND INDUSTRY SECTORS REGULATION

The total costs of the transport division in 2015-16 were \$2.03 million. These costs include staff costs, external costs and corporate overhead costs.

## MAJOR PROJECTS COMPLETED AND BENEFITS GENERATED IN 2015-16

TRANSPORT DIVISION		
PROJECT	OUTPUTS/RESULTS	BENEFITS/IMPACTS
Accident towing review	Draft Report (September 2015) Public forum (5 November 2015) Final Report (January 2016)	Recommendations to promote fees for accident towing services that are fair and reasonable for consumers, and ensuring that consumers are appropriately informed of their rights and responsibilities once in an accident.
Taxi Fare Review	Consultation Paper (December 2015) Draft Report (May 2016) Public Forum (May 2016) Final Report (June 2016) Determination of maximum taxi fares (June 2016)	Determined that metropolitan taxi fares would remain unchanged; while in Geelong, Ballarat and Bendigo, the times at which peak surcharges may be charged were extended to better match demand and supply of taxis for consumers.
Taxi fare monitoring report of regional and country taxis	Inaugural taxi fare monitoring report (November 2015)	Monitoring to keep Victorian customers and the Government informed about the economic performance of the industry, and support the efficient operation of the industry by monitoring three aspects of industry performance (prices, costs and return on assets).
Ports Monitoring Determination	Determination issued (July 2015)	Extended price monitoring framework for prescribed port services until introduction of the new economic regulatory framework for the Port of Melbourne lease transaction.
Ports Information Notice	Information Notice (October 2015)	Specifies business and financial information (including key performance indicators (KPIs)) to be provided to the Commission on an annual basis for monitoring purposes.
Administration of Victorian Rail Access Regime	Extension of two rail access arrangements: • V/Line decision (June 2016) • Metro Trains Melbourne decision (June 2016)	Avoided unnecessary administration and compliance costs in establishing new access arrangements shortly before reforms are made to the Victorian Rail Access Regime.
Performance of Domestic Building Insurance scheme	Report publicly released in November 2015 covering the 2014-15 financial year.	Informed the public on the performance of Domestic Building Insurance scheme, providing information about scheme eligibility, premiums and claims performance from 2002 to June 2015.

# LOCAL GOVERNMENT DIVISION



This division was set up to administer and implement the State Government's rate capping and variation framework.

In 2015-16, the Commission administered the first year implementation of the Victorian Government's Fair Go Rates System which was introduced following the completion of its rate capping and variation framework review.

## RATES CAPPING AND VARIATION FRAMEWORK REVIEW

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 on options and a recommended approach for a rate 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.

After extensive consultation with the sector and ratepayers, the Commission completed its review and submitted its final report to the Ministers in September 2015. The State Government accepted 17 out of 18 recommendations. Consequently, the *Local Government Act 1989* was amended to incorporate the new Fair Go Rates System.



## IMPLEMENTATION OF THE FAIR GO RATES SYSTEM

The Fair Go Rates System is a framework limiting the maximum amount councils may increase rates in a year without seeking additional approval. In circumstances where the rate cap is insufficient for a council's needs, it can apply to the Commission for a higher cap. Under the Fair Go Rates System, the Commission is responsible for:

- providing advice to the Minister on the annual rate cap
- assessing council applications for a higher cap
- accepting or varying a council's application for a higher cap
- monitoring and reporting annually on councils' compliance with the cap or approved higher cap
- monitoring and reporting biennially on the overall outcomes in the sector arising from the Fair Go Rates System
- issuing guidance materials and guidelines on the implementation and administration of the Fair Go Rates System.

A guidance paper was released in December 2015. This assisted councils in meeting their obligations under the Fair Go Rates System, by setting out

how to comply with the average rate cap set by the Minister, how to apply for a higher cap and the reporting requirements under the framework.

On 2 December 2015, the Minister sought the Commission's advice on any adjustments to the rate cap for 2016-17. We advised the Minister on our proposed adjustment to the rate cap on 7 December 2015.

In March 2016, the Commission received 10 applications for a higher cap (one council later withdrew its application). We assessed the applications against the six legislative matters and statutory objectives of the Fair Go Rates System and completed our assessments in May 2016. In summary, we rejected three applications, approved in part one application, approved (qualified) three applications and approved (in full) two applications.

## COST OF LOCAL GOVERNMENT DIVISION

The total costs of the Local Government Division in 2015-16 was \$2.53 million. This total includes direct costs incurred in completing the rates capping and variation framework review and administering the Fair Go Rates System plus an allocation for overhead costs.

## MAJOR PROJECTS COMPLETED AND BENEFITS GENERATED IN 2015-16

LOCAL GOVERNMENT		
PROJECT	OUTPUTS/RESULTS	BENEFITS/IMPACTS
Rates Capping and Variation Framework Review – draft report	Consultation Paper for public consultation Draft Decision paper for public consultation	Extensive feedback was obtained from interested parties that led to a framework that better met the policy objectives
Rates Capping and Variation Framework Review – final report	Final report for the Ministers for Finance and Local Government	The final report contributed significantly to the final design of the Victorian Government's Fair Go Rates System that is now part of the <i>Local Government Act 1989</i> . The timely completion of the review ensured the government was able to deliver on its commitment to implement its rates capping policy in 2016-17.
Develop guidance materials for councils	The Fair Go Rates System: Guidance for Councils (2016 17)	Councils have clarity on how to calculate their base average rates and the capped average rate consistent with the <i>Local Government Act 1989</i> . Councils were able to prepare and develop applications for higher caps consistent with the legislation and Commission's expectations.
Adjustments to the rate cap	Advice to the Minister on any adjustment for the 2016-17 rate cap	The Commission's advice informed Minister's decision regarding the rate cap that applies for 2016-17 rating year.
Assessment of nine applications for a higher cap	An overview paper and nine decision papers	Timely completion of the review allowed councils to adopt their budgets. Ratepayers benefited from the Commission's independent scrutiny of councils' applications. The Commission's decisions were accepted by the majority of stakeholders. No appeals were filed against the Commission's decisions.

# OUR ORGANISATION





# OUTPUT PERFORMANCE



## MAJOR OUTPUTS/DELIVERABLES PERFORMANCE MEASURES

	UNIT OF MEASURE	2015-16 TARGET	2015-16 ACTUAL
<b>QUANTITY</b>			
Performance reviews and compliance audits of regulated businesses	Number	106	108
New or revised regulatory instruments issued	Number	8	5
Performance reports for regulated businesses or industries	Number	6	7
Price approvals of regulated businesses	Number	20	29*
Reviews, investigations or advisory projects	Number	4	4
Registration and accreditation decisions/approvals in relation to the Victorian Energy Efficiency Target Scheme	Number	5000	6951**
<b>QUALITY</b>			
Decisions upheld where subject to review, appeal or disallowance	Per cent	100	100
<b>TIMELINES</b>			
Deadlines met for major milestones	Per cent	100	100
<b>COST</b>			
<b>TOTAL OUTPUT COSTS</b>	<b>Million ##</b>	<b>\$17.6</b>	<b>\$18.9 #</b>

\* The 2015-16 outcome is higher than target due to nine council approvals for higher caps completed and not in the original target.

\*\* The 2015-16 outcome is higher than target due to a higher activity with more businesses participating and offering VEET services requiring additional approvals.

# The 2015-16 higher output costs, largely due to the nine council approvals for higher caps not originally included in the target.

# Includes DTF overheads.

## OUTPUT TARGETS 2016-17

### MAJOR OUTPUTS/DELIVERABLES PERFORMANCE MEASURES

ECONOMIC REGULATORY SERVICE	UNIT OF MEASURE	2016-17 TARGET
<b>QUANTITY</b>		
Performance reviews and compliance audits of regulated businesses	Number	142 <sup>a</sup>
New or revised regulatory instruments issued	Number	6
Performance reports for regulated businesses or industries	Number	11*
Price approvals of regulated businesses	Number	40**
Reviews, investigations or advisory projects	Number	2 ***
Registration and accreditation decisions/approvals	Number	5400
Compliance and enforcement activities – energy	Number	10 ****
<b>QUALITY</b>		
Decisions upheld where subject to review, appeal or disallowance	Per cent	100
<b>TIMELINES</b>		
Deadlines met for major milestones	Per cent	100
<b>COST</b>		
<b>TOTAL OUTPUT COST</b>	<b>Million #</b>	<b>\$24.6</b>

<sup>a</sup> The 2016-17 target is higher than the 2015-16 target reflects the new and increased activity in Energy Targets.

\* The higher 2016-17 target reflects the number of performance reports for regulated business or industries.

\*\* The higher 2016-17 target reflects the number of price approvals expected for regulated business.

\*\*\* The lower 2016-17 target reflects the number of reviews requested and the timeframes specified by the Government.

\*\*\*\* The new 2016-17 target reflects the number of compliance and enforcement activities expected in Energy.

# Includes DTF overheads.

## WORKFORCE DATA BY DIVISION (HEADCOUNT)

TOTAL EMPLOYMENT* AS AT 30 JUNE 2016 (BY DIVISION)	
Water	11
Energy	17
Energy Targets	31
Corporate	14
Transport	7
Local Government	11
<b>Total</b>	<b>91</b>

\* 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 2016	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
2016	91	87

\* 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)

## JUNE 2015 – JUNE 2016

	ONGOING EMPLOYEES				FIXED TERM & CASUAL
	EMPLOYEE HEADCOUNT	FULL-TIME HEADCOUNT	PART-TIME HEADCOUNT	FTE	FTE
Jun-16	74	65	9	72.57	14.3
Jun-15	62	53	9	58.77	9.8

	2015			2016		
	ONGOING	FIXED TERM & CASUAL		ONGOING	FIXED TERM & CASUAL	
	EMPLOYEE HEADCOUNT	FTE	FTE	EMPLOYEE HEADCOUNT	FTE	FTE
<b>Gender</b>						
Female	31	28.17	5	35	33.77	8.10
Male	31	30.6	4.8	39	38.80	6.20
<b>Age</b>						
Under 25	2	2.00	0.00	2	2.00	.20
25-34	18	18.00	6.00	30	29.80	8.00
35-44	25	22.17	2.00	20	18.77	3.90
45-54	12	11.60	0.80	18	18.00	2.20
55-64	3	3	1.00	2	2.00	0.00
Over 64	2	2.00	0.00	2	2.00	0.00
<b>Total</b>	<b>62</b>	<b>58.77</b>	<b>9.80</b>	<b>74</b>	<b>72.57</b>	<b>14.30</b>
<b>CLASSIFICATION</b>						
VPS1	0	0.00	0.00	0	0.00	0.00
VPS2	0	0.00	0.00	4	4.00	0.00
VPS3	12	11.57	1.00	11	10.57	3.00
VPS4	15	14.00	1.00	19	18.60	2.00
VPS5	13	11.60	3.00	17	16.80	4.70
VPS6	14	13.60	0.00	12	11.60	1.00
STS	1	1.00	1.00	1	1.00	0.00
SRM	3	3.00	0.00	5	5.00	0.00
Executive	4	4.00	0.80	5	5.00	0.00
Casual	0	0.00	3.00	0	0.00	3.60
<b>Total</b>	<b>62</b>	<b>58.77</b>	<b>9.80</b>	<b>74</b>	<b>72.57</b>	<b>14.30</b>

Note: Excludes 1.8 FTE Commissioners (2016) and 1.8 FTE Commissioners (2015)

## EXECUTIVE OFFICER DISCLOSURES

**TABLE 1: NUMBER OF EXECUTIVE OFFICERS CLASSIFIED INTO 'ONGOING' AND 'SPECIAL PROJECTS'**

Class	ALL		ONGOING		SPECIAL PROJECTS	
	No.	Var	No.	Var	No.	Var
EO-1	0	0	0	0	0	0
EO-2	1	0	1	0	0	0
EO-3	4	+1	4	+1	0	0
<b>Total</b>	<b>5</b>	<b>+1</b>	<b>5</b>	<b>+1</b>	<b>0</b>	<b>0</b>

**TABLE 2: BREAKDOWN OF EXECUTIVE OFFICERS INTO GENDER FOR 'ONGOING' AND 'SPECIAL PROJECTS'**

Class	ONGOING					SPECIAL PROJECTS				
	MALE		FEMALE		VACANCIES No.	MALE		FEMALE		VACANCIES No.
	No.	Var	No.	Var		Var	No.	Var	No.	
EO-1	0	0	0	0	0	0	0	0	0	0
EO-2	1	0	0	0	0	0	0	0	0	0
EO-3	4	+1	0	0	0	0	0	0	0	0
<b>Total</b>	<b>5</b>	<b>+1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**TABLE 3: RECONCILIATION OF EXECUTIVE NUMBERS**

	2015	2016
Executives with remuneration over \$100,000	5	5
add Vacancies (table 2)	0	0
Executives employed with total remuneration below \$100,000	0	0
Accountable Officer* (Secretary)	1	1
less separations	0	0
<b>Total executive numbers at 30 June 2015</b>	<b>5</b>	<b>5</b>

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

## 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.

### WORKCOVER

WORKCOVER STATS	2014-15	2015-16
Claims during the year	0	0

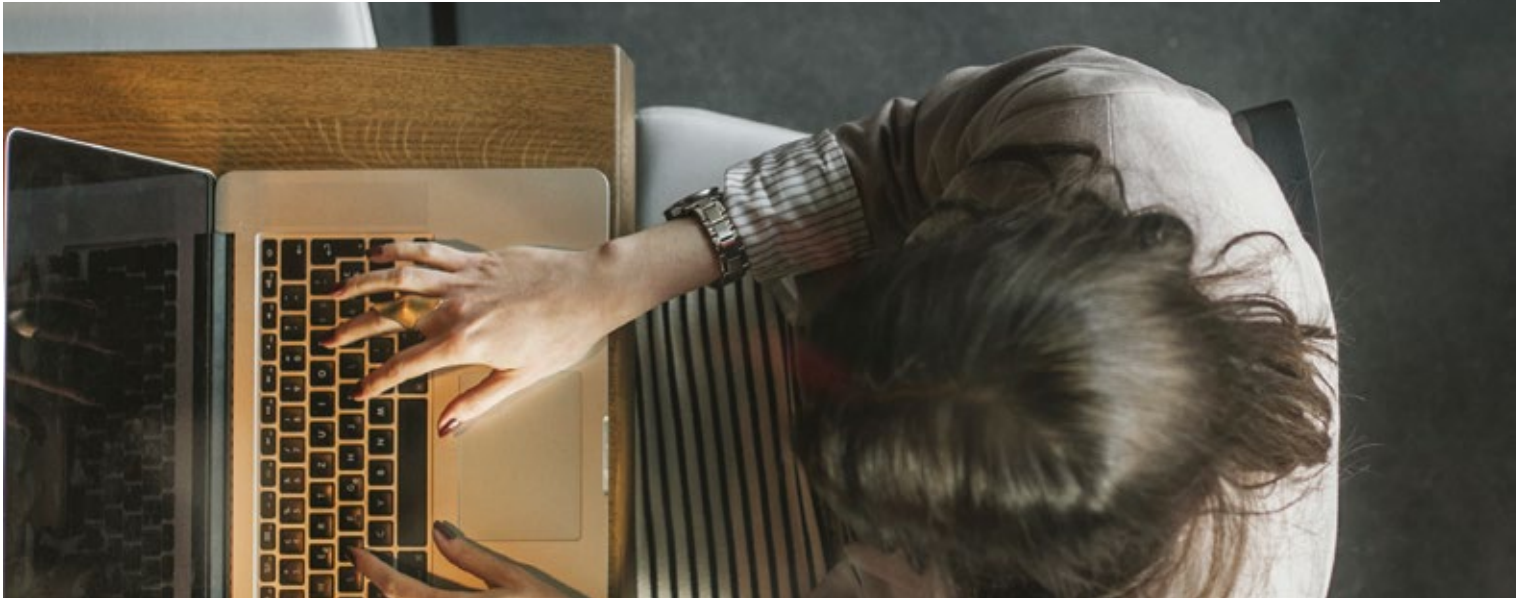
## PRIVATE INTEREST DECLARATIONS

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

## EMPLOYEE RELATIONS

No employee time was lost in 2015-16 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.

The Commissioners also comprise a board of management and are responsible for oversight of the organisation, strategic planning, management of resources, monitoring of project activity and overseeing compliance with corporate governance standards.

The Commission met 40 times and the Board met 11 times during 2015-16.

In 2015-16, the Audit and Risk Committee comprised two part-time Commissioners (Mr Richard Clarke and Ms Julie Abramson) and one external independent appointment (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 2015-16, 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 2015-16, 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 (Transport Safety Victoria)
- Port of Melbourne Corporation\*
- Sustainability Victoria
- Victorian Regional Channels Authority
- Taxi Services Commission\*
- The Clean Energy Regulator (Commonwealth)\*
- 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.

## 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 2015-16, the Commission received almost 3000 submissions across a wide range of projects. A large number of submissions were received from individuals on the True Value Inquiry on distributed generation approaches paper.

The number of submissions to major pricing and other regulatory reviews and activities during 2015-16 included:

### ENERGY

- Modernising Victoria's energy licence framework – 29 submissions
- Energy Hardship Inquiry draft report – Supporting customers, avoiding labels – 19 submissions
- *Victorian Energy Efficiency Target Guidelines* update – 1 submission
- True Value Inquiry – distributed generation proposed approach – 2553 submissions
- Compliance and performance reporting guideline – 8 submissions
- Distributed Generation Inquiry – draft report (energy value) – 38 submissions
- Distributed Generation Inquiry – discussion paper (network value) – 13 submissions

### WATER

- Goulburn- Murray Water – 2016 price submission – 20 submissions
- Goulburn-Murray Water price review – draft decision – 24 submissions
- Melbourne Water – 2016 price submission – 104 submissions
- Melbourne Water price review – draft decision – 11 submissions
- Water pricing conference – post conference submissions – 11 submissions
- Review of water pricing approach – position paper – 6 submissions

## TRANSPORT

- Accident towing review – draft report – 13 submissions
- Taxi fare review 2016 – consultation paper – 6 submissions
- Taxi fare review 2016 – draft report – 18 submissions

## LOCAL GOVERNMENT

- Local government rates capping and variation framework review – A blueprint for change – draft report – 114 submissions

## ENERGY TARGETS

- Proposed changes to administrative arrangements for commercial lighting activities – consultation paper – 12 submissions
- *Victorian Energy Efficiency Target Guidelines* review – draft decision – 1 submission

## 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	2011-12 \$	2012-13 (1) \$	2013-14 (1) \$	2014-15 \$	2015-16 \$
Income from Government	15,439,162	17,023,361	15,878,000	15,956,224	19,599,126
Total income from transactions	15,439,162	17,023,361	15,878,000	15,956,224	19,599,126
Total expenses from transactions	14,342,970	17,133,461	15,374,808	15,536,460	18,351,057
Net result from transactions	1,096,192	(110,100)	503,192	419,764	1,248,069
Net result	1,041,127	328,629	503,677	407,506	1,186,283
Net cash flow from operating activities	789,850	476,603	35,450	24,101	14,047
<b>Total assets</b>	<b>11,130,876</b>	<b>11,037,075</b>	<b>11,602,652</b>	<b>12,879,451</b>	<b>13,815,973</b>
<b>Total liabilities</b>	<b>3,885,096</b>	<b>3,434,415</b>	<b>3,946,315</b>	<b>4,298,912</b>	<b>4,049,051</b>

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 2015-16* \$
<b>ELECTRICITY INDUSTRY</b>	
Electricity generation	174 000
Electricity transmission	37 500
Electricity distribution	341,668
Electricity trader	750
Retail (electricity and gas)	2,207,900
<b>GAS INDUSTRY</b>	
Distribution	85 417
<b>PORTS INDUSTRY</b>	
Port of Melbourne Corporation	319 861
<b>WATER INDUSTRY</b>	
Water and sewerage	3 251 626



# APPENDICES



# **APPENDIX A**

## **ESSENTIAL SERVICES COMMISSION**

### FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

CONTENTS

## ESSENTIAL SERVICES COMMISSION

### COMPREHENSIVE OPERATING STATEMENT

For the year ended 30 June 2016

	Notes	2016 \$	2015 \$
<b>INCOME FROM TRANSACTIONS</b>			
Grants	2	19,599,126	15,956,224
<b>TOTAL INCOME FROM TRANSACTIONS</b>		<b>19,599,126</b>	<b>15,956,224</b>
<b>EXPENSES FROM TRANSACTIONS</b>			
Employee benefits	3	10,637,168	8,813,425
Depreciation	3	271,947	305,912
Finance lease interest		2,753	4,565
Capital asset charge		8,172	44,674
Supplies and services	3	7,431,017	6,367,884
<b>TOTAL EXPENSES FROM TRANSACTIONS</b>		<b>18,351,057</b>	<b>15,536,460</b>
<b>NET RESULT FROM TRANSACTIONS</b>		<b>1,248,069</b>	<b>419,764</b>
<b>OTHER ECONOMIC FLOWS INCLUDED IN NET RESULT</b>			
Net gain/(loss) on disposal of property, plant and equipment		4,117	(1,890)
Net gain/(loss) arising from revaluation of leave liabilities		(65,903)	(10,368)
<b>TOTAL OTHER ECONOMIC FLOWS INCLUDED IN NET RESULT</b>		<b>(61,786)</b>	<b>(12,258)</b>
<b>NET RESULT</b>		<b>1,186,283</b>	<b>407,506</b>
<b>COMPREHENSIVE RESULT</b>		<b>1,186,283</b>	<b>407,506</b>

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

## ESSENTIAL SERVICES COMMISSION

### BALANCE SHEET As at 30 June 2016

	Notes	2016 \$	2015 \$
<b>FINANCIAL ASSETS</b>			
Cash on hand		500	500
Receivables	4	13,073,294	11,856,737
<b>TOTAL FINANCIAL ASSETS</b>		<b>13,073,794</b>	<b>11,857,237</b>
<b>NON-FINANCIAL ASSETS</b>			
Prepayments		155,415	157,333
Property, plant and equipment	5	150,957	280,191
Intangible assets	6	435,807	584,690
<b>TOTAL NON-FINANCIAL ASSETS</b>		<b>742,179</b>	<b>1,022,214</b>
<b>TOTAL ASSETS</b>		<b>13,815,973</b>	<b>12,879,451</b>
<b>LIABILITIES</b>			
Payables		1,351,930	1,594,258
Provisions	7	2,655,662	2,638,762
Borrowings	8	41,559	65,892
<b>TOTAL LIABILITIES</b>		<b>4,049,151</b>	<b>4,298,912</b>
<b>NET ASSETS</b>		<b>9,766,822</b>	<b>8,580,539</b>
<b>EQUITY</b>			
Contributed capital		873,921	873,921
Accumulated surplus		8,892,901	7,706,618
<b>TOTAL EQUITY</b>		<b>9,766,822</b>	<b>8,580,539</b>

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 2016

	Contributed capital	Accumulated surplus	Total
	\$	\$	\$
Balance at 1 July 2014	873,921	7,299,112	8,173,033
Net result for the year		407,506	407,506
<b>BALANCE AT 30 JUNE 2015</b>	<b>873,921</b>	<b>7,706,618</b>	<b>8,580,539</b>
<b>NET RESULT FOR THE YEAR</b>		<b>1,186,283</b>	<b>1,186,283</b>
<b>BALANCE AT 30 JUNE 2016</b>	<b>873,921</b>	<b>8,892,901</b>	<b>9,766,822</b>

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 2016

	Notes	2016 \$	2015 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from government		19,018,880	15,067,182
Payments to suppliers and employees		(18,993,908)	(14,993,842)
Capital asset charge paid		(8,172)	(44,674)
Interest paid		(2,753)	(4,565)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	16(a)	<b>14,047</b>	24,101
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for property, plant and equipment		-	(336)
Proceeds from sale of property, plant and equipment		37,727	-
<b>NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES</b>		<b>37,727</b>	(336)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of finance leases		(51,774)	(23,765)
<b>NET CASH FLOWS USED IN FINANCING ACTIVITIES</b>		<b>(51,774)</b>	(23,765)
<b>NET INCREASE IN CASH HELD</b>		<b>-</b>	-
Cash at the start of the year		500	500
<b>CASH AT THE END OF THE YEAR</b>		<b>500</b>	500
Non-cash financing and investing activities	16(b)		

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

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2016

### 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.

A glossary of terms applied in financial statements is available in note 18.

#### (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(j));
- superannuation expense (see note 1(f)); 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(k)).

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 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 items**

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 Management 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 2016 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. Non-current assets or liabilities are those expected to be recovered or settled more than twelve months after the reporting period, except for the 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.

### **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 back 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**

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 2016 and 30 June 2015 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***

A charge levied on the written down value of controlled non-current physical assets in the Commission's balance sheet which aims to: attribute to the opportunity cost of capital used in service delivery; and provide incentives to the Commission to identify and dispose of underutilised or surplus assets in a timely manner. The capital asset charge is calculated on the budgeted carrying amount of applicable non financial 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 instruments**

Financial instruments arise out of contractual agreements that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Due to the nature of the Commission's activities, certain financial assets and financial liabilities arise under statute rather than a contract. Such financial assets and financial liabilities do not meet the definition of financial instruments in AASB 132 Financial Instruments: Presentation. For example, statutory receivables arising do not meet the definition of financial instruments as they do not arise under contract.

Where relevant, for note disclosure purposes, a distinction is made between those financial assets and financial liabilities that meet the definition of financial instruments in accordance with AASB 132 and those that do not.

The following refers to financial instruments unless otherwise stated.

## **Categories of non-derivative financial instruments**

### **Loans and receivables**

Loans and receivables are financial instrument assets with fixed and determinable payments that are not quoted on an active market. These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial measurement, loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Loans and receivables category includes cash and deposits (refer to note 1(i)), trade receivables and loans, but not statutory receivables.

### **Financial liabilities at amortised cost**

Financial instrument liabilities are initially recognised on the date they are originated. They are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial instruments are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the interest-bearing liability, using the effective interest rate method.

Financial instrument liabilities measured at amortised cost include all of the Commission's contractual payables, deposits held and advances received, and interest-bearing arrangements other than those designated at fair value through profit or loss.

### **Offsetting financial instruments**

Financial instrument assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Commission concerned has a legal right to offset the amounts and intend either to settle on a net basis or to realise the asset and settle the liability simultaneously.

### **(i) 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.

### **(j) 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.

#### **Leasehold improvements**

The cost of leasehold improvements is capitalised as an asset and depreciated over the remaining term of the lease or the estimated useful life of the improvements, whichever is the shorter.

#### **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.

### **(k) 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 for services rendered to the reporting date.

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 requisite years of service.

### **(l) Leases**

A lease is a right to use an asset for an agreed period of time in exchange for payment.

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.

### **(m) 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.



#### (n) Contributions by owners

Consistent with the requirements of AASB 1004 *Contributions*, contributions by owners (that is, contributed capital and its repayment) are treated as equity transactions and, therefore, do not form part of the income and expenses of the Commission.

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.

#### (o) 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.

#### (p) 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.

#### (q) Accounting standards issued but not yet effective

As at 30 June 2016, the following standards and interpretations, applicable to the Commission, had been issued but were not mandatory for the 30 June 2016 reporting period. The Department of Treasury and Finance assesses the impact of these new standards and advises the Commission of their applicability and early adoption where applicable.

*AASB 9 Financial Instruments*, applicable for reporting periods commencing 1 January 2018. The key changes include the 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. While the Commission's assessment has not identified any material impact arising from AASB 9, it will continue to be monitored and assessed.

*AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)*, applicable for reporting periods commencing 1 January 2018. The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows:

- the change in fair value attributable to changes in credit risk is presented in other comprehensive income; and
- other fair value changes are presented in profit or loss. If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.

The Commission's assessment has identified that the amendments are likely to result in earlier recognition of impairment losses and at more regular intervals.

*AASB 2014-1 Amendments to Australian Accounting Standards [Part E Financial Instruments]*, applicable for reporting periods commencing 1 January 2018. Amends various AASs to reflect the AASB's decision to defer the mandatory application date of AASB 9 to annual reporting periods beginning on or after 1 January 2018; as a consequence of Chapter 6; and to amend reduced disclosure requirements. This amending standard will defer the application period of AASB 9 to the 2018-19 reporting period in accordance with the transition requirements.

*AASB 2014-7 Amendments to Australian Accounting Standards arising from AASB 9*, applicable for reporting periods commencing 1 January 2018. Amends various AASs to incorporate the consequential amendments arising from the issuance of AASB 9. The Commission's assessment has indicated that there will be no significant impact for the Commission.

*AASB 15 Revenue from Contracts with Customers*, applicable for reporting periods commencing 1 January 2019. 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. 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 2014-5 Amendments to Australian Accounting Standards arising from AASB 15*, applicable 1 January 2017, except amendments to AASB 9 (December 2009) and AASB 9 (December 2010) apply from 1 January 2018. Amends the measurement of trade receivables and the recognition of dividends. Trade receivables, that do not have a significant financing component, are to be measured at their transaction price, at initial recognition. The Commission's assessment has indicated that there will be no significant impact for the Commission.

*AASB 16 Leases*, applicable for reporting periods commencing 1 January 2019. The key changes introduced by AASB 16 include the recognition of most operating leases (which are currently not recognised) on balance sheet. The Commission's assessment has indicated that as most operating

leases will come on balance sheet, recognition of lease assets and lease liabilities will cause net debt to increase. Depreciation of lease assets and interest on lease liabilities will be recognised in the income statement with marginal impact on the operating surplus. The amounts of cash paid for the principal portion of the lease liability will be presented within financing activities and the amounts paid for the interest portion will be presented within operating activities in the cash flow statement.

*AASB 2015-1 Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle [AASB 1, AASB 2, AASB 3, AASB 5, AASB 7, AASB 11, AASB 110, AASB 119, AASB 121, AASB 133, AASB 134, AASB 137 & AASB 140]*, applicable for reporting periods commencing 1 January 2016. Amends the methods of disposal in AASB 5 *Non current assets held for sale and discontinued operations*. Amends AASB 7 *Financial Instruments* by including further guidance on servicing contracts. The assessment has indicated that when an asset (or disposal group) is reclassified from 'held to sale' to 'held for distribution', or vice versa, the asset does not have to be reinstated in the financial statements. Entities will be required to disclose all types of continuing involvement the entity still has when transferring a financial asset to a third party under conditions which allow it to derecognise the asset.

*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]*, applicable for reporting periods commencing 1 January 2016. AASB 2015-6 extends the scope of AASB 124 *Related Party Disclosures* to not for profit public sector entities. Guidance has been included to assist the application of the Standard by not for profit public sector entities. The amending standard will result in extended disclosures on the entity's key management personnel, and the related party transactions.

**NOTE 2. INCOME FROM TRANSACTIONS**

	2016 \$	2015 \$
Income from transactions includes:		
<b>GRANTS</b>		
Grants from Department of Treasury and Finance (note 1(c))	19,599,126	15,956,224
Total grants	19,599,126	15,956,224

**NOTE 3. EXPENSES FROM TRANSACTIONS**

Expenses from transactions includes:		
<b>EMPLOYEE BENEFITS*</b>		
Salaries and wages	8,299,024	6,835,921
Superannuation (see note 15)		
- Defined contribution plans	811,326	642,209
- Defined benefit plans	16,763	16,185
Annual and long service leave expense	970,311	914,496
On-costs	539,744	404,614
Total employee benefits	10,637,168	8,813,425
<b>DEPRECIATION</b>		
Leasehold improvements	101,867	109,574
Office and computer equipment	3,675	23,940
Motor vehicles under finance lease	17,522	23,515
Intangible assets	148,883	148,883
Total depreciation	271,947	305,912
<b>SUPPLIES AND SERVICES*</b>		
Rentals and outgoings	956,921	857,989
Purchase of services	5,162,141	4,326,080
Other	1,311,955	1,183,815
Total supplies and services	7,431,017	6,367,884

\* Certain expenses have been reclassified to more appropriately reflect their nature. Prior year comparatives have been adjusted accordingly.

**NOTE 4. RECEIVABLES**

	2016 \$	2015 \$
<b>CURRENT:</b>		
<b>CONTRACTUAL</b>		
Debtors	15,634	550
<b>STATUTORY</b>		
Amounts receivable from government departments	12,687,404	11,492,295
GST recoverable	102,114	133,081
Total current receivables	12,805,152	11,625,926
<b>NON-CURRENT:</b>		
<b>STATUTORY</b>		
Amounts receivable from government departments	268,142	230,811
Total non-current receivables	268,142	230,811
<b>TOTAL RECEIVABLES</b>	<b>13,073,294</b>	<b>11,856,737</b>

Note 9 discloses the ageing analysis of contractual receivables and the nature and extent of risks arising from contractual receivables.

**NOTE 5. PROPERTY, PLANT AND EQUIPMENT**

Leasehold improvements – at cost	462,762	462,762
Less: accumulated depreciation	(364,969)	(263,103)
	97,793	199,659
Office and computer equipment – at fair value	91,575	91,575
Less: accumulated depreciation	(79,661)	(75,985)
	11,914	15,590
Motor vehicles under finance lease – at cost	64,185	112,538
Less: accumulated depreciation	(22,935)	(47,596)
	41,250	64,942
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT</b>	<b>150,957</b>	<b>280,191</b>

**NOTE 5. PROPERTY, PLANT AND EQUIPMENT (CONT)**

	2016 \$	2015 \$
<b>RECONCILIATION OF CARRYING AMOUNTS</b>		
<i>Leasehold improvements</i>		
Carrying amount at start of the year	199,659	309,233
Depreciation expense (note 3)	(101,866)	(109,574)
Carrying amount at end of the year	97,793	199,659
<i>Office and computer equipment</i>		
Carrying amount at start of the year	15,590	41,083
Additions	-	337
Disposals	-	(1,890)
Depreciation expense (note 3)	(3,675)	(23,940)
Carrying amount at end of the year	11,915	15,590
<i>Motor vehicles under finance lease</i>		
Carrying amount at start of the year	64,942	88,457
Additions	27,441	-
Disposals	(33,611)	-
Depreciation expense (note 3)	(17,522)	(23,515)
Carrying amount at end of the year	41,250	64,942
	<b>Public Administration \$</b>	<b>Public Administration \$</b>
<b>CLASSIFICATION BY 'PURPOSE GROUP'</b>		
Nature based classification		
Leasehold improvements	97,793	199,659
Office and computer equipment	11,915	15,590
Motor vehicles under finance lease	41,250	64,942
<b>TOTAL CARRYING AMOUNT OF PROPERTY, PLANT AND EQUIPMENT</b>	<b>150,957</b>	<b>280,191</b>

**NOTE 5. PROPERTY, PLANT AND EQUIPMENT (CONT)**

	Carrying amount \$	Fair value measurement using:		
		Level 1 \$	Level 2 \$	Level 3 \$
Fair value measurement hierarchy* at 30 June 2016				
Office and computer equipment	11,915			11,915
Fair value measurement hierarchy* at 30 June 2015				
Office and computer equipment	15,590			15,590

\*See fair value hierarchy in note 1(b)

There have been no transfers between levels during the period.

**Property, plant and equipment**

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 2016. For all assets measured at fair value, the current use is considered the highest and best use.

**Reconciliation of Level 3 fair value**

	Office and computer equipment \$
2016	
Opening balance	15,590
Depreciation	(3,675)
Closing balance	11,915
2015	
Opening balance	41,083
Purchases/(sales)	(1,553)
Depreciation	(23,940)
Closing balance	15,590

**Description of significant unobservable inputs to Level 3 valuations**

	Valuation technique	Significant Unobservable Inputs
Office and computer equipment	Depreciated replacement cost	Cost per unit Useful life

The significant unobservable inputs have remain unchanged from 2015.

**NOTE 6. INTANGIBLE ASSETS**

	2016	2015
	\$	\$
Capitalised software development	1,383,037	1,383,037
Less: accumulated depreciation	(947,230)	(798,347)
<b>TOTAL INTANGIBLE ASSETS</b>	<b>435,807</b>	<b>584,690</b>
<b>RECONCILIATION OF CARRYING AMOUNTS</b>		
Carrying amount at the start of the year	584,690	733,573
Depreciation expense (note 3)	(148,883)	(148,883)
Carrying amount at the end of the year	435,807	584,690

**NOTE 7. PROVISIONS**

<b>CURRENT:</b>		
Employee benefits		
- Annual leave		
Unconditional and expected to be paid within 12 months	594,638	532,763
Unconditional and expected to be paid after 12 months	196,518	149,497
- Long service leave		
Unconditional and expected to be paid within 12 months	255,243	134,600
Unconditional and expected to be paid after 12 months	1,267,122	1,478,274
- Performance bonus	74,000	112,817
	<b>2,387,521</b>	<b>2,407,951</b>
<b>NON-CURRENT:</b>		
Employee benefits		
- Long service leave	268,141	230,811
<b>TOTAL PROVISIONS</b>	<b>2,655,662</b>	<b>2,638,762</b>

**NOTE 8. BORROWINGS**

	2016 \$	2015 \$
<b>SECURED</b>		
<b>CURRENT:</b>		
Finance lease liabilities	23,015	48,049
<b>NON-CURRENT:</b>		
Finance lease liabilities	18,544	17,843
<b>TOTAL BORROWINGS</b>	<b>41,559</b>	<b>65,892</b>
Lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in the event of default.		
<i>Assets pledged as security</i>		
The carrying amounts of non-current assets pledged as security are:		
Motor vehicles under finance lease	41,250	64,942

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

	Note	Category	Carrying amount	
			2016 \$	2015 \$
<b>FINANCIAL ASSETS</b>				
Cash on hand		Cash	500	500
Receivables*	4	Loans and receivables	15,634	550
			<b>16,134</b>	<b>1,050</b>
<b>FINANCIAL LIABILITIES</b>				
Payables		Financial liabilities at amortised cost	1,351,930	1,594,258
Borrowings	8	Financial liabilities at amortised cost	41,559	65,892
			<b>1,393,489</b>	<b>1,660,150</b>
Net holding gain/(loss) on financial instruments by category:				
<b>FINANCIAL ASSETS</b>				
Cash on hand		Cash	-	-
Receivables*		Loans and receivables	-	-
			-	-
<b>FINANCIAL LIABILITIES</b>				
Payables		Financial liabilities at amortised cost	-	-
Borrowings		Financial liabilities at amortised cost	(2,753)	(4,565)
			<b>(2,753)</b>	<b>(4,565)</b>

\* Receivables 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	Past due but not impaired			
			Less than 1 month	1-3 months	3 months - 1 year	1-5 years
	\$	\$	\$	\$	\$	\$
<b>2016</b>						
Receivables	15,634	15,634	15,634			
	15,634	15,634	15,634			
<b>2015</b>						
Receivables	550	550	550			
	550	550	550			

#### (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
	\$	\$	\$	\$	\$	\$
<b>2016</b>						
Payables	1,351,930	1,351,930	1,351,930			
Borrowings	41,559	43,628	1,317	2,635	20,242	19,434
	<b>1,393,489</b>	<b>1,395,558</b>	<b>1,353,247</b>	<b>2,635</b>	<b>20,242</b>	<b>19,434</b>
<b>2015</b>						
Payables	1,594,258	1,594,258	1,594,258			
Borrowings	65,892	68,331	2,361	4,722	43,212	18,036
	<b>1,660,150</b>	<b>1,662,589</b>	<b>1,596,619</b>	<b>4,722</b>	<b>43,212</b>	<b>18,036</b>

\* 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.

**NOTE 10. COMMITMENTS FOR EXPENDITURE**

	2016 \$	2015 \$
<b>OUTSOURCING COMMITMENTS</b>		
Information technology services, payable:		
Within one year	330,379	566,364
Later than one year but not later than five years	-	330,379
	<b>330,379</b>	<b>896,743</b>
<b>OPERATING LEASE COMMITMENTS</b>		
Commitments for minimum lease payments in relation to non-cancellable operating leases, not recognised as liabilities, are payable as follows:		
Within one year	601,054	863,393
Later than one year but not later than five years	-	590,777
	<b>601,054</b>	<b>1,454,170</b>
<b>FINANCE LEASE LIABILITIES</b>		
Liabilities in relation to finance leases are payable as follows:		
Within one year	24,194	50,295
Later than one year but not later than five years	19,434	18,036
Minimum lease payments	43,628	68,331
Less: Future finance charges	(2,069)	(2,439)
Total lease liabilities	<b>41,559</b>	<b>65,892</b>
Shown in the financial statements (see note 8) as:		
Current	23,015	48,049
Non-current	18,544	17,843
	<b>41,559</b>	<b>65,892</b>

**NOTE 11. CONTINGENT ASSETS AND CONTINGENT LIABILITIES**

The Commission had no contingent assets or contingent liabilities at 30 June 2016 or 30 June 2015.

## 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
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 (2015: \$350,000 - \$359,999)

Amounts relating to Ministers are reported in the financial statements of the Department of Premier and Cabinet. For information regarding related party transactions of Ministers, the register of members' interests is publicly available from [www.parliament.vic.gov.au/publications/register of interests](http://www.parliament.vic.gov.au/publications/register_of_interests).

### 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	
	2016 No.	2015 No.	2016 No.	2015 No.
\$100,000 - \$109,999	1	-	1	-
\$150,000 - \$159,999			-	1
\$180,000 - \$189,999			1	-
\$190,000 - \$199,999	-	1		
\$200,000 - \$209,999	1	-	1	2
\$210,000 - \$219,999	2	2	3	-
\$220,000 - \$229,999	1	-		
\$270,000 - \$279,999			-	1
\$280,000 - \$289,999	-	1		
\$460,000 - \$469,999	1	-		
Total numbers	6	4	6	4
Total amount (\$)	\$1,429,459	903,359	\$1,126,161	839,751
Total annualised employee equivalent	4.9	4.0	4.9	4.0

## NOTE 14. REMUNERATION OF AUDITORS

	2016 \$	2015 \$
<b>AUDIT FEES PAID OR PAYABLE TO THE VICTORIAN AUDITOR-GENERAL'S OFFICE</b>		
Audit of the annual financial statements	16,200	15,800

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	1,186,283	407,506
<b>NON-CASH MOVEMENTS</b>		
Depreciation	271,947	305,912
Gain on disposal of property, plant and equipment	(4,117)	1,890
Change in operating assets and liabilities		
(Increase)/decrease in receivables	(1,216,556)	(1,429,491)
(Increase)/decrease in prepayments	1,918	(88,079)
Increase/(decrease) in payables	(242,328)	443,660
Increase/(decrease) in provisions	16,900	382,703
<b>Net cash flows from operating activities</b>	<b>14,047</b>	<b>24,101</b>

(b) During the year, motor vehicles with a fair value of \$27,000 (2015 - Nil) were acquired by means of finance lease.

## NOTE 17. ADMINISTERED ITEMS

In addition to the specific controlled operations which are included in the balance sheet, comprehensive operating statement, statement of equity 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.

	2016	2015
	\$	\$
<b>ADMINISTERED INCOME FROM TRANSACTIONS</b>		
Licence and other fees	12,638,027	9,747,064
Other income	1,413,142	292,545
	<b>14,051,169</b>	10,039,609
<b>ADMINISTERED EXPENSES FROM TRANSACTIONS</b>		
Payments to Consolidated Fund	12,955,083	10,353,854
	<b>12,955,083</b>	10,353,854
<b>ADMINISTERED NET RESULT</b>	<b>1,096,086</b>	(314,245)
<b>ADMINISTERED ASSETS</b>		
<b>FINANCIAL ASSETS</b>		
Debtors	58,377	285,355
Accrued income	6,418,722	5,165,658
	<b>6,477,099</b>	5,451,013
<b>ADMINISTERED LIABILITIES</b>		
Unearned income	130,000	200,000
	<b>130,000</b>	200,000
<b>ADMINISTERED NET ASSETS</b>	<b>6,347,099</b>	5,251,013

## NOTE 18. GLOSSARY OF TERMS

### **Administered item**

Administered item generally refers to a department lacking the capacity to benefit from that item in the pursuit of the department's objectives and to deny or regulate the access of others to that benefit.

### **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.

### **Capital asset charge**

A charge levied on the written-down value of controlled non-current physical assets in the Commission's balance sheet which aims to: attribute to the opportunity cost of capital used in service delivery; and provide incentives to the Commission to identify and dispose of underutilised or surplus assets in a timely manner.

### **Commitments**

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

### **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.

### **Controlled item**

Controlled item generally refers to the capacity of a department to benefit from that item in the pursuit of the department's objectives and to deny or regulate the access of others to that benefit.

### **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.

## ACCOUNTABLE OFFICER'S AND CHIEF FINANCIAL OFFICER'S DECLARATION

The attached financial statements for the Essential Services Commission have been prepared in accordance with Direction 4.2 of the Standing Directions of the Minister for Finance under 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 2016 and financial position of the Commission as at 30 June 2016.

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 20 September 2016.



Joe Bonnici  
Chief Financial Officer  
Department of Treasury and Finance

Melbourne  
20 September 2016



Ron Ben-David  
Chairperson  
Essential Services Commission

Melbourne  
20 September 2016

## INDEPENDENT AUDITOR'S REPORT

### To the Chairperson and Commissioner, Essential Services Commission

#### *The Financial Report*

I have audited the accompanying financial report for the year ended 30 June 2016 of the Essential Services Commission which comprises the 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 declaration.

#### *The Chairperson and Commissioner's Responsibility for the Financial Report*

The Chairperson and Commissioner 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 Commissioner 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 Commissioner, 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, my staff and I 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 2016 and its financial performance and 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  
21 September 2016



for Andrew Greaves  
Auditor-General

## APPENDIX B REGULATORY FRAMEWORK

### REGULATED INDUSTRIES AND RELEVANT LEGISLATION

At 30 June 2016, 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 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*
- recommending accident towing charges under the *Accident Towing Services Act 2007*
- advising the Minister on setting an average rate cap and setting higher rate caps under the *Local Government Act 1989*

## APPENDIX C ESSENTIAL SERVICES COMMISSION PUBLICATIONS 2015-16

### CORPORATE

- Essential Services Commission Work Program 2015-16
- Essential Services Commission Annual Report 2014-15

### ENERGY INDUSTRY

#### Energy Industry Codes

- Public Lighting Code (Version 2)
- Electricity Distribution Code (Version 9)

#### Energy Industry Policies

- Energy Compliance and Enforcement Policy
- Final Decision Paper: Energy Compliance and Enforcement Policy
- Draft Decision Paper: Draft Energy Compliance and Enforcement Policy

#### Energy Industry Guidelines

- The Commission's Interim Approach to Energy Compliance and Enforcement
- Final Decision Paper: Interim Compliance and Performance Reporting Guideline
- Final Interim Energy Compliance and Performance Reporting Guideline
- Draft Energy Compliance and Performance Reporting Guideline
- Draft Decision Paper: Draft Energy Compliance and Performance Reporting Guideline
- *Victorian Energy Efficiency Target Guidelines*
- Final Decision Paper: *Victorian Energy Efficiency Target Guidelines*
- Draft Decision Paper: *Victorian Energy Efficiency Target Guidelines*

### Energy Industry Performance Reports

- Energy Retailers Compliance Report 2014-15
- Comparative Performance Report 2014-15 (Customer Service)
- Comparative Performance Report 2014-15 (Pricing)

### Victorian Energy Efficiency Target Scheme (VEET)

- Victorian Energy Efficiency Target Scheme (VEET) Performance Report 2014

### Energy Licences

- Transmission Operations (Australia) 2 Pty Ltd: Electricity Transmission Licence Application
- Transmission Operations (Australia) 2 Pty Ltd: Licence Decision
- Transmission Operations (Australia) 2 Pty Ltd: Licence
- Toora Wind Farm Pty Ltd: Application to vary Electricity Generation Licence
- Toora Wind Farm Pty Ltd Licence
- Coonooer Bridge Wind Farm Pty Ltd: Electricity Generation Licence Application
- Coonooer Bridge Wind Farm Pty Ltd: Electricity Generation Licence Application Decision
- 1st Energy: Electricity Retail Licence Application
- 1st Energy Retail Licence

### Energy Compliance

- Ausnet Services Smart Meter Undertaking
- AGL and APG Disconnection Warning Notice Administrative Undertaking
- AGL Undertaking: October 2015 Report
- AGL Assurances: Record Keeping and Billing Processes
- Compliance with AMI Regulatory Obligations: Final Report
- Customer A and Simply Energy: wrongful disconnection
- Customer D and Simply Energy: wrongful disconnection
- Customer C and Lumo Energy: wrongful disconnection

- Customer R and Origin Energy: wrongful disconnection
- Customer W and Lumo Energy: wrongful disconnection
- Customer P and Australian Power and Gas: wrongful disconnection
- Customer S and Australian Power and Gas: wrongful disconnection
- Customer Q and AGL: wrongful disconnection
- Momentum Energy Audit Report Summary
- Onsite Energy Solutions Audit Report Summary
- M2 Energy Audit Report Summary
- Click Energy Audit Report Summary
- Red Energy Audit Report Summary
- Origin Energy Audit Report Summary

### Distributed Generation Inquiry

- The true value of Distributed Generation to Victorian Consumers: Approach Paper
- Distributed Generation Inquiry (Energy Value): Draft Report
- Distributed Generation Inquiry (Network Value): Discussion Paper

### Energy Hardship Inquiry

- Energy Hardship Inquiry Supporting Customers, Avoiding Labels: Draft Report
- Energy Hardship Inquiry Supporting Customers, Avoiding Labels: Final Report

### Minimum Electricity Feed-In Tariff

- Minimum Electricity Feed-In Tariff to apply from 1 January 2016: Final Decision

### Victorian Electricity Distributors GSL Payment Scheme Review

- Review of Victorian Electricity Distributors GSL Payment Scheme: Draft Decision
- Review of Victorian Electricity Distributors GSL Payment Scheme: Final Decision

### Other Energy Reports

- 2016 Caravan Park Tariffs

## WATER INDUSTRY

### Water Price Reviews

- Goulburn Murray Water Price Review 2016: Draft Decision
- Goulburn Murray Water Price Review 2016: Final Decision
- Goulburn Murray Water Price Review 2016: Determination
- Melbourne Water Price Review 2016: Draft Decision
- Melbourne Water Price Review 2016: Final Decision
- Melbourne Water Price Review 2016: Determination
- Tariff Approvals 2015-16 for 17 water businesses

### Other Water Industry Reports

- Review of water pricing approach: Position Paper
- Performance of Victorian urban water and sewerage businesses 2014-15
- Review of hardship measures taken by Metropolitan water businesses 2014-15

## TRANSPORT INDUSTRY

### Taxi Industry

- Taxi Fare Review 2016: Consultation Paper
- Taxi Fare Review 2016: Draft Report Volume 1: Our Draft Decision
- Taxi Fare Review 2016: Draft Report Volume 2: Our Review
- Taxi Fare Review 2016: Final Report
- Taxi Fare Review 2016: Determination
- Taxi Fare Review 2016: Notice of Determination
- Taxi Fare Annual Monitoring Report 2014-15

### Accident Towing and Storage

- Accident Towing and Storage Economic Regulation Review: Draft Decision
- Accident Towing and Storage Economic Regulation Review: Final Report

### Rail Industry

- Decision: Metro Application for Variation
- Decision: V/Line Application for Variation

## LOCAL GOVERNMENT

### Local Government Rates Capping and Variation Framework Review

- A Blueprint for Change: Local Government Rates Capping and Variation Framework Review: Draft Report Volume 1
- A Blueprint for Change: Local Government Rates Capping and Variation Framework Review: Draft Report Volume 2
- A Blueprint for Change: Local Government Rates Capping and Variation Framework Review: Final Report

### Fair Go Rates System

- The Fair Go Rates System Guidance for Councils (2016-17)
- Community Engagement Reference Materials for Councils

### Variation Applications

- Overview: Decisions on higher cap applications for 2016-17
- City of Ballarat: Final Decision
- Horsham Rural City Council: Final Decision
- Murrumbidgee Shire Council: Final Decision
- Moorabool Shire Council: Final Decision
- Wyndham City Council: Final Decision
- Buloke Shire Council: Final Decision
- Pyrenees Shire Council: Final Decision
- Towong Shire Council: Final Decision
- City of Casey: Final Decision

## OTHER INDUSTRY

- Performance of Victorian Domestic Building Insurance Scheme 2014-15

The Commission's publications are available on its website: [www.esc.vic.gov.au](http://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*
- *Local Government Act 1989*

## APPENDIX E PRICE DETERMINATIONS

Price determinations made under section 33 of the *Essential Services Commission Act 2001* in the 2015-16 financial year included the Goulburn-Murray Water Price Review 2016 Determination, the Melbourne Water Price Review 2016 Determination and the Taxi Fare Review 2016 Determination.

The Commission also set the Feed-In-Tariff for 2016 at 5.0 cents per kilowatt hour.

## 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 2015-16.

## 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 content of a document given to the Commission under the Act. No disclosures were made by the Commission under section 38 during 2015-16.

## APPENDIX H

### OFFICE BASED ENVIRONMENTAL IMPACTS

The Commission has continued to monitor key indicators of its environmental impact in 2015-16. While most indicators show that the Commission's environmental impact has increased since 2014-15, this is in line with an increase in the Commission's FTE count. When this is taken into account most indicators, including carbon emissions, show a decrease in the Commission's environmental impact per FTE.

#### OVERVIEW OF PERFORMANCE 2015-16

CATEGORY	QUANTITY USED	QUANTITY PER EMPLOYEE	GREENHOUSE GAS EMISSIONS (TONNES CO <sub>2</sub> )
Energy consumption	426,561 MJ	4903 MJ per FTE	149 tonnes
Waste management*	8,227 Kg	95 Kg	2 tonnes
Paper procurement	1,034 reams	12 reams per FTE	4 tonnes
Transport utilisation	10,683 km	123 km/FTE	2 tonnes
- Car	782 L fuel	9.0 L/FTE	
Transport utilisation	85,482 km	983 km/FTE	17 tonnes
- Aeroplane			
Water Consumption	n/a	n/a	n/a
<b>Total greenhouse gas emissions</b>			<b>187 tonnes</b>

\* Waste figures for financial year 2016 represent the average results for waste audits for both 2014-15 and 2015-16. Only one waste audit was held in 2015-16.

### ENERGY

Energy consumption data is taken from the Commission's energy retailer billing information.

Data was available for seven months of 2015-16. The 12-month figure uses an average for the remaining five months. Usage per employee is based on an annual employee average for the whole year. In financial year 2015-16 the Commission's energy usage increased, but its usage per FTE decreased.

INDICATOR	2015-16	2014-15
Total energy usage segmented by primary source (MJ)	426,561*	413,190*
Greenhouse gas emissions associated with energy use, segmented by primary source and offsets (t CO <sub>2</sub> -e)	149*	135*
Percentage of electricity purchased as Green Power	0	0
Units of energy used per FTE (MJ/FTE)	4,903*	5,988*
Units of energy used per unit of office area (MJ/m <sup>2</sup> )	305*	296*

\* Estimated data.

## WASTE

The Commission conducted three waste audits over the period 2014-15 to 2015-16 to obtain waste data and recycling levels. Relative to 2014-15, the Commission's waste production decreased in 2015-16. The waste audit for 2015-16 showed a significant drop in the waste production. However, as the audit only measures waste production for one day, this day may not be representative of average waste production. To account for this potential inaccuracy the figures displayed below represent the average for all waste audits over 2014-15 to 2015-16.

INDICATORS		2015-16 (TONNES/YEAR)	2014-15 (TONNES/YEAR)	DIFFERENCE COMPARED TO PREVIOUS YEAR
General waste / landfill	Total units of waste disposed per year by destination	1.57*	1.87	-16%*
	Units of office waste disposed per FTE	0.02*	0.03	-33%*
Co-mingled recycling	Total units of waste disposed per year by destination	1.23*	1.35	-9%*
	Units of office waste disposed per FTE	0.01*	0.02	-28%*
Organic recycling	Total units of waste disposed per year by destination	0.75*	0.74	1%*
	Units of office waste disposed per FTE	0.01*	0.01	-20%*
Paper & cardboard recycling	Total units of waste disposed per year by destination	4.68*	5.58	-16%*
	Units of office waste disposed per FTE	0.05*	0.08	-33%*

\* Estimated data.

## PAPER

The paper data is based on supplier billing information and paper storage auditing. The Commission's overall consumption of paper increased in 2015-16, however consumption per full-time equivalent employee decreased. The Commission has maintained a high level of 75-100 per cent recycled paper content, in keeping with its environmental goals.

INDICATOR	2015-16	2014-15	DIFFERENCE COMPARED TO PREVIOUS YEAR
Total units of copy paper used (reams)	1034	845	22%
Units of copy paper used per FTE (reams/FTE)	11.89	12.25	-3%
Percentage of 75–100 recycled content copy paper purchased	94.20%	99.8%	-6%
Percentage of 0–50 recycled content copy paper purchased	5.8%	0.2%	2352%
Greenhouse gas emissions associated with paper use, segmented by primary source and offsets (t CO <sub>2</sub> -e)	3.9	3.1	24%

## 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. In financial year 2015-16 the amount of travel by car for the Commission increased significantly. This was largely driven by consultation processes in regional areas for our Goulburn-Murray Water Price, Energy Hardship, and Distributed Generation Reviews.

TRANSPORT TYPE	INDICATOR	2015-16	2014-15	DIFFERENCE COMPARED TO PREVIOUS YEAR
Car (ULP)	Total travel associated with entity operations (km)	10,683	3,673	191%
	Greenhouse gas emissions from fleet (t CO <sub>2</sub> -e)	1.90	0.62*	206%
	Greenhouse gas emission from fleet per 1000km travelled (t CO <sub>2</sub> -e)	0.18	0.17	5%
Aeroplane	Total distance travelled (km)	85,482	78,639	9%
	Greenhouse gas emission (t CO <sub>2</sub> -e)	17.39	17.30	1%

\* The wrong emission factor was used in last year's annual report.

## SUMMARY OF GREENHOUSE GAS EMISSIONS

	EMISSION SOURCE	CO <sub>2</sub> EMISSIONS (t CO <sub>2</sub> -e)		
		2015-16	2014-15	Difference
direct emissions	Vehicle hire	1.9	0.6	206%
indirect emissions	Electricity	149.3	135.4	10%
	Office paper	3.9	3.1	24%
optional emissions	Waste	14.8	17.4	-15%
	Flights	17.4	17.3	1%
	Total	187.2	173.9	8%
	Total per FTE	2.2	2.5	-15%

## APPENDIX I

### CONSULTANCIES OVER \$10,000

CONSULTANT	PURPOSE OF CONSULTANCY	TOTAL APPROVED PROJECT FEE (EX GST)	EXPENDITURE 2015-16 (EX GST)	FUTURE EXPENDITURE (EX GST)
ACIL ALLEN CONSULTING	Advice on changes to Guaranteed Service Levels	69,003.00	69,003.00	NIL
COMMON CAPITAL	VEET PBA Consultancy Services	57,222.90	57,222.90	NIL
CENTRE FOR INTERNATIONAL ECONOMICS	Provision of modelling and technical advice for Taxi Fare Review	90,000.00	56,009.31	33,990.69
DELOITTE	Provide advice on whether Melbourne Water's proposed expenditure forecasts are consistent with the requirements of the legislation	45,000.00	33,412.50	NIL
DELOITTE	Tariff assessment for Melbourne Water price review	49,545.00	49,545.00	NIL
ECOCUREAN	Economic and technical advice relating to the Inquiry into the True Value of Distributed Generation	85,765.50	21,981.70	63,783.80
FRONTIER ECONOMICS	Provision of economic advice and assistance to support the Commission's 2016 Taxi Fare Review	90,000.00	90,000.00	NIL
INCENTA	Provide advice on the Cost of Capital including an estimate of the debt risk premium for Goulburn Murray Water and Melbourne Water Price Review	39,239.10	39,239.10	NIL
INDEC CONSULTING	Provide advice on Goulburn Murray Water's tariff and expenditure for Goulburn Murray Water's price review	90,244.00	90,244.00	NIL

CONSULTANT	PURPOSE OF CONSULTANCY	TOTAL APPROVED PROJECT FEE (EX GST)	EXPENDITURE 2015-16 (EX GST)	FUTURE EXPENDITURE (EX GST)
KJA	Advice on Local Government rates capping review for the final report and preparation for implementation	55,000.00	55,000.00	NIL
KJA	Engagement expertise for the implementation of the Fair Go Rates System	50,000.00	11,635.00	38,365.00
KPMG	Lead discussions in Melbourne on alternative approaches to establishing the revenue allowance of the Victorian water sector	20,205.00	20,205.00	NIL
NERA	Productivity study of the local government sector	40,745.00	40,745.00	NIL
SYNERGIES ECONOMIC	Provision of economic advice and assistance to support the Commission's upcoming role in monitoring the prices for the prescribed services set by the leaseholder of Port of Melbourne	90,000.00	73,887.45	16,112.55

## CONSULTANCIES OVER \$100,000

CONSULTANT	PURPOSE OF CONSULTANCY	TOTAL APPROVED PROJECT FEE (EX GST)	EXPENDITURE 2015-16 (EX GST)	FUTURE EXPENDITURE (EX GST)
DELOITTE	Provide advice on whether Melbourne Water's proposed expenditure forecasts are consistent with the requirements of the legislative framework	172,616.00	172 616.00	NIL

## APPENDIX J FREEDOM OF INFORMATION

### DETAILS OF REQUESTS RECEIVED DURING 2015-16

REQUESTS	2014-15	2015-16
Requests received	0	3
Requests granted in full	0	1
Requests granted in part	0	1
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	1

## 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](http://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](http://www.esc.vic.gov.au)

Requests may also 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](mailto:publications@esc.vic.gov.au)



# APPENDIX K

## COMPLIANCE INDEX 2015-16

### 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
<b>CHARTER AND PURPOSE</b>		
FRD 22C	Manner of establishment and relevant Ministers	6
FRD 22C	Objectives, functions, powers and duties	7
FRD 22C	Nature and range of services provided	8
<b>MANAGEMENT AND STRUCTURE</b>		
FRD 22C	Organisational structure	10
<b>FINANCIAL AND OTHER INFORMATION</b>		
FRD 22C, SD 4.2(k)	Operational and budgetary objectives and performance against objectives	39
FRD 22C	Employment and conduct principles	41
FRD 22C	Occupational health and safety policy	43
FRD 15B	Executive officer disclosures	43
FRD 22C	Summary of the financial results for the year	47
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 Freedom of Information Act 1982	94

LEGISLATION	REQUIREMENT	PAGE
<b>FINANCIAL AND OTHER INFORMATION</b>		
FRD 22C	Compliance with building and maintenance provisions of Building Act 1993	46
FRD 29	Workforce Data Disclosures	41
FRD 25A	Victorian Industry Participation Policy disclosures	N/A
FRD 22C	Statement on National Competition Policy	46
FRD 22C	Application and operation of the Protected Disclosures Act 2012	97
FRD 22C	Details of consultancies over \$10,000	92
FRD 12A	Disclosure of major contracts	93
FRD 24C	Reporting of office-based environmental impacts	88
FRD 22C	Statement of availability of other information	95
FRD 10	Disclosure Index	95
FRD 8B	Budget portfolio outcomes	N/A
FRD 8B	Risk management framework attestation	44
SD 4.2 (g)	Specific information requirements	11
SD 4.2 (g)	Sign-off requirements	3
<b>FINANCIAL STATEMENTS REQUIRED UNDER PART 7 OF THE FMA</b>		
SD 4.2 (b)	Operating Statement	52
SD 4.2 (b)	Balance Sheet	53
SD 4.2 (a)	Statement of changes in equity	54
SD 4.2 (b)	Cash Flow Statement	55
<b>OTHER REQUIREMENTS UNDER STANDING DIRECTIONS 4.2</b>		
SD 4.2 (c)	Accountable officer's declaration	
SD 4.2 (c)	Compliance with Ministerial Directions	
SD 4.2 (d)	Rounding of amounts	
SD 4.2 (c)	Compliance with Australian accounting standards and other authoritative pronouncements	
<b>OTHER DISCLOSURES AS REQUIRED BY FRDS IN NOTES TO THE FINANCIAL STATEMENTS</b>		
FRD 13	Disclosure of parliamentary appropriations	N/A
FRD 9A	Departmental disclosure of administered assets and liabilities	59
FRD 11	Disclosure of ex-gratia payments	N/A
FRD 21B	Responsible persons and executive officer disclosures	75
FRD 23	Superannuation liabilities and disclosure	76

## 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 2015-16.

## APPENDIX M

### APPEALS

No appeals were lodged by the Commission under section 55 of the *Essential Services Commission Act 2001* during 2015-16.



**ESSENTIAL SERVICES COMMISSION**

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Melbourne Victoria 3000

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**Facsimile** 61 3 9032 1301

**Email** [reception@esc.vic.gov.au](mailto:reception@esc.vic.gov.au)

**[www.esc.vic.gov.au](http://www.esc.vic.gov.au)**

**BUSINESS HOURS**

8.30am to 5.00pm  
Monday to Friday