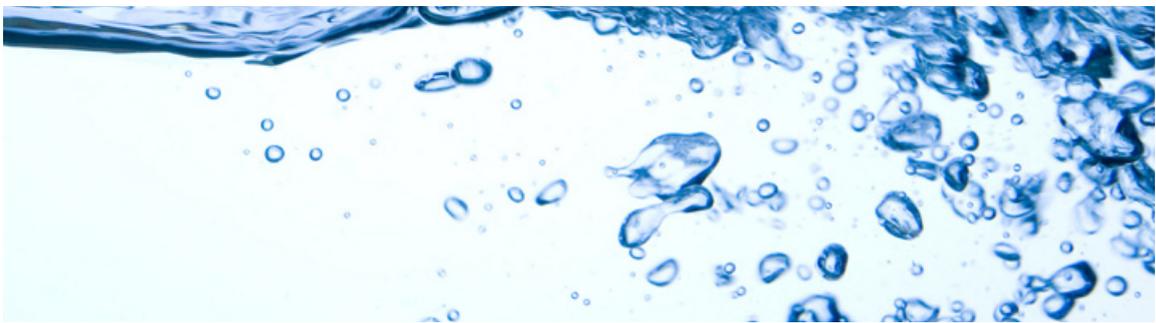


Annual Report 2010/11





Annual Report 2010/11



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Chairperson

Dr Ron Ben-David

Commissioners

Mr Tony Darvall AM
Mr Dennis Cavagna

Senior staff

Chief Executive Officer
– David Heeps
Director, Regulation
(Local Government and Water)
– Andrew Chow
Director, Regulation (Energy)
– Jeff Cefai
Director, Regulation (Transport and Industry Sectors)
– Steve Martin#
Legal Counsel & Secretary
– John Henry
Chief Financial Officer
– Tony Mastroianni

Took up position of Director, Transport and Industry Sectors on 8 August 2011.

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8 September 2011

The Hon Robert Clark MP
Minister for Finance
121 Exhibition Street
Melbourne Vic 3000

Dear Minister

ESSENTIAL SERVICES COMMISSION ANNUAL REPORT 2010-11

We are pleased to present you the Essential Services Commission's Annual Report for 2010-11.

The Annual Report has been prepared in accordance with Part 7 of the *Financial Management Act 1994* and as required by section 31 of the *Essential Services Commission Act 2001*. It also satisfies the requirements of regulation 9 of the Essential Services Commission Regulations.

During 2010-11, the Commission completed a range of regulatory projects across the energy, water and transport industry sectors.

In addition, it continued to strengthen its administration of the Victorian Energy Efficiency Target scheme.

The Commission also continued its advisory work in areas outside utility regulation, including local government performance monitoring and domestic building insurance, and added a new project, that of a review of Vocational Education and Training fee and funding arrangements.

We place on record our appreciation to the Commission's staff in delivering a comprehensive and challenging regulatory, administrative and advisory program throughout 2010-11.

Yours sincerely



DR RON BEN-DAVID
Chairperson



TONY DARVALL AM
Commissioner



DENNIS CAVAGNA
Commissioner

Highlights of 2010-11

Completed a regulatory review to accommodate the rollout of the advanced metering infrastructure (smart meters) for electricity customers in Victoria

Expanded the Your Choice website to provide information to assist electricity and gas customers in accessing the retail energy market

Commissioned a major report into the response of energy and water retailers to customers in financial hardship

Commenced the development of a code of practice for the treatment and disposal of trade waste by water customers in Victoria

Released to Victorian municipal councils a pilot report into local government services offered in Victoria

Reviewed the rail access arrangements for the Melbourne metropolitan rail network

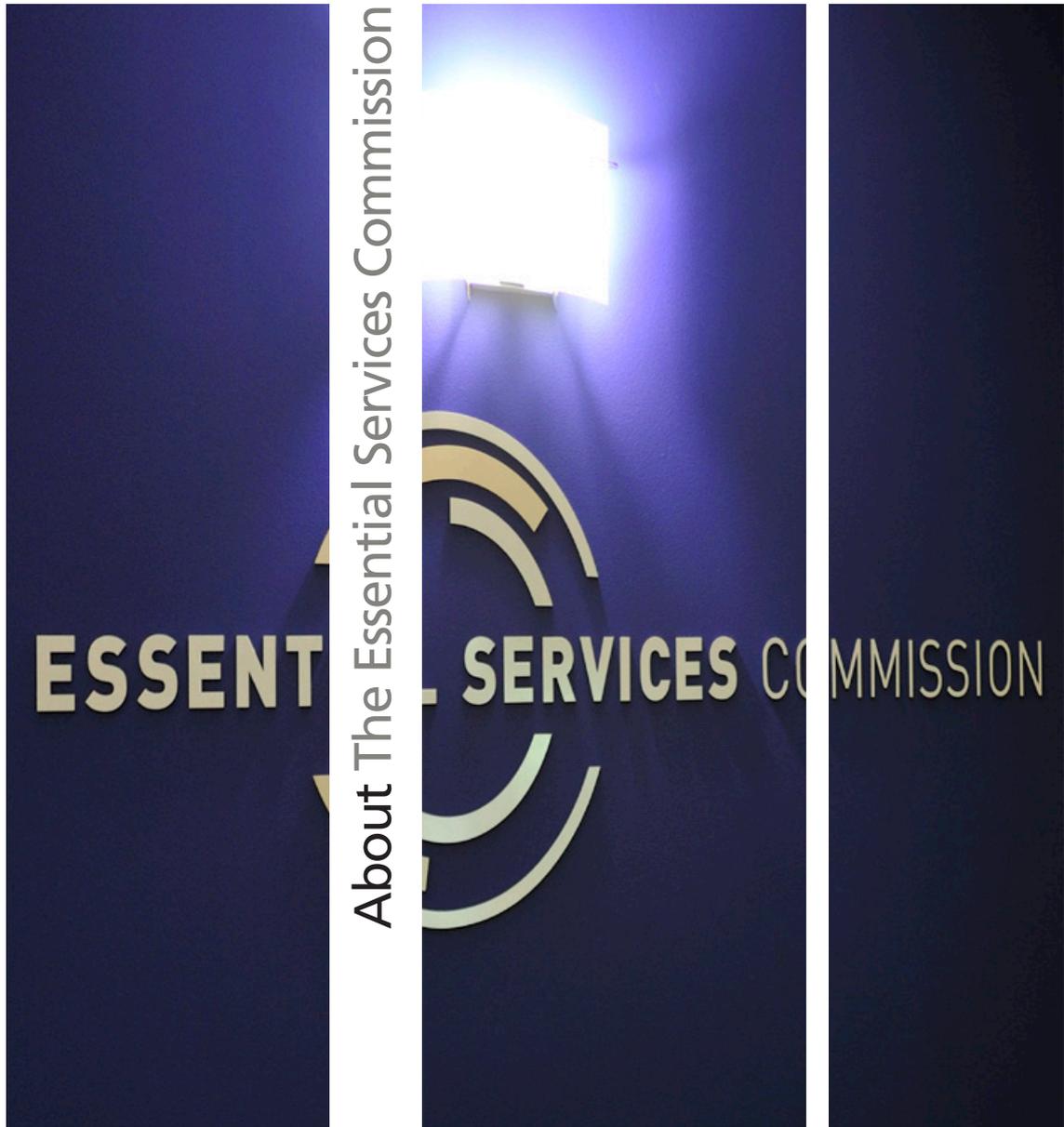
Commenced a review into the effectiveness of fee and funding arrangements for the delivery of Vocational Education and Training

Released reports into the annual performance of the water, retail electricity and gas, ports and domestic building industry sectors.

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“For the 2010-11 year, the primary objective of the Commission was to ‘promote the long-term interests of Victorian consumers with regard to the price, quality and reliability of essential services’.”

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

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

At 30 June 2011, the industries regulated by the Commission were electricity, gas, water, ports and rail freight.

Why the Commission was established

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

Objectives of the Commission

For the 2010-11 year, the primary objective of the Commission was 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 had regard in seeking to achieve its objectives for the 2010-11 year were the:

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

Functions of the Commission

The functions of the Commission, as expressed in the Act, for the 2010-11 year were:

- to perform such functions as are conferred on the Commission by the Act and the relevant legislation under which a regulated industry operates
- to advise the Minister for Finance on matters relating to economic regulation, including reliability issues
- when requested by the Minister to do so, to conduct an inquiry into any systemic reliability of supply issues related to a regulated industry or other essential service specified by the Minister in the request
- to conduct inquiries and report on matters relating to regulated industries
- to make recommendations to the Minister as to whether an industry that provides an essential service should become a regulated industry or whether a regulated industry should continue to be a regulated industry
- to conduct public education programs for the purpose of promoting its objectives under the Act and the relevant legislation and in relation to significant changes in the regulation of a regulated industry
- to advise the Minister on any other matter referred to the Commission by the Minister
- to administer the Act
- to perform the functions conferred on the Commission by or under Part VI of the *Transport Act 1983*.
- To perform the functions conferred on the Commission by or under the *Victorian Energy Efficiency Target Act 2007*.

In addition to these objectives and functions, the Commission has objectives and functions conferred by industry-specific legislation. The industry-specific legislation includes: the *Electricity Industry Act 2000*, the *Gas Industry Act 2001*, the *Water Industry Act 1994*, the *Rail Corporations Act 1996* and the *Port Services Act 1995*.

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

The Regulated Electricity Industry

- To promote a consistent regulatory approach between the electricity industry and the gas industry.

- To promote the development of full retail competition.

The Regulated Gas Industry

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

The Regulated Water Industry

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

The Regulated Rail Industry

- To ensure that users have fair and reasonable access to declared rail transport services.
- To promote competition in rail transport services to achieve an increase in the use of, and investment in, rail and track infrastructure.

The Regulated Ports Services

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

Transport References

- Under section 186 of the *Transport (Compliance and Miscellaneous) Act 1983*, the Minister for Transport may refer matters for investigation to the Commission relating to licence fees for hire car licences or special purpose vehicle licences; taxi-cab fares or hiring rates; or tow truck charges.

Energy Efficiency

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

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

Performing the Commission's Functions

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

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

The ESC's Organisational Structure

The ESC is structured as a Commission comprising a Chairperson and two part-time Commissioners, supported by about 70 staff led by a Chief Executive Officer.

The Chairperson: Appointment and Qualifications

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

Dr Ron Ben-David joined the Victorian public service in 1998 as a policy officer in the Department of Treasury and Finance. He later moved to the Department of Premier and Cabinet and was appointed Deputy Secretary in 2004. He served as a project director for the *Latrobe Valley Ministerial Taskforce* (2001) and *Leading the Way: An economic action plan for Victoria* (2004). Dr Ben-David was responsible for establishing Victoria's Office of Climate Change in 2007 and in 2008 he led the joint secretariat for the Garnaut Climate Change

Review. During this time he was seconded to the Commonwealth's Department of Climate Change. He took up the position of Chairperson of the Essential Services Commission in February 2009. Dr Ben-David is a Fellow of the Institute of Public Administration Australia (Vic.)

Commissioners

The Governor-in-Council may appoint persons as Commissioners who are qualified for appointment on the basis of their knowledge of, or experience in, industry, commerce, economics, law and/or public administration. Mr Tony Darvall was appointed to the Commission in October 2006 and Mr Dennis Cavagna was appointed to the Commission in November 2007; both are serving five-year terms.

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

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

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

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

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

Chief Executive Officer

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

Mr Heeps was appointed Chief Executive Officer in February 2010. His appointment followed 10 years at City West Water with roles in corporate planning, pricing, government liaison and regulatory compliance. Prior to City West Water he worked for six years in the Victorian Government on both federal and state-wide water resources issues, and later headed a group supporting the relevant Ministers in their role of over-viewing the performance of the various water businesses in the State. He worked in various roles over 16 years in the Melbourne Metropolitan Board of Works and spent three years as a research fellow at Monash University. He holds qualifications in corporate governance with the Australian Institute of Company Directors and Chartered Secretaries Australia.

Senior Administrative Structure

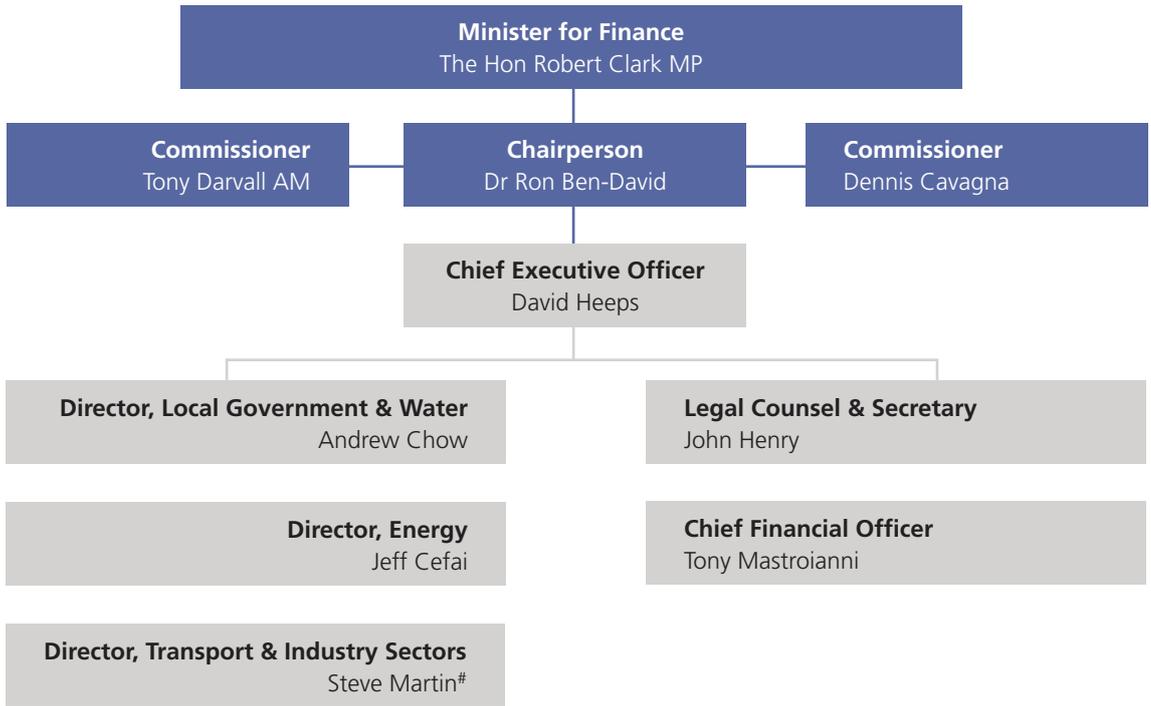
The Commission's organisational structure (as at 30 June 2011) and senior management team are set out on page 10.

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

In addition to its staff, specialist contractors and consultants experienced in providing analysis and advice on technical, economic and legal regulatory matters also support the Commission on an as-needs basis.

Annual Report of the Essential Services Commission

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



Appointed 8 August 2011; all others as at 30 June 2011





I am pleased to report on another year of progress and achievement for the Essential Services Commission in 2010-11.

During the year, the Commission undertook a range of diverse regulatory and advisory

projects in the retail energy, water, transport and statutory insurance sectors.

In addition, it consolidated its function as the administrator of the Victorian Energy Efficiency Target scheme and developed a pilot report to demonstrate a statewide performance monitoring framework for local government.

Significantly, the Commission continued to extend its expertise into new areas of government service delivery. In April 2011, it received terms of reference from the Victorian Government to undertake a review into Vocational Education and Training fee and funding arrangements.

In late 2010, the administrative responsibility for the Victorian Renewable Energy Target scheme was transferred from the Commission to the Federal Office of the Renewable Energy Regulator.

It is proposed that regulatory responsibility for the Victorian retail electricity and gas industry will transition to the Australian Energy Regulator from 1 July 2012.

In 2010-11, the Commission expanded its *Your Choice* website to assist and inform customers in choosing an energy retailer, while reinforcing to energy retailers their regulatory obligations in marketing electricity and gas offers to customers.

The Victorian Government announced in June 2011 that the Victorian Energy Efficiency Target scheme would be expanded to a target of 5.4 million energy efficiency certificates created each calendar year. In addition, the Government will extend the existing scheme from households to the small to medium sized business sector. The Commission anticipates a small increase in staff numbers and resources to handle additional administrative and compliance tasks.

The Commission developed a framework for local government performance monitoring, releasing a pilot report to the sector and concluded a review of opportunities for streamlining of reporting requirements imposed on municipal councils.

In the water sector, the Commission continued preparing for its new role as the regulator of trade waste management by developing a customer service code for trade waste customers.

It also issued an amended water customer service code to include a new hardship-related guaranteed service level measure and released a guideline on new customer contributions, also known as developer charges.

To prepare for the next review of water prices that will take effect in July 2013, the Commission also held stakeholder seminars on customer service standards and tariff structures.

During 2010-11, the Commission undertook a significant project in assessing energy and water retailers' responses to dealing with customers in financial hardship, commissioning a major report that surveyed 53 regional and metropolitan customers in hardship. The report will inform and guide the Commission in its application of various codes and guidelines in the retail energy and water sectors.

In the rail sector, the Commission approved an application by V/Line to amend its rail access arrangement and received in March 2011 an application by Metro Trains Melbourne to renew its access arrangement for the metropolitan rail network.

The Commission also released in June 2011 a report into the performance of Victoria's domestic building insurance scheme.

In conducting its work program for 2010-11, the Commission consulted widely with consumer and industry advocates, State government agencies, local government and providers of essential services.

I thank my fellow Commissioners, Tony Darvall, who retires after his five-year term concludes in September 2011, and Dennis Cavagna, for their counsel and contributions to the Commission's decision-making.

Finally, I thank and commend all staff members of the Commission for their application and diligence in conducting and delivering a diverse work program in 2010-11.

Dr Ron Ben David Chairperson 2010-11

Review of organisation and operations - CEO



In 2010-11, the Essential Services Commission spent \$14.2 million to achieve its forecast outputs.

Maintaining effective corporate governance practices continues to be a major priority

for the Commission. There were 40 Commission meetings and 12 Board meetings during the financial year.

Three internal audits were conducted of the Commission's operations, relating to financial control and health checks, budget and forecasting and processes for assessing risk factors in relation to accredited persons in the Victorian Energy Efficiency Target (VEET) scheme.

Recommendations of the internal audits were considered by the Audit and Risk Committee and referred to the Board for implementation throughout the organisation. The list of high, medium and low risks and management strategies was also reviewed during the year. Business continuity documentation was updated and training undertaken.

The Commission continued to review its information technology systems, including a re-tender for the external provision of IT services, and commenced an upgrade of the Commission's external website and an enhanced VEET processing register.

A total of six internal policies and procedures were reviewed and updated during the year.

The Commission held four Customer Consultative Committee meetings in 2010-11, with many more held on matter-specific issues with selected committee members. In addition, the Commission held three public forums and received more than 140 submissions on its various inquiries and reviews.

A new Director of Energy was appointed during the year, and a new Director of Transport and Industry Sectors was appointed just after year-end. All departing staff were interviewed to identify management and retention improvements.

There were no occupational health and safety claims incidents reported during the year. First-aid training, offered by the St John Ambulance, was also offered and held on site.

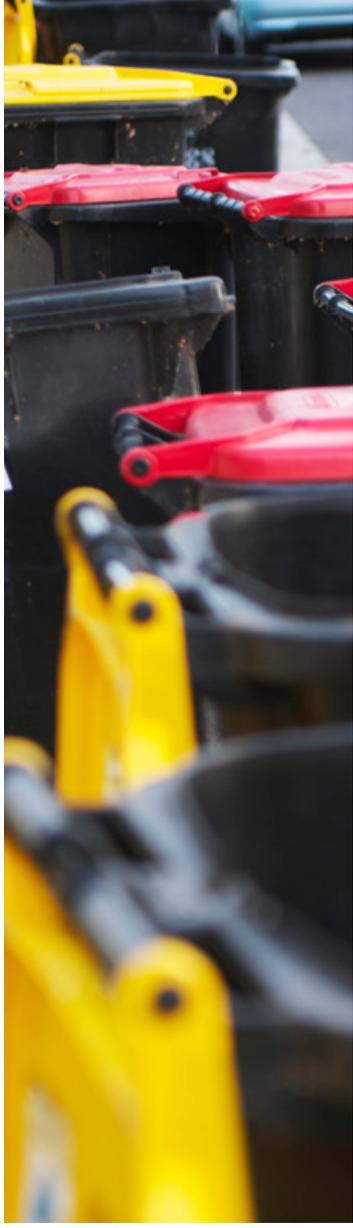
On a sad note, the Commission notes the passing of two valued staff members, Trish Stavridis and Fiona McKenzie. Trish was the Commission's longest-serving employee, having started as executive assistant to the then newly-created position of Regulator-General in 1994; she died after a short illness in August 2011. Fiona, who worked in the energy licensing area, died suddenly in September 2010. The Commission pays tribute to the contributions of Trish and Fiona, both of whom are greatly missed by their many friends in the Commission and the wider Victorian public service.

In closing, I thank all staff for their dedication and diligence in meeting the challenges through the year.

David Heeps Chief Executive Officer



Commission outcomes 2010-11





1 Energy



“In the energy retail area, the Commission continues to play a major role in informing customers of the competitive market and how to exercise choice of their retailer.”

Energy Regulation

The Essential Services Commission is responsible for the regulation and licensing of retail gas and electricity companies, as well as the licensing of companies in energy generation and distribution. Within the Commission, the Energy division oversees energy regulation and the administration of the Victorian Energy Efficiency Target scheme; in 2010-11 it completed its administration of the Victorian Renewable Energy Target scheme.

On 1 January 2009, responsibility for the economic regulation of the electricity and gas distribution sectors transferred to the national body, the Australian Energy Regulator (AER). The Commission, however, continues to set the non-economic rules for the distribution businesses and therefore continues to work co-operatively and closely with the AER.

In 2010-11, the Energy division undertook a number of important projects on smart meters. These projects involved the distribution network businesses (which own the poles, wires and meters) and energy retailers. The Commission consulted extensively with industry and consumer groups in this process. It also liaised closely with the Department of Primary Industries (DPI), which maintains policy responsibility for energy matters.

In the energy retail area, the Commission continues to play a major role in informing customers of the competitive market and how to exercise choice of their retailer. Through the 'Your Choice' initiative, the Commission provided advice and information to customers via the internet and through a dedicated 1300 telephone number. The Commission maintained its focus on market conduct in the energy retail sector, to ensure customers better understood their rights in the marketing of retail energy offers, and to minimise any unacceptable conduct by retailers.

The Commission began a review of the steps retailers must fulfill before disconnecting a customer for non-payment of bills, and retailers' obligations on reconnection of supply. A consultation paper was released to establish the issues and seek comment from industry and consumer representatives.

The Commission continued its close liaison with the Energy and Water Ombudsman (Victoria) and Consumer Affairs Victoria on a range of issues, including door-to-door marketing and wrongful disconnection of electricity and gas supplies.

The Ministerial Council on Energy has agreed to work towards transfer of retail regulation to the AER on 1 July 2012. The Commission has already begun liaising with DPI and the AER to maximise industry benefits through a smooth transition and to ensure vital consumer protections are maintained.

Energy Saver Incentive (Victorian Energy Efficiency Target)

During 2010-11, the Commission continued its administration of the Energy Saver Incentive, under the *Victorian Energy Efficiency Target Act 2007*. The Act requires large electricity and gas retailers to reduce greenhouse gas emissions through energy reduction improvements in homes. The Act sets an annual target of abating 2.7 million tonnes of carbon dioxide equivalent of greenhouse gases. A tradable certificate is created for each tonne of emissions abated.

The target for the first two calendar-year period was reached ahead of schedule, in July 2010. By 30 June 2011, the Commission had registered 6,455,615 certificates overall (1,306,155 in 2010-11).

About 69 percent of certificates registered during the year were for energy efficient lighting and 22 percent for various water heating activities. Lighting remains the dominant activity over the lifetime of the scheme, accounting for about 77 percent of all certificates created.

The Commission maintains a rigorous audit and compliance program and has systems and processes in place which support its assessment of firms applying for accreditation in the scheme and the validity of participants' certificate claims. During 2010-11 the Commission developed additional audit processes focusing on higher risk participants. These processes led to several investigations during the financial year, which resulted in the suspension of three firms' accreditation under the VEET scheme. As at 30 June 2011, there were 82 firms that had become accredited persons in the scheme.

Victorian Renewable Energy Target Scheme

During the first quarter of 2010-11, the Commission completed all remaining administrative tasks required to support the Victorian Government's commitment to transition the Victorian Renewable Energy Target (VRET) scheme legislated under the *Victorian Renewable Energy Target Act 2006* (the Act) to the federal Renewable Energy Target (RET) scheme legislated under the *Renewable Energy (electricity) Amendment Act 2009*. All VRET

participants and any remaining Victorian renewable energy certificates holdings were transitioned to the federal scheme. Victorian certificates were converted on a one-for-one basis, through liaison between the Commission and the federal Office of the Renewable Energy Regulator.

Over the years 2007–2009, the VRET scheme fostered 731,945 MWh of renewable energy generation. The Commission has now completed all its administrative duties under the Act and the VRET scheme is concluded.

Cost

In 2010-11, the estimated cost of energy regulation was \$1.76 million and administration of the energy target schemes, \$4.577 million.



Major Projects Completed and Benefits Generated in 2010-11 Energy Regulation

General Regulation		
Project	Output/Results	Benefits/Impact
Review of regulatory instruments	Publication of Final Decision on the Regulatory Review - Smart Meters	Streamlined regulatory provisions for smart meters. Facilitated their introduction for customers and established consumer protection for smart meter usage.
Review of distributors' performance in 2008-09 heatwave	Provision of a report to the Minister for Energy and Resources on electricity distributors' call centre performance in the 2009 heatwave supply interruptions	Recommended improved call centre performance for better customer service during extreme weather events.
Review of Tariff Assignments with Interval Meters	Ongoing liaison with the Australian Energy Regulator and distributors over tariff assignment for customers with interval meters	Obtained compensation to customers who lost their off-peak tariffs through wrong tariff reassignments by the distributors and retailers.
Assessment of electricity feed-in tariffs	Provision of advice to the Minister for Energy and Resources in relation to feed-in tariffs offered by electricity retailers	Advised government on fair and reasonable contractual terms for customers on general and premium feed-in tariff terms and conditions.
National regulatory framework	Provision of advice to the Department of Primary Industries and other stakeholders on the national framework for regulation of non-price distribution and retail energy services to customers	Assisted with the understanding of the Victorian regulation during the transition to the national framework.
Transition of functions to AER	Liaison with the Australian Energy Regulator and the Victorian Department of Primary Industries on transferring responsibility for energy retail functions.	Providing smooth transition for industry to a single national regulator and preservation of essential consumer protections.
Amend use of system agreements	Clarify business to business arrangements for Premium Feed-In tariffs	Provided certainty to distributors and retailers businesses on payments for Premium Feed-in Tariffs.
Energy switching websites under consideration	Commission initiated consideration of energy provider switching websites, in conjunction with Consumer Affairs Victoria	Sought action to minimise any potential misleading of consumers.
Disconnection / Reconnection	Consultation Paper released to instigate a review of consumer protections prior to customer disconnection and required times for reconnection	Sought to provide businesses and consumers with greater certainty and streamlined requirements to help minimise wrongful disconnections.

Facilitating Competition

Project	Output/Results	Benefits/Impact
Customer education and information	This initiative advises Victorian consumers on how to exercise choice in the competitive energy market. Improvements to the dedicated website, Your Choice, made it easier to compare offers	Helped to ensure that small customers were sufficiently informed to effectively access the competitive energy retail market.
Energy Retail Market Conduct	Conducted meetings in Footscray, Waverley and Ballarat to inform and respond to issues raised by members of the community. Reviewed retailers' processes for marketing to vulnerable customers and for handling complaints	Provided guidance to customers and retailers on the rights and obligations within the competitive retail energy market.
Ceasing certification of exempt activities	Removed administrative burden on exempt embedded network operators to apply for certification of their activities	Eased administrative burden on operators of embedded networks and facilitated transition to national regulator.
PV solar system installation	Information fact sheet and answers to frequently asked questions published, in liaison with Sustainability Victoria	Provided consumers considering installing a photovoltaic solar system with advice on matters they need to consider in making an informed choice.
Consumer hardship	Commissioned a report on energy and water customers' experience of hardship and their interaction with providers	Assisted the Commission to balance business interests with protection of consumers in hardship.

Company Approvals and Reviews

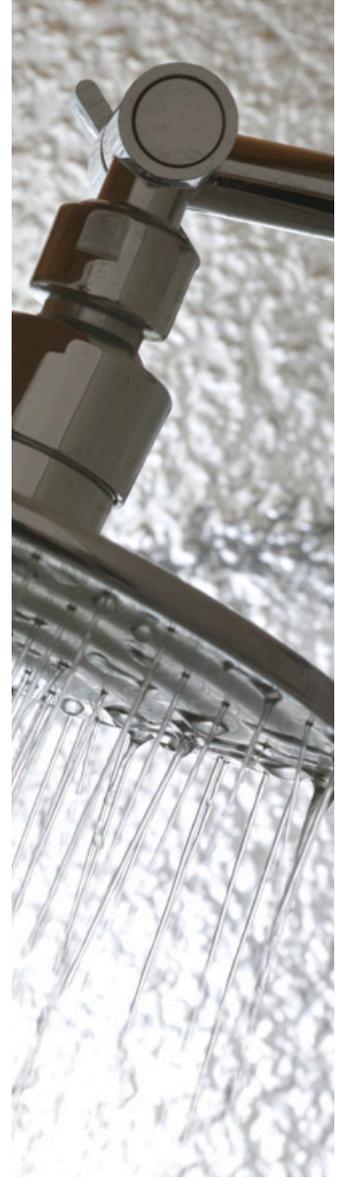
Energy retail audit	Initiated audit program of all active retailers	Ensured retailers were compliant with regulatory obligations to maintain consumers' confidence in the competitive market.
Energy Performance Reporting	2009-10 Financial Year Energy Retail Businesses Comparative Performance Report, including customer service and pricing in the competitive market	Provided information to customers and key parties on the comparative performance of 13 retailers servicing Victoria.

Energy Targets

Project	Output/Results	Benefits/Impact
Victorian Renewable Energy Target (VRET) scheme	Transition to federal expanded Renewable Energy Target (eRET) scheme	Contributed to greater environmental outcomes at national level.
	Victorian Renewable Energy Target Scheme Annual Report 2009	Reported on scheme operation and compliance requirements for the 2009 calendar year.
Victorian Energy Efficiency Target (VEET) scheme	Ongoing administration of the Victorian Energy Efficiency Target (VEET) scheme	Reduced greenhouse gas emissions by promoting more energy-efficient use of electricity and gas, initially in the residential sector.
	Implementation of new VEET scheme prescribed activities and amendments to VEET guidelines and eligible product registers	Provided clarity and certainty in the operation of the VEET scheme to accredited persons and retailers.
	Improvement of VEET registry system	Increased scheme integrity through improved automated data assessment and increased service delivery through streamlined approval processes for industry.
	Victorian Energy Efficiency Target Scheme Performance Report 2009	Reported on scheme operation and compliance for the 2009 calendar year.



2 Local Government and Water



“Water remains a major component of the Commission’s activities, with a number of projects undertaken in 2010-11 related to pricing and customer service.”

Local Government and Water

The Essential Services Commission has had a long-standing role in the water sector and is responsible for the economic regulation of 19 Victorian water businesses that service metropolitan Melbourne and regional urban customers as well as rural (irrigation) customers. The Commission's key areas of responsibility include regulation of prices and service standards, performance reporting and auditing.

In October 2009, the Commission received a terms of reference in relation to the development and implementation of a state wide performance monitoring framework for local government service delivery. The final report, *Establishing a local government services report*, made five recommendations, including a streamlining review of the reporting requirements on local government and a staged implementation of the annual services report, beginning with a pilot report.

Local Government

Local government pilot services report

The Commission submitted the *Victorian local government pilot services report 2009-10* to the Minister for Finance and Minister for Local Government in January 2011, as required by the terms of reference. Thirty-three councils—representing metropolitan, rural, regional centre and interface councils—participated in the pilot report. Councils reported on 12 service indicators and 16 supporting indicators, as well as contextual information. Departments and agencies also assisted the Commission with data, resulting in an extensive trialing of a potential annual reporting framework for local government services.

Water

Water remains a major component of the Commission's activities, with a number of projects undertaken in 2010-11 related to pricing and customer service.

The Commission released the sixth statewide performance report for the metropolitan and regional urban water businesses, reporting on performance in 2009-10. This year's report was revamped and included additional supporting material. It was also released in December 2010, several months earlier than for previous years.

Over 2010-11 the Commission developed a guideline and case studies that relate to the application of new customer contributions. The

guideline and case studies were finalised after an extensive stakeholder consultation process. The purpose of the guideline is to provide stakeholders with greater clarity when applying the pricing principles concerned with new customer contributions. The case studies give stakeholders practical examples of how the pricing principles are applied in certain situations.

Effective from 1 January 2012, the Commission will be the regulator of trade waste management. It prepared for this new role by developing a trade waste customer service code, through an extensive stakeholder consultation program.

It released an amended customer water service code which included a new hardship related guaranteed service level measure (GSL). This followed the release of an issues paper in June 2010, and a stakeholder consultation program undertaken to develop the hardship GSL. In conjunction with this project, the Commission also conducted a review of customers' experiences with their water businesses in dealing with financial hardship.

During the year, the Commission also considered an application from GWMWater (Grampians Wimmera Mallee Water) for a restructuring of its tariffs and accepted new charges linked to the introduction of water trading.

It also commenced the preparation for the next price review, convening two seminars for the water industry and key stakeholders to discuss urban water tariff structures and service standards. Progressing the price review will become the main focus of the work program in the 2011-12 year.

Other activities in the Commission's 2010-11 work program included:

- Annual (CPI linked) tariff approvals for all water businesses
- Completion of regulatory audits for all water businesses
- Preparation for ACCC accreditation for price regulation of rural water businesses in the Murray-Darling Basin.

Cost

The estimated cost of the Commission's inquiry work in local government was \$1.669 million.

The cost of regulation of the Victorian water industry in 2010-11 was \$3.094 million.

Major Projects Completed and Benefits Generated in 2010-11

Local Government and Water

Project	Output/Results	Benefits/Impact
Local government pilot services report	<p>Completion and submission of the <i>Victorian local government pilot services report 2009-10</i></p> <p>Completion of the <i>Annual services report handbook</i></p>	<p>Enhanced accountability and transparency of information on local government service delivery. Provides a consistent basis for identifying sector-wide trends in service delivery (each year and across time); improving the level of community understanding about the role of local government in delivering services; stimulating greater engagement between communities and their councils. The handbook provides guidance to councils regarding the provision of data for the reporting process.</p>
Development of new customer contribution (NCC) guidelines	The Commission released a guideline and set of case studies that relate to new customer contributions	Provided clarity to stakeholders when applying the pricing principles that were concerned with new customer contributions.
Development of a trade waste customer service code	Scoping paper and draft code completed. Stakeholder consultation process involved formal submissions and establishing a working group to inform the development of the draft code	Provided water businesses with a consistent, transparent and timely decision making approach to trade waste management throughout Victoria.
Development of a hardship-related guaranteed service level (GSL) measure	Amended Customer Service Code released with inclusion of a new hardship-related GSL	Provided an additional incentive for water businesses to provide assistance to customers in hardship.
Review of customer hardship experiences	Customer review conducted and report prepared and released to water businesses	Improved understanding of treatment of customers with financial difficulty, and identified opportunities for water businesses to improve their systems and processes for supporting these customers.



GWMWater application for tariff restructuring	Decision paper released on the Commission's website in June 2011. Changes to urban tariffs approved from 1 July 2011. The Commission accepted the application to introduce charges linked to the introduction of water trading	Provided ongoing rebalancing of GWMWater prices to better reflect cost of service delivery. Facilitated trading of water to better optimise water use.
ACCC accreditation for price regulation of rural water businesses in the Murray Darling Basin	Made submission to the ACCC's consultation on draft Pricing Principles to apply to Victorian rural water businesses to better reflect the needs of Victorian water users in the principles. The Commission's suggestions were accepted by the ACCC. Worked with the Department of Sustainability and Environment to ensure all legal matters are resolved to enable accreditation	Improved regulation of Victorian rural water businesses through more relevant and appropriate regulatory principles. Increased the likelihood of accreditation of the Commission, which will provide for continuity of regulation in Victoria.
Preparation for next price review	Conducted two seminars for water businesses on Urban Tariff Structure and Service Standards	Improved water sector knowledge and discussion of the central elements of the price review: price and service. The seminars brought together interested parties and presented a wide range of views, for testing in wider consultation.
Annual tariff approvals	Tariff proposals for 19 water businesses approved when assessed against price determinations	Approved prices consistent with pre-determined outcomes of price determination.
Regulatory audits	Audit of urban and rural water businesses for compliance with reporting requirements	Demonstrated high level of compliance with customer service obligations. Demonstrated accuracy of reporting performance data.
Performance monitoring and reporting	Release of performance report for metropolitan and regional urban water businesses. The 2009-10 report was revamped and released earlier than usual, in December	Enhanced accountability and transparency of information on water industry performance. Provided consistent basis for assessing performance across businesses. Encouraged competition by comparison of performance over time to benefit customers.



3 Transport and Industry Sectors



“A major role in the delivery of a range of transport services ...and in other significant areas of government service delivery.”

Transport and Industry Sectors

The Transport and Industry Sectors Group is responsible for administering the Commission's regulatory functions in the ports, rail, taxi and accident towing sectors, as well as undertaking reviews for various Ministers on issues referred.

The Commission continues to play a major role in the delivery of a range of transport services in Victoria, while extending into other significant areas of government service delivery.

Ports

- In March 2011, the Commission released its final Ports Monitoring report covering Victoria's four commercial seaports. The price monitoring report presented information on the economic performance of Victoria's commercial ports in 2009-10.
- In 2010-11, the Commission implemented its Ports Price Monitoring Determination for the new ports regulatory period 2010–2015 to give effect to the Government's decision to accept the Commission's recommendation to deregulate Victoria's regional commercial ports (Hastings, Geelong and Portland) but to continue to monitor prescribed services at the Port of Melbourne. The Commission is to prepare an Information Notice for the Port of Melbourne that sets out the information the Commission will require in order to monitor the Port of Melbourne's prescribed services.

Rail access

- In April 2011, the Commission began its assessment of the Metro Trains Melbourne (Metro) access arrangement. Metro is the operator and access provider for the Melbourne metropolitan rail network and is required to submit an access arrangement to the Commission for approval. The Commission released its draft decision on Metro's access arrangement in June 2011.

Industry sectors

- In 2010-11, the Commission continued its work in reporting on the performance of the State's domestic building insurance scheme, and in April 2011 received an important new reference from the Victorian Government to review the effectiveness of fee and funding arrangements for the Vocational Education and Training sector.

Cost

The estimated costs of the Commission's Regulatory Operations in 2010-11 in relation to the Transport and Industry Sectors Group were:

Industry	Estimated cost
Rail industry	\$0.236 million
Ports services industry	\$0.196 million
Other references and advice	\$2.670 million

Major Projects Completed and Benefits Generated in 2010-11

Transport and Industry Sectors

Project	Output/Results	Benefits/Impact
Rail Access Arrangements	Assessed Metro's access arrangement that applies to the Melbourne metropolitan rail network	Promoted competition in the above rail freight market and provides certainty as to the terms and conditions of access for parties seeking access to metropolitan rail infrastructure services.
Ports Monitoring	Ports monitoring report for 2009-10	Provided information to port users about prices and industry conduct and performance.
Ports Complaints	Investigation of complaints from port users	Clarified the application of regulation and provides assistance in resolving disputes relating to prices and terms and conditions of access.
Implementing the Ports Monitoring Determination for the 2010–15 regulatory period.	Develop a new Information Notice to be issued to Port of Melbourne to allow the Commission to collect information to monitor the port's prescribed services	Facilitated commercial negotiation and competition by making information publicly available that would be relevant to port industry participants, for example, when negotiating the terms and conditions of obtaining access to prescribed services.
Domestic Building Insurance	Report on the performance of Victoria's domestic building insurance scheme	Provided information about prices and industry conduct and performance from 2008 to 2010.
Vocational Education and Training	Commenced review into the fee and funding arrangements for the vocational education and training sector in Victoria	Provide advice to Government on the effectiveness of fee and funding arrangements.





Corporate Services



Economic and Regulatory Services

Key Government Outcomes

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

Description of the Output Group

Regulation of utilities in Victoria.

Output Performance 2010-11

The Commission budget for 2010-11 was prepared on an output budgeting basis in accordance with Victorian Government standards. The following is a brief report on output targets set for 2010-11:

Major outputs/Deliverables performance measures			
	Unit of measure	2010-11 target	2010-11 actual
Quantity			
Regular services			
Company performance reviews and audits	Number	80	107
New or revised regulatory instruments	Number	0	3
Industry performance reports	Number	4	7
Price approvals/reviews	Number	19	19
Reviews, investigations or advisory projects	Number	2	12
Registrations, accreditations, decisions/approvals	Number	300	524
Quality			
Regulatory decisions upheld	Per cent	100	100
Timelines			
Statutory deadlines met for major projects	Per cent	100	100
Cost			
Total output cost*	\$million#	\$15.3	\$14.2

*Refer Department of Treasury and Finance, 2011-2012 *Budget Paper No. 3*.

Excludes DTF overheads.

Output Targets 2011-12

For 2011-12 output targets are as follows:

Description of the Output Group

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

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

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

Major outputs/Deliverables performance measures

Economic regulatory service	Unit of measure	2011-12 target
Quantity		
Regular services		
Company Performance Reviews and Audits	Number	93
New or revised regulatory instruments	Number	2
Industry Performance Reports	Number	3
Price approvals	Number	22
Reviews, investigations or advisory projects	Number	6
Registration and accreditation decisions/approvals	Number	400
Quality		
Decisions upheld where subject to review, appeal or disallowance	Per cent	100
Timelines		
Deadlines met for major milestones	Per cent	100
Cost		
Total output cost	\$million	\$15.2

Workforce data by division

Total employment^ as at 30 June 2011 (By division):

Transport and industry sectors	12
Energy division	26
Water division	10
Local government division	10
Corporate and operations*	13
Total	71

* Excluding the Commissioners, outsourced services and contractors.

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

Workforce data staffing trends

Year at 30 June	Head count	FTE
2004	58	55
2005	63	61
2006	62	61
2007	71	69
2008	66	66
2009	56	54
2010	77	75
2011	74	71

	Ongoing employees			Fixed term & casual	
	Employee headcount	Full time headcount	Part time headcount	FTE	FTE
Jun 2011	66	61	5	64.64	6.08
Jun 2010	70	66	4	68.64	7.39
	2011			2010	
	Ongoing		Fixed term & casual	Fixed term & casual	
	Employee headcount	FTE	FTE	Employee headcount	FTE
Gender					
Female	30	28.64	3.00	34	4.39
Male	36	36.00	5.00	36	3.00
Age					
Under 25	8	8	0.58	8	0.10
25-34	19	18.84	0.6	21	1.8
35-44	25	23.80	3	23	1
45-54	9	9	1.0	12	2.49
55-64	3	3	0.4	4	1.5
Over 64	2	2	0.5	2	0.5
Total	66	64.64	6.08	70	7.39
Classification					
VPS1	0	0	0	0	0
VPS2	5	5	1	4	1
VPS3	13	13	0	13	0
VPS4	15	14.6	0.6	18	0.8
VPS5	14	13.24	0	15	0
VPS6	11	10.8	0	11	0
STS	2	2	0	2	0
SRM	3	3	2	3	0
Executives	3	3	0	4	0
Casual	0	0	0.58	0	3.59
Other commissioners	0	0	1.9	0	2
Total	66	64.64	6.08	70	7.39

Notes: SRM is a Senior Regulatory Manager. 'Other' refers to the Essential Services Commission's statutory appointees.

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	2	-1	2	-1	0	0
Total	3	-1	3	-1	0	0

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

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

Table 3: Reconciliation of executive numbers

		2011	2010
Executives with remuneration over \$100,000 (Refer to note 11)		3	4
<i>Add</i>	Vacancies (table 2)	1	0
	Executives employed with total remuneration below \$100,000	0	0
	Accountable Officer* (Secretary)	1	1
<i>Less</i>	Separations	1	1
Total executive numbers at 30 June 2011		4	4

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

Merit and Equity

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

Reporting under directions of the Commissioner for public employment*

Commissioner's direction	Performance indicator	2010-11 response
Selecting on Merit. Decisions made to exempt vacancies from advertisement	Number of decisions	0
Reviewing Personal Grievances. Finalisation of individual grievance reviews	Number of grievances finalised	0
Managing and Valuing Diversity Outcomes of diversity and EEO initiatives	Barriers to employment and enhancement in productivity removed	No barriers to employment and enhancement in productivity identified.
Upholding Public Sector Conduct Implementation and expansion of Code of Conduct	Measures taken to uphold principles of public sector conduct	Victorian Public Service Code of Conduct is applied.

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

Occupational Health and Safety

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

Private Interest Declarations

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

WorkCover

WorkCover statistics	2009-10	2010-11
Claims during the year	0	0

Employee Relations

No employee time was lost in 2010-11 due to industrial disputes.

Corporate Governance

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

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

management of resources, monitoring of project activity and overseeing compliance with corporate governance. The board meets monthly, and met 12 times during 2010-11.

The Commission also operates under its own Corporate Governance Statement. This statement also outlines the role of the Commission's Audit and Risk Management Committee, which in 2010-11 comprised the two part-time Commissioners (Mr Tony Darvall and Mr Dennis Cavagna) and one external appointment, an accountant (Mr Ian Cuthbertson). 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 committee reviews and provides recommendations to the Commission on the adequacy of the processes for identifying and managing significant risks. It also provides a direct link between the Commission and the internal and external auditors, and enables any concerns

of the auditors to be conveyed to the Commission independently of management.

In 2010-11 the committee met four times, with meetings attended by all committee members.

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

I, Ron Ben-David, certify that the Essential Services Commission has risk management processes in place consistent with the Australian/New Zealand Risk Management Standard (ISO 31000:2009) and an internal control system is in place that enables the executive to understand, manage and satisfactorily control risk exposures. The Essential Services Commission verifies this assurance and that the risk profile of the Essential Services Commission has been critically reviewed within the last 12 months.



Ron Ben-David
Chairperson
Essential Services Commission

Memoranda of Understanding

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

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

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

In 2010-11, Memoranda of Understanding were held with the following organisations:

- Department of Human Services
- Emergency Services Commissioner

- Energy and Water Ombudsman (Victoria) Limited (EWOV)*
- Environment Protection Authority (EPA Victoria)
- Marine Safety Victoria
- Energy Safe Victoria
- Port of Melbourne Corporation*
- Victorian Regional Channels Authority
- Victorian WorkCover Authority
- Consumer Affairs Victoria
- Sustainability Victoria

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

Information Technology

Information technology plays an integral role in the records management, internal work processes and stakeholder strategies of the Essential Services Commission.

During 2010-11, the Commission reviewed and upgraded the Lotus Notes network and Trim Context records management system, and also commenced the enhancement of the Victorian Energy Efficiency target (VEET) scheme on-line registry, as well as an upgrade of the Commission's website.

In addition, the Commission significantly upgraded its dedicated Your Choice website for retail energy customers.

An Information Communication Technology (ICT) Committee operates within senior management to provide guidance on governance issues and risk management across a range of IT projects undertaken by the Commission.

Sponsored Committees

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

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

statements of government policy.

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

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

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

In March 2011, the Committee held its quarterly meeting in Geelong, with the other three quarterly meetings held at the Commission's offices in Melbourne.

During 2010-11, membership of the Committee comprised representatives of the following organisations:

- Australian Industry Group
- Bendigo Bank
- Community Connections
- Consumer Action Law Centre
- Consumer Utilities Advocacy Centre
- Energy and Water Ombudsman (Victoria)
- Financial and Consumer Rights Council
- Kildonan UnitingCare
- Municipal Association of Victoria
- Southern Health

- Tenants Union of Victoria
- Victorian Council of Social Service
- Victorian Employers' Chamber of Commerce and Industry
- Victorian Farmers Federation.

In addition, the Departments of Human Services and Primary Industries, as well as Regional Development Victoria and Consumer Affairs Victoria, are accorded observer status on the Customer Consultative Committee.

Meetings are chaired by the Chief Executive Officer of the Essential Services Commission. Payment of sitting fees and meeting costs to organisations represented on the Customer Consultative Committee totalled \$8915 in 2010-11.

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, the Charter was revised in 2006 and 2009.

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. It is due for revision in late 2012.

Consultation processes

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

Public forums

In total, the Commission held three public forums during 2010-11. All three related to information sessions for the Victorian Energy Efficiency Target scheme, and were held in August and December 2010 and in April 2011.

Submissions

Numbers of submissions to major pricing and other regulatory reviews and activities received during 2010-11 were:

Energy

Premium solar feed-in tariff scheme: Use of System proposed amendments – 3 submissions

Draft Statement of intent to cease issuing certificates of opinion on exempt electrical activities – 11

Smart Meters Regulatory Review: Capacity Control and Verifying Bills: Issues Paper – 15

Smart Meters Regulatory Review: Draft Decision – 19

Water

New Customer Contributions Guideline: Draft Guideline – 13

Melbourne Water's special drainage areas – price review for 2011-12 – 15

Developing a hardship-related guaranteed service level measure – 18

Trade Waste customer service code: draft code – 17

Trade Waste customer service code: scoping paper – 24

Ports

Information Requirements for monitoring Port of Melbourne Corporation – 2

Rail

Metro Trains Melbourne Pty Ltd Access Arrangement Renewal: Issues Paper – 3

Metro Trains Melbourne Pty Ltd Access Arrangement Renewal: Draft Decision – 3

In addition, the Commission's consultation processes included:

- quarterly meetings of the Commission's Customer Consultative Committee
- issue of draft decisions and issues papers for public comment
- consultation with prescribed agencies, under the Commission's Memoranda of Understanding
- inputs from working parties and workshops attended by representatives of community-based groups and industry sectors.

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

Communications and Publications

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

Numerous publications on various matters pertaining to the regulated industries were published and made available publicly in both hard copies and via the Commission's website (refer to Appendix C of this Report). In July 2010, the Commission released its annual work program for the 2010-11 year.

Media liaison continued at a comprehensive level to assist in the communication of Commission information to the general community.

The Commission's website continues to be an effective means of providing information to the community. The website address is <http://www.esc.vic.gov.au>. In 2010-11, the Commission also maintained and upgraded a dedicated website, www.yourchoice.vic.gov.au, to inform and assist customers in accessing the competitive retail energy market.

National Competition Policy

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

Shares

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

Research and Development

No major research and development activities were undertaken by the Commission in 2010-11.

Building Works

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

Five-year financial summary: Controlled activities

Excluding DTF overhead	2010-11 \$m	2009-10 \$m	2008-09 \$m	2007-08 \$m	2006-07 \$m
Income from Government	12,641,789	13,501,800	18,446,700	18,788,999	13,686,000
Total income from transactions	12,641,789	13,501,800	18,448,048	18,788,999	13,686,000
Total expenses from transactions	14,187,002	13,257,872	17,916,121	15,412,686	13,687,445
Net result from transactions	-1,545,213	243,928	533,927	3,375,863	
Net result	-1,539,294	246,142	487,492	3,352,687	(1445)
Net cash flow from operating activities	327,596	642,769	270,858	642,717	108,702
Total assets	9,944,028	11,592,070	11,698,634	10,544,230	7,406,540
Total liabilities	3,739,375	3,848,123	4,200,829	3,534,367	3,749,364

Note: In 2010-11 the Authority reviewed the way it accounts for funding grants received from Victorian government departments to better align with AASB 1004 Contributions. Prior year figures have been adjusted accordingly.

Fees

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

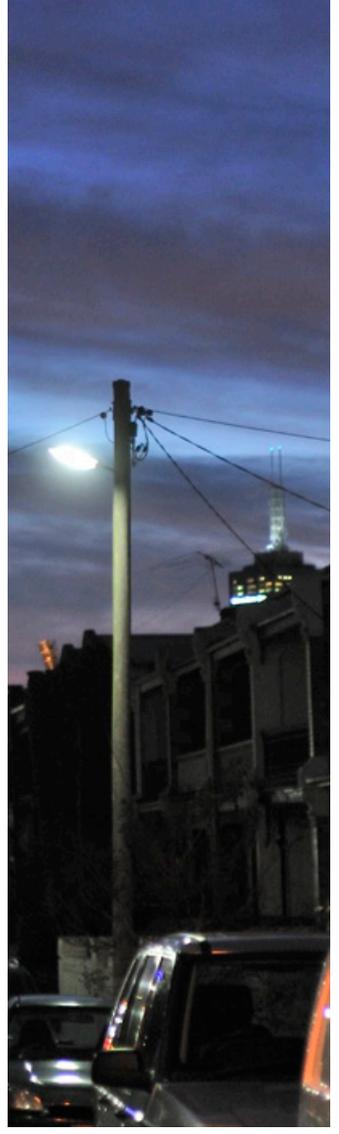
Type of licence	2009-10* \$	Type of licence	2009-10* \$
Electricity industry		Gas industry	
Generation ≤ 200MW	3176	Distribution - Standard	294,706
Generation 200-999 MW	9528	Distribution - New area	0
Generation > 1000 MW	15,879	Restricted retail and retail- (≤ 1000 customers)	7200
Trader	748	Retailer - (1001 - 50,000 customers)	16,103
Transmission - State-wide	38,575	Retailer - (50,001 - 75,000 customers)	32,494
Transmission - Interconnector	19,288	Retailer - (75,001 - 100,000 customers)	0
Distribution	418,159	Retailer - (100,001 - 150,000 customers)	58,328
Restricted retail and retail contestable (≤ 1000 customers)	7200	Retailer - (> 150,000 customers)	209,519
Retail contestable (> 1000 ≤ 50,000 customers)	16,103	Ports Industry	
Retail contestable (>50,001 ≤ 75,000 customers)	32,494	Port - Category 1	97,005
Retail contestable (>75,001 ≤ 100,000 customers)	0	Port - Category 2	1304
Retail contestable (>100,001 ≤ 150,000 customers)	58,328	Port - Category 3	2041
Retail contestable (> 150,000 customers)	209,519	Port - Category 4	1987
		Port - Category 5	648
		Water industry	
		Water and sewerage	2,286,294

Note:

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



Appendices



Appendix A

Financial Statements For the Year Ended 30 June 2011

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Comprehensive operating statement for the year ended 30 June 2011

	Notes	2011 \$	2010 \$
Income from transactions			
Grants	3	12,641,789	13,501,800
Total income from transactions		12,641,789	13,501,800
Expenses from transactions			
Employee benefits	4	8,422,772	7,721,683
Depreciation	4	615,290	466,690
Finance lease interest		5,823	7,795
Capital asset charge	1(f)	234,060	78,576
Supplies and services		4,909,057	4,983,128
Total expenses from transactions		14,187,002	13,257,872
Net result from transactions		(1,545,213)	243,928
Other economic flows included in net result			
Net gain/(loss) on disposal of property, plant and equipment		2,301	7,604
Net gain/(loss) arising from revaluation of long service leave liability		3,618	(5,390)
Total other economic flows included in net results		5,919	2,214
Net result		(1,539,294)	246,142
Other economic flows – Other non-owner changes in equity		-	-
Comprehensive result		(1,539,294)	246,142

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

Balance sheet as at 30 June 2011

	Notes	2011 \$	2010 \$	2009 \$
Financial assets				
Cash on hand		500	500	500
Receivables	5	8,874,821	10,264,543	10,557,855
Total financial assets		8,875,321	10,265,043	10,558,355
Non-financial assets				
Prepayments		35,938	-	-
Property, plant and equipment	6	517,662	1,049,693	1,089,717
Intangible assets	7	515,107	277,334	50,562
Total non-financial assets		1,068,707	1,327,027	1,140,279
Total assets		9,944,028	11,592,070	11,698,634
Liabilities				
Creditors and accruals		1,044,270	1,477,273	2,113,323
Provisions	8	2,600,031	2,266,911	1,986,631
Borrowings	9	95,074	103,939	100,875
Total liabilities		3,739,375	3,848,123	4,200,829
Net assets		6,204,653	7,743,947	7,497,805
Equity				
Contributed capital		873,921	873,921	873,921
Accumulated surplus		5,330,732	6,870,026	6,623,884
Total equity		6,204,653	7,743,947	7,497,805

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

Statement of changes in equity for the year ended 30 June 2011

	Notes	Contributed capital	Accumulated surplus	Total
Balance at 1 July 2009		873,921	6,623,884	7,497,805
Net result for the year			246,142	246,142
Balance at 30 June 2010		873,921	6,870,026	7,743,947
Net result for the year			(1,539,294)	(1,539,294)
Balance at 30 June 2011		873,921	5,330,732	6,204,653

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

Cash flow statement for the year ended 30 June 2011

	Notes	2011 \$	2010 \$
Cash flows from operating activities			
Receipts from government		13,996,364	13,753,605
Payments to suppliers and employees		(13,428,885)	(13,024,465)
Capital asset charge paid		(234,060)	(78,576)
Interest and other finance costs paid		(5,823)	(7,795)
Net cash flows from operating activities	17	327,596	642,769
Cash flows from investing activities			
Payments for property, plant and equipment		(61,626)	(380,336)
Proceeds from sale of property, plant and equipment		17,817	117,091
Payments for intangible assets		(242,223)	(239,092)
Net cash flows used in investing activities		(286,032)	(502,337)
Cash flows from financing activities			
Repayment of finance leases		(41,564)	(140,432)
Net cash flows used in financing activities		(41,564)	(140,432)
Net increase in cash held			
		—	—
Cash at the start of the year		500	500
Cash at the end of the year		500	500

Non-cash financing and investing activities 18

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

Note 1. Summary of significant accounting policies

(a) Statement of compliance

These general purpose financial statements have been prepared in accordance with the Financial Management Act 1994 and applicable Australian Accounting Standards including Interpretations (AASs), 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.

(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.

These financial statements are presented in Australian dollars, the functional and presentation currency of the Commission.

In the application of AASs and the accounting policies set out below, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Judgements made by management in the application of AASs that have significant effects on the financial statements, with a risk of material adjustments in the next year, are disclosed in the notes to the financial statements.

The financial statements have been 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.

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

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

(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 2, 35 Spring Street
Melbourne Victoria 3000

Administered resources

The Commission acts on behalf of the Victorian Government in collecting licence fees administered by the Commission under the *Electricity Industry Act 2000*, the *Gas Industry Act 2001*, the *Water Industry Act 1994* and the *Port Services Act 1995*. These and certain other administered revenues are collected by the Commission but not controlled by it, and are not recognised as revenues/receivables within the body of the financial statements, but are reported as administered revenues/receivables (see note 19). 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 2011 the regulated industries included electricity, gas, water, ports and rail facilities.

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

(d) Scope and presentation of financial statements

Comprehensive operating statement

Income and expenses in the comprehensive operating statement are classified according to whether or not they arise from 'transactions' or 'other economic flows'. 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 (those expected to be recovered or settled beyond 12 months) are disclosed in the notes, where relevant.

Statement of changes in equity

The statement of changes in equity presents reconciliations of each non-owner and owner equity 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 recognised in other comprehensive income related to other non owner changes in equity.

Cash flow statement

Cash flows are classified according to whether they arise from operating, investing, or financing activities. This classification is consistent with requirements under 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 the outputs the Commission provides to Government is recognised as grants income when those outputs have been delivered and the relevant Minister has certified delivery of those outputs in accordance with specified performance criteria.

Resources received free of charge

Contributions of resources received free of charge

or for nominal consideration are recognised at fair value when control is obtained over them, irrespective of whether these contributions are subject to restrictions or conditions over their use. Contributions in the form of services are only recognised when a fair value can be reliably determined and the services would have been purchased if not received as a donation.

(f) Expenses from transactions

Employee benefits

Employee benefits comprise all costs related to employment including superannuation expenses relating to employees who are members of either defined benefit or defined contribution plans. In relation to defined contribution (accumulation) superannuation plans, the associated expense represents the employer contributions that are paid or payable in respect of employees who are members of these plans during the year.

The amount recognised in the comprehensive operating statement in relation to members of defined benefit superannuation plans represents the employer contributions that are paid or payable to these plans during the year.

The level of contributions varies depending on the relevant rules of each plan, and is based upon actuarial advice.

Department of Treasury and Finance centrally recognises, on behalf of the State as the sponsoring employer, the defined benefit liability or surplus of most Victorian government employees in such funds.

Depreciation

All plant and equipment and other non-current physical assets that have finite useful lives are depreciated. Depreciation is generally 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 2011 and 30 June 2010 are as follows:

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

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

Finance lease interest

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

Capital asset charge

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

Resources provided free of charge

Resources provided free of charge or for nominal consideration are recognised at their fair value.

(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.

Net gain/(loss) on non-financial assets

Net gain/(loss) on non-financial assets includes realised and unrealised gains and losses from revaluations, impairments, and disposals of all physical assets and intangible assets.

Disposal of non-financial assets

Any gain or loss on the sale of non-financial assets is recognised at the date that control of the asset is passed to the buyer 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 an other 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.

Net gain/(loss) on financial instruments

Net gain/(loss) on financial instruments includes impairment and reversal of impairment for financial instruments at amortised cost, and disposals of financial assets.

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.

Other gains/(losses) from other economic flows

Other gains/(losses) from other economic flows include the transfer of amounts from reserves and/or accumulated surplus to net result due to reclassification, and from the revaluation of the present value of the long service leave liability due to changes in bond interest rates.

(h) Financial assets

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

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

Receivables

Receivables consist of:

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

Receivables that are contractual are classified as financial instruments. Statutory receivables are not classified as financial instruments.

Receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less impairment.

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

(i) Non-financial assets*Prepayments*

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

Property, plant and equipment

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

The 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.

Revaluation of non-current physical assets

Non-current physical assets are measured at fair value in accordance with Financial Reporting Directions issued by the Minister for Finance. A full revaluation normally occurs every five years, based on the asset's government purpose classification, but may occur more frequently if fair value assessments indicate material changes in values. Independent valuers are used to conduct these scheduled revaluations and any interim revaluations as determined in accordance with the requirements of the Financial Reporting Directions.

Revaluation increments are recognised in other comprehensive income as an increase in the asset revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of asset previously recognised as an expense in the net result, the increment is recognised in determining the net result.

Revaluation decrements are recognised immediately as expenses (other economic flows) in the net result, except that, to the extent that a credit balance exists in the asset revaluation reserve in respect of the same class of assets, they are recognised in other comprehensive income as a decrease in the asset revaluation reserve.

Revaluation increases and revaluation decreases relating to individual assets within a class of property, plant and equipment are offset against one another within that class but are not offset in respect of assets in different classes.

Intangible assets

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

(j) Liabilities*Creditors and accruals*

Creditors and accruals represent liabilities for goods and services provided to the Commission that are unpaid at the end of the financial year. Creditors and accruals are initially measured at fair value, being the cost of the goods and services, and then subsequently measured 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, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

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

Borrowings

Borrowings are recorded initially at fair value, being the cost of the borrowings, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in net result over the period of the borrowings using the effective interest method. Fair value is determined in the manner described in note 9(f).

(k) Leases

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

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

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

to the comprehensive operating statement.

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

(l) Goods and Services Tax (GST)

Income, expenses and assets are recognised net of GST, unless the GST incurred is not recoverable from the Australian Taxation Authority (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 is recoverable from, or payable to, the ATO is classified as operating cash flows.

(m) Contributions by owners

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

(n) Commitments

Commitments are disclosed at their nominal value and inclusive of the GST payable. In addition, where it is considered appropriate and provides additional relevant information to users, the net present values of significant individual projects are stated.

(o) Contingent assets and contingent liabilities

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

(p) New Accounting Standards and Interpretations

As at 30 June 2011, the following standards and interpretations (applicable to the Commission) had been issued but were not mandatory for the 30 June 2011 reporting period. The Commission has not adopted, and does not intend to adopt, these standards early.

AASB 9 *Financial instruments*. This standard simplifies requirements for the classification and measurement of financial assets resulting from Phase 1 of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* (AASB 139 *Financial Instruments: Recognition and Measurement*). Applicable for annual reporting periods beginning on 1 January 2013. Detail of impact is still being assessed.

AASB 124 *Related Party Disclosures* (Dec 2009). Government related entities have been granted partial exemption with certain disclosure requirements. Applicable for annual reporting periods beginning on 1 January 2011. Preliminary assessment suggests the impact is insignificant. However, the Commission is still assessing the detailed impact.

AASB 1053 *Application of Tiers of Australian Accounting Standards*. This standard establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements. Applicable for annual reporting periods beginning on 1 July 2013. The Victorian government is currently considering the impacts of reduced disclosure requirements (RDRs) for certain public sector entities and has not decided if RDRs will be implemented in the Victorian public sector.

AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 and 1038 and Interpretations 10 and 12]. This standard gives effect to consequential changes arising from the issuance of AASB 9. Applicable for annual reporting periods beginning on 1 January 2013. Detail of impact is still being assessed.

AASB 2009-14 *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement* [AASB Interpretation 14]. Applicable for annual reporting periods beginning on 1 January 2011. Expected to have no significant impact.

AASB 2010-2 *Amendments to Australian*

Accounting Standards arising from Reduced Disclosure Requirements. These amendments introduce reduced disclosure requirements for application by certain types of entities. Applicable for annual reporting periods beginning on 1 July 2013. The amendments do not affect financial measurement or recognition and are not expected to have any impact on financial result or position.

AASB 2010-4 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13]. This standard makes improvements designed to enhance the clarity of standards. Applicable for annual reporting periods beginning on 1 January 2011. No significant impact on the financial statements.

AASB 2010-5 *Amendments to Australian Accounting Standards* [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]. These amendments contain editorial corrections to a range of AASs, including amendments to reflect changes made to the text of IFRSs by the IASB. Applicable for annual reporting periods beginning on 1 January 2011. No significant impact on the financial statements.

AASB 2010-6 *Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets* [AASB 1 & AASB 7]. This amendment adds and changes disclosure requirements relating to the transfer of financial assets, including the nature of and risks attached to the financial assets. Applicable for annual reporting periods beginning on 1 July 2011. Detail of impact is still being assessed.

AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9* (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127]. This relates to the introduction of AASB 9 Financial instruments. Applicable for annual reporting periods beginning on 1 January 2013. Detail of impact is still being assessed.

AASB 2010-9 *Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [AASB 1]. This amendment provides guidance for entities emerging from severe hyperinflation who are going to resume presenting Australian Accounting Standards financial statements or entities that are going to present Australian Accounting

Standards financial statements for the first time. It provides relief for first-time adopters from having to reconstruct transactions that occurred before their date of transition to AASs. Applicable for annual reporting periods beginning on 1 July 2011. Amendment unlikely to impact on public sector entities.

AASB 2011-1 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132 & AASB 134 and Interpretations 2, 112 & 113]. This amendment affects multiple AASs and has the objective of increasing alignment with IFRSs and achieving harmonisation between both Australian and New Zealand standards. It achieves this by removing guidance and definitions from some Australian standards without changing their requirements. Applicable for annual reporting periods beginning on 1 July 2011. This amendment will have no significant impact on public sector bodies.

AASB 2011-2 Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements. [AASB 101 & AASB 1054]. The objective of this amendment is to include some additional disclosure from the Trans-Tasman Convergence Project and to reduce disclosure requirements for entities preparing general purpose financial statements under Australian Accounting Standards – Reduced Disclosure Requirements (RDRs). Applicable for annual reporting periods beginning on 1 July 2013. The Victorian government is currently considering the impacts of RDRs and has not decided if they will be implemented in the Victorian public sector.

AASB 2011-3 Amendments to Australian Accounting Standards – Orderly Adoption of Changes to the ABS GFS Manual and Related Amendments [AASB 1049]. This amends AASB 1049 to clarify the definition of the ABS GFS Manual, and to facilitate the adoption of changes to the ABS GFS Manual and related disclosures. Applicable for annual reporting periods beginning on 1 July 2012. This amendment provides clarification to users on the version of the GFS Manual to be used and what to disclose if the latest GFS Manual is not used. There will be no impact on performance measurement.

Note 2. Adjustment to prior period

During the year the Authority reviewed the way it accounts for funding grants received from Victorian government departments to better align with AASB 1004 Contributions.

The impact of this change on the relevant line items in the financial statements of the comparative year is:

	As published 2010 \$	Effect of change 2010 \$	Restated 2010 \$
Comprehensive operating statement			
Grants	13,517,796	(15,996)	13,501,800
Total income from transactions	13,517,796	(15,996)	13,501,800
Net result from transactions	259,924	(15,996)	243,928
Net result	262,138	(15,996)	246,142
Comprehensive result	262,138	(15,996)	246,142
Balance sheet			
Unearned income	3,822,953	(3,822,953)	-
Total liabilities	7,671,076	(3,822,953)	3,848,123
Net assets	3,920,994	3,822,953	7,743,947
Accumulated surplus	3,047,073	3,822,953	6,870,026
Total equity	3,920,994	3,822,953	7,743,947

Note 3. Income from transactions

	2011 \$	2010 \$
Income from transactions includes:		
Grants		
Grants from Department of Treasury and Finance (note 1(c))	12,641,789	11,732,799
Grants from other departments	-	1,769,001
Total grants	12,641,789	13,501,800

Note 4. Expenses from transactions

	2011 \$	2010 \$
Expenses from transactions includes:		
Employee benefits		
Salaries and wages	6,617,923	5,990,781
Superannuation		
- Defined contribution plans	560,596	557,474
- Defined benefit plans	20,665	18,007
Annual and long service leave expense	822,079	769,904
On-costs	401,509	385,517
Total employee benefits	8,422,772	7,721,683
Depreciation		
Leasehold improvements	262,398	289,788
Office and computer equipment	217,069	133,962
Motor vehicles under finance lease	28,821	30,620
Intangible assets	107,002	12,320
Total depreciation	615,290	466,690
Rental expense relating to operating leases		
Minimum lease payments	836,669	855,259

Note 5. Receivables

	2011 \$	2010 \$
Statutory current:		
Amounts receivable from government departments	8,550,062	9,890,886
GST recoverable	70,838	105,986
Total current receivables	8,620,900	9,996,872
Statutory non-current:		
Amounts receivable from government departments	253,921	267,671
Total non-current receivables	253,921	267,671
Total receivables	8,874,821	10,264,543

Note 6. Property, plant and equipment

	2011 \$	2010 \$
Leasehold improvements – at cost	1,922,198	1,922,198
Less: accumulated depreciation	(1,782,463)	(1,520,065)
	139,735	402,133
Office and computer equipment – at cost	1,158,179	1,303,205
Less: accumulated depreciation	(873,736)	(758,751)
	284,443	544,454
Motor vehicles under finance lease – at cost	137,014	134,861
Less: accumulated depreciation	(43,530)	(31,755)
	93,484	103,106
Total property, plant and equipment	517,662	1,049,693

Reconciliation of carrying amounts

Leasehold improvements

Carrying amount at start of the year	402,133	533,842
Additions	-	158,079
Depreciation expense (note 4)	(262,398)	(289,788)
Carrying amount at end of the year	139,735	402,133

Office and computer equipment

Carrying amount at start of the year	544,454	456,158
Additions	61,626	222,258
Disposals	(2,016)	-
Transfer to intangible assets	(102,552)	-
Depreciation expense (note 4)	(217,069)	(133,962)
Carrying amount at end of the year	284,443	544,454

Motor vehicles under finance lease

Carrying amount at start of the year	103,106	99,717
Additions	32,700	143,495
Disposals	(13,501)	(109,486)
Depreciation expense (note 4)	(28,821)	(30,620)
Carrying amount at end of the year	93,484	103,106

Note 7. Intangible assets

	2011	2010
	\$	\$
Capitalised software development - at cost	650,970	289,654
Less: accumulated depreciation	(135,863)	(12,320)
Total intangible assets	515,107	277,334
Reconciliation of carrying amounts		
Carrying amount at the start of the year	277,334	50,562
Additions	242,223	239,092
Transfer from property, plant and equipment	102,552	-
Depreciation expense (note 4)	(107,002)	(12,320)
Carrying amount at the end of the year	515,107	277,334

The depreciation of intangible produced assets is included in the item 'Depreciation' in the comprehensive operating statement.

Note 8. Provisions

	2011	2010
	\$	\$
Current		
Employee benefits		
- Annual leave	645,965	541,764
- Long service leave		
Expected to be paid within 12 months	89,239	88,961
Expected to be paid after 12 months	981,067	814,071
- Performance bonus	192,959	117,564
Restoration costs	436,880	436,880
	2,346,110	1,999,240
Non-current		
Employee benefits		
- Long service leave	253,921	267,671
Total provisions	2,600,031	2,266,911

Note 9. Borrowings

	2011 \$	2010 \$
Secured		
Current		
Finance lease liabilities	60,415	36,109
Secured		
Non-current		
Finance lease liabilities	34,659	67,830
Total borrowings	95,074	103,939

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

Assets pledged as security

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

Motor vehicles under finance lease	93,484	103,106
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Note 10 discloses the maturity analysis of borrowings and the nature and extent of risks arising from borrowings.

Note 10. Financial instruments

(a) Significant accounting policies

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

(b) Categorisation of financial instruments

		Carrying Amount		
	Note	Category	2011	2010
			\$	\$
Financial assets				
Cash on hand		Cash	500	500
Receivables*	5	Loans and receivables	—	—
			500	500
Financial liabilities				
Creditors and accruals		Financial liabilities at amortised cost	1,044,270	1,477,273
Borrowings	9	Financial liabilities at amortised cost	95,074	103,939
Creditors and accruals			1,139,344	1,581,212
Net holding gain/(loss) on financial instruments by category				
Financial assets		Category		
Cash on hand		Cash	—	—
Receivables*		Loans and receivables	—	—
Financial liabilities				
Creditors and accruals		Financial liabilities at amortised cost	—	—
Borrowings		Financial liabilities at amortised cost	(5,823)	(7,795)
			(5,823)	(7,795)

* Receivables disclosed here exclude statutory receivables (i.e. amounts receivables 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 cash equivalents, and trade and other receivables. The Commission's exposure to credit risk arises from the potential default of counter parties 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 nil 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 is no event to indicate that any of the financial assets were impaired.

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

(d) Liquidity risk

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

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

The interest rate exposure and maturity analysis of financial liabilities are set out in Table 1 on this page.

Table 1

	Carrying amount	Nominal amount	Maturity dates *			
			Less than 1 month	1-3 months	3 months – 1 year	1-5 years
	\$	\$	\$	\$	\$	\$
2011						
Creditors and accruals	1,044,270	1,044,270	1,044,270			
Finance lease liabilities	95,074	99,068	29,567	4,645	29,326	35,530
	1,139,344	1,143,338	1,073,837	4,645	29,326	35,530
2010						
Creditors and accruals	1,477,273	1,477,273	1,477,273			
Finance lease liabilities	103,939	113,188	15,813	4,646	20,905	71,824
	1,581,212	1,590,461	1,493,086	4,646	20,905	71,824

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

(e) Market risk

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

Interest rate risk

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

The Commission's exposure to interest rate risk is set out in Table 2 on this page.

Sensitivity disclosure analysis

Taking into account past performance, future expectations, economic forecasts, and management's knowledge and experience of the financial markets, the Commission believes movements in the range of +1.0 per cent and -1.0 per cent in market interest rates (AUD) from year-end rates are reasonably possible over the next 12 months (Base rates are sourced from Treasury Corporation of Victoria):

The impact on net operating result and equity for each category of financial instrument held by the Commission at year-end as presented to key management personnel, if the above movements were to occur, is nil (2010 - nil).

(f) Fair value

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

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

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

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

Table 2

	Weighted average interest rate	Carrying amount	Interest rate exposure		
			Fixed interest rate	Variable interest rate	Non-interest bearing
	%	\$	\$	\$	\$
2011					
Creditors and accruals	-	1,044,270			1,044,270
Finance lease liabilities	6.6	95,074	95,074		
		1,139,344	95,074	-	1,044,270
2010					
Creditors and accruals	-	1,477,273			1,477,273
Finance lease liabilities	6.8	103,939	103,939		
		1,581,212	103,939	-	1,477,273

Note 11. Commitments for expenditure

	2011 \$	2010 \$
Capital commitments		
Plant and equipment, payable:		
Within one year	649,306	
Outsourcing commitments		
Information technology services, payable:		
Within one year	201,000	402,000
Later than one year but not later than five years	-	201,000
	201,000	603,000
Operating lease commitments		
Commitments for minimum lease payments in relation to non-cancellable operating leases, not recognised as liabilities, are payable as follows:		
Within one year	888,913	64,387
Later than 1 year but not later than five years	2,949,652	-
	3,838,565	64,387
Finance lease liabilities		
Liabilities in relation to finance leases are payable as follows:		
Within one year	63,538	41,364
Later than one year but not later than five years	35,530	71,824
Minimum lease payments	99,068	113,188
Less: Future finance charges	(3,994)	(9,249)
Total lease liabilities	95,074	103,939
Shown in the financial statements (note 9) as:		
Current	60,415	36,109
Non-current	34,659	67,830
	95,074	103,939

Note 12. Contingent liabilities and contingent assets

The Essential Services Commission has a contingent asset at 30 June 2011 in relation to the recovery of litigation costs incurred defending licensing requirements and their applicability. The Commission has no contingent liabilities at 30 June 2011.

Note 13. 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. Robert Clark, MP, Minister for Finance (from 2 December 2010) The Hon. Tim Holding, MP, Minister for Finance, WorkCover and the Transport Accident Commission (to 2 December 2010)
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:

\$310,000-\$319,999 (\$290,000-\$299,999 in 2010)

Amounts relating to Ministers are reported in the financial statements of the Department of Premier and Cabinet.

Other transactions

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

Note 14. 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	
	2011 No.	2010 No.	2011 No.	2010 No.
\$90,000 - \$99,999			-	1
\$100,000 - \$109,999	-	1		
\$120,000 - \$129,999			-	1
\$130,000 - \$139,999	-	1		
\$150,000 - \$159,999			1	-
\$160,000 - \$169,999	1	-	-	1
\$170,000 - \$179,999			1	-
\$180,000 - \$189,999	-	2	-	2
\$190,000 - \$199,999	-	1	1	-
\$210,000 - \$219,999	2	-		
\$250,000 - \$259,999	1	-	1	-
Total numbers	4	5	4	5
Total amount (\$)	842,174	816,524	782,592	746,235

Note 15. Remuneration of auditors

	2011 \$	2010 \$
Audit Fees paid or payable to the Victorian Auditor-General's Office		
Auditing the Annual Financial Statements	14,200	13,860
No other services were provided by the Victorian Auditor-General's Office.		

Note 16. 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 bases 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.

However, 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

Note 17. Reconciliation of net result to net cash flows from operating activities

	2011 \$	2010 \$
Net Result for the period	(1,539,294)	246,142
Depreciation	615,290	466,690
Loss/(gain) on disposal of property, plant and equipment	(2,301)	(7,604)
Change in operating assets and liabilities		
(Increase)/decrease in receivables	1,389,722	293,311
(Increase)/decrease in prepayments	(35,938)	-
Increase/(decrease) in creditors and accruals	(433,003)	(636,050)
Increase/(decrease) in provisions	333,120	280,280
Net cash flows from operating activities	327,596	642,769

Note 18. Non-cash financing and investing activities

During the year motor vehicles with a fair value of \$32,700 (2010 - \$143,495) were acquired by means of finance leases.

Note 19. Administered items

In addition to the specific controlled operations which are included in the balance sheet, comprehensive operating statement and cash flow statement, the Commission administers or manages activities on behalf of the State. The transactions relating to these State activities are reported as administered in this note. Administered transactions give rise to income, expenses, assets

and liabilities and are determined on an accrual basis. Administered income consists principally of licence fees. Administered assets include licence fee income earned but yet to be collected. Licence fees are accrued on the basis of estimates, with final determination to be made by the Minister for Finance.

	2011 \$	2010 \$
Administered income from transactions		
Licence and other fees	6,355,825	12,119,076
Other income	1,334,032	-
Payments to consolidated fund	(7,691,837)	(14,903,806)
	(1,980)	(2,784,730)
Administered expenses from transactions		
	—	—
Administered net result	(1,980)	(2,784,730)
Administered assets		
Financial assets		
Debtors	33,702	113,844
Accrued income	5,378,052	5,349,890
	5,411,754	5,463,734
Administered liabilities		
Unearned income	50,000	100,000
	50,000	100,000
Administered net assets	5,361,754	5,363,734

Note 20. Glossary of terms

Comprehensive result

Comprehensive result is the change in equity for the period other than changes arising from transactions with owners. It is the aggregate of net result and other non-owner changes in equity.

Capital asset charge

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

Commitments

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

Depreciation

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

Employee benefits expenses

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

Financial asset

A financial asset is any asset that is:

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

Financial instrument

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial assets or liabilities that are not contractual

(such as statutory receivables or payables that arise as a result of statutory requirements imposed by governments) are not financial instruments.

Financial liability

A financial liability is any liability that is:

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

Financial statements

Depending on the context of the sentence where the term 'financial statements' is used, it may include only the main statements (i.e. comprehensive operating statement, balance sheet, cash flow statement, and statement of changes in equity); or it may also be used to include the main statements and the notes.

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 revenue, gains and expenses (including losses) recognised for the period, excluding those that are classified as 'other non-owner changes in equity'.

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

Other economic flows 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.

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.

Sales of goods and services

Refers to revenue from the direct provision of goods and services and includes fees and charges for services rendered, sales of goods, fees from regulatory services, work done as an agent for private enterprises. It also includes rental income under operating leases and on produced assets such as buildings and entertainment, but excludes rent income from the use of non-produced assets such as land.

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**

We certify that the attached financial statements for the Essential Services Commission have been prepared in accordance with Standing Direction 4.2 of the *Financial Management Act 1994*, applicable Financial Reporting Directions, Australian Accounting Standards, 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 2011 and financial position of the Commission as at 30 June 2011.

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 7 September 2011.



Peter Goddard
Chief Financial Officer
Department of Treasury and Finance

Melbourne
7 September 2011



Ron Ben-David
Chairperson
Essential Services Commission

Melbourne
7 September 2011

INDEPENDENT AUDITOR'S REPORT

To the Commissioner, Essential Services Commission

The Financial Report

The accompanying financial report for the year ended 30 June 2011 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 has been audited.

The Commissioners' Responsibility for the Financial Report

The Commissioners of the Essential Services Commission are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards, including the Australian Accounting Interpretations, and the financial reporting requirements of the *Financial Management Act 1994*, and for such internal control as the Commissioners determine is necessary to enable the preparation 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 Commission, 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.

Independence

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

Independent Auditor's Report (continued)

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 2011 and its financial performance and cash flows for the year then ended in accordance with applicable Australian Accounting Standards, including the Australian Accounting Interpretations, and the financial reporting requirements of the *Financial Management Act 1994*.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report of the Essential Services Commission for the year ended 30 June 2011 included both in the Commission's annual report and on the website. The Commissioners of the Essential Services Commission are responsible for the integrity of the Commission's website. I have not been engaged to report on the integrity of the Commission's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in the website version of the financial report.

MELBOURNE
7 September 2011



for D D R Pearson
Auditor-General

Appendix B

Regulatory Framework

Regulated Industries and Relevant Legislation

At 30 June 2011, the following industries were regulated industries within the ambit of the Commission by virtue of the relevant legislation specified below:

- the electricity industry – retailing and distribution (licensing and non-economic rule-making), under the *Electricity Industry Act 2000*
- the gas industry – retailing and distribution (licensing and non-economic rule-making), under the *Gas Industry Act 2001*
- the water industry – prices, service standards and conditions of service for the Victorian water industry including Melbourne Water and three metropolitan retailers under the *Water Industry Act 1994* and 15 regional and rural businesses under the *Water Act 1989*
- the port industry in the Port of Melbourne from 1 January 1996, under the *Port Services Act 1995*
- the rail (including trams) industry from 29 April 1999, access only, under the *Rail Corporations Act 1996*.

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

- energy efficiency under the Victorian Energy *Efficiency Target Act 2007* (from 1 January 2009).

Appendix C

Essential Services Commission Publications 2010-11

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

Corporate

Work Program 2010-11 (July 2010)

Annual Report 2009-10 (Sept. 2010)

Energy Industry – Electricity and Gas

Industry Guidelines

Guideline No. 21 – Energy Retailers' Financial Hardship Policies (Feb. 2011)

Industry Codes

Electricity Distribution Code – Version 6 (Jan 2011)

Consultation Paper – Energy Retail Code: Amendments for disconnection and reconnection (March 2011)

Electricity Customer Metering Code (April 2011)

Comparative Performance Reports

Energy Retailers – Comparative Performance Report – Customer Service 2009-10 (Dec. 2010)

Energy Retailers – Comparative Performance Report – Pricing and the Competitive Market 2009-10 (Dec. 2010)

Energy Retailers – Comparative Performance Report 2009-10 – Summary Report (Dec. 2010)

General

Draft Decision – Regulatory Review of Smart Meters (July 2010)

Final Decision – Regulatory Review of Smart Meters (Sept. 2010)

Final Decision – Unaccounted for Gas related to heating value allocations (Oct. 2010)

Draft Decision – Premium Solar feed-in tariff scheme: proposed amendments to use-of-system agreement (Oct. 2010)

Summary Report – AGL re-audit (Dec. 2010)

Final Report – Respecting Customers 2009-10 (Dec. 2010)

Draft Decision – Smart Meters capacity control and meter reads (Dec. 2010)

Caravan Park Tariffs 2011 (Jan. 2011)

Final Decision – Premium Solar feed-in tariff scheme: proposed amendments to use-of-system agreement (Feb. 2011)

Draft Report – Draft statement of intent to cease issuing certificates of opinion on exempt electrical activities (March 2011)

Electricity distributors' Default use-of-system agreements (June 2011)

Energy Targets

Annual Report – Victorian Renewable Energy Target Scheme (Sept. 2010)

Annual Report – Victorian Energy Efficiency Target Scheme (Sept. 2010)

Victorian Energy Efficiency Target Guidelines – Proposed amendments: first round; fee waiver, safety, training and insurance issues (Sept. 2010)

Issues Paper – Victorian Energy Efficiency Target Guidelines Amendments: mandatory safety training (Dec. 2010)

Water industry

Determinations

Final Decision and Determination – Grampians Wimmera Mallee Water (GMMWater) application for tariff structure and pricing 2011–13 (June 2011)

Final Decision and Determination – Melbourne Water Special Drainage Areas for 2011-12 (June 2011)

Performance Reports

Water Performance Report – Performance of urban water and sewerage businesses 2009-10 (Dec. 2010)

Codes and guidelines

Customer Service Code – Metropolitan retail and regional water businesses – Issue No.7 (Oct. 2010)

Scoping Paper – Trade Waste Customer Service Code (Oct. 2010)

Draft Decision – Trade Waste Customer Service Code (May 2011)

Draft Code – Trade Waste Customer Service Code (May 2011)

General

Position Paper – New Customer Contributions (July 2010)

Draft Guideline – New Customer Contributions (Dec. 2010)

Final Decision – Developing a hardship-related guaranteed service level measure (Sept. 2010)

Ports services

General

Ports Monitoring Report 2009-10 (March 2011)

Consultation Paper – Information requirements for monitoring Port of Melbourne Corporation (May 2011)

Rail

Access Arrangements

Issues Paper – Metro Trains Melbourne Access Arrangement Renewal (April 2011)

Draft Decision – Metro Trains Melbourne Access Arrangement Renewal (June 2011)

Local Government

Consultation Paper – Reducing the reporting burden on local government (Aug. 2010)

Insurance References

Report on the performance of Victoria's domestic building insurance scheme 2008–2010 (June 2011)

Other reviews

Issues Paper – Vocational Education and Training Fee and Funding Review (May 2011)

Appendix D

Legislation and Amendments

The following is a list of legislation applying to the Commission's responsibilities in relation to regulated industries as at 30 June 2011. Also listed is legislation that amended the principal Acts in 2010-11.

Essential Services Commission Act 2001

Electricity Industry Act 2000

Gas Industry Act 2001

Water Industry Act 1994

Water Act 1989

Port Services Act 1995

Rail Corporations Act 1996

National Electricity (Victoria) Act 2005

Victorian Energy Efficiency Target Act 2007

Water Amendment (Entitlements) Act 2010

Transport Legislation Amendment (Ports Integration) Act 2010

Energy and Resources Legislation Amendment Act 2010

Appendix E

Section 33 Report

Price determinations made under section 33 of the *Essential Services Commission Act 2001* in the 2010-11 financial year – two determinations relating to water pricing.

Appendix F

Section 37 Report

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

Notices issued under section 37 during 2010-11 – nil.

Appendix G

Section 38 Report

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

Disclosure by the Commission under section 38 during 2010-11 – nil.

Appendix H

Office-based Environmental Impacts

The Essential Services Commission is committed to improving the environmental performance of its office-based activities. To ensure the achievement of its outcomes, the Commission has identified a series of actions aimed at achieving the following strategic objectives:

- Reducing the energy, paper and water intensity of office-based operations
- Reducing the environmental impact of the waste produced
- Increasing sustainable procurement of office goods and services
- Integrating environmental considerations in business and operational planning.

The Commission is in the process of developing new targets and action plans for the 2011-13 period with a view to progressive achievement of these strategic objectives, with a payback period of less than three years.

The Commission seeks to comply with all relevant environmental legislation and Victorian Government environmental policy commitments.

Overview of progress 2010-11

Data	Quantity	Measure	Greenhouse gas emissions (tonnes CO ₂)	Comments
Energy consumption	296,892 kWh	4181.57 kWh per FTE	359.24 tonnes	Green Power: 14% Total: 41,565 kWh
Paper purchased	971 reams	13.68 reams per FTE	4.61 tonnes	Recycled content 0-10% 45 80-100% 926
Water consumption*	TBD	TBD	1.5-2 L/person*	Extrapolated from building wide usage
Waste management	5.78 tonnes total · 3.93t recycled · 1.85t to landfill	81.43kg/FTE	1.66 tonnes	Saving of 3.93t CO₂ through recycling initiatives. Recycling rate · 68% by weight
Total greenhouse gas emissions:			365.51 estimate	

*Where data is listed as 'estimated' this is because available data for that year is incomplete, or is still being sought from external providers. The data provided is extrapolated from available data from current year.

Waste

During 2009-10, the Essential Services Commission commenced detailed waste auditing. Detailed auditing has enabled the Commission to gain a clear insight into the areas which require the most attention, as well as enabling more directed strategic planning around waste reduction actions. The Commission's overall volume of waste decreased during 2010-11. The amount in kilograms per average full-time equivalent employees was reduced from 95.79 kg in 2009-10 to 81.43 kg in 2010-11, indicating a significant success in waste reduction.

Recycling by weight					
Waste stream	Average kg/day	kg/year	Tonnes/year	Emission factor to CO ₂	CO ₂ /year in tonnes
Paper	11.20	2956.80	2.96	2.50	9.33
Cardboard	1.80	475.20	0.48	2.50	0.83
Co-mingled	1.90	501.06	0.50	0.90	0.22
Organic waste	0.00	0.00	0.00	0.90	0.00
av. Total recycled/day	14.90	3933.06	3.94		
av. Waste to landfill/day	7.00	1848.00	1.85	0.90	1.66
Total	23.61	5781.60	5.78		

Energy

The Commission's energy use comes from its internal office based activities including lighting, IT equipment and the hosting of a server for IT purposes. An interval analysis of energy used at different points throughout the day indicates that around one third of all energy use results from the server. As such, while energy consumption from printers, whitegoods and general IT equipment is set to reduce due to the increase of equipment efficiency, the Commission's overall energy usage has increased since 2009-10 due to increases in the server size and capacity.

	2010-2011	2009-2010
Total usage (kWh)	296,892	259,145
GreenPower (kWh)	41,565	57,385
Non-GreenPower usage (kWh)	255,327	201,760
GreenPower %	14%	22%
Average monthly FTE	71	65.08
kWh per FTE	4181.57	3981.94
kWh per m ²	135.94	118.66
Tonnes CO ₂	359.24	318.75

Paper

During 2010-2011, the Commission achieved further reductions in paper usage achieved partly through decommissioning printers and through increasing staff awareness of excess paper use and the ways in which this can be reduced.

The Commission has achieved a reduction of 10.3 reams per FTE since 2008-09 levels.

% recycled content	Reams of A4	Reams/ FTE	Assumptions
0	1	0.02	All paper attributed to virgin
10%	44	0.62	10% paper attributed to virgin, 90% attributed to 100% recycled
50%			50% paper attributed to virgin, 50% attributed to 100% recycled
80%	926	13.04	20% paper attributed to virgin, 80% attributed to 100% recycled
100%			All paper attributed to 100% recycled
Total	971	13.68	
CO₂/year	4.61 tonnes		

Water

The Commission is still in the process of developing a method of ascertaining its individual water consumption per year for its occupancy at 35 Spring Street, as opposed to relying on an extrapolation of data from building-wide totals.

Appendix I

(a) Details of consultancies over \$100,000

There were no individual consultancies over \$100,000 during 2010-11.

(b) Details of consultancies under \$100,000

In 2010-11, the Commission engaged in a total of 41 consultancies, where the total fees payable to the consultants was less than \$100,000. The total value of these consultancies was \$835,081.02. All figures are excluding GST.

Appendix J

Freedom of Information

Details of requests received during 2010-11

Requests	2010-11	2009-10
Requests received	1	1
Requests granted in full	1	1
Requests granted in part	0	0
Requests denied	0	0
Requests transferred	0	0
Requests withdrawn	0	0
No document in existence	0	0
Requests pending as at 30 June 2011	0	0

Nominated Contact Person

Requests for access to documents should be addressed to:

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

Further information

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

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

Reports, Publications and Informal Requests

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

Essential Services Commission
Level 2, 35 Spring Street
Melbourne, Vic 3000
Telephone: (03) 9651 0222
or 1300 664 969
publications@esc.vic.gov.au

Appendix K

Compliance Index 2010-11

Compliance Index Disclosure Requirements

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

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

Information available on Request

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

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

Financial reporting directions - Report of operation

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FRD 22B	Nature and range of services provided	7, 8
Management and structure		
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Financial and other information		
FRD 22B, SD 4.2(k)	Operational and budgetary objectives and performance against objectives	28
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FRD 22B	Occupational health and safety policy	32
FRD 15B	Executive officer disclosures	31
FRD 22B	Summary of the financial results for the year	36
FRD 22B	Significant changes in financial position during the year	N/A
FRD 22B	Major changes or factors affecting performance	N/A
FRD 22B	Subsequent events	N/A
FRD 22B	Application and operation of <i>Freedom of Information Act 1982</i>	75
FRD 22B	Compliance with building and maintenance provisions of <i>Building Act 1993</i>	35
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FRD 22B	Statement on National Competition Policy	35
FRD 22B	Application and operation of the <i>Whistleblowers Protection Act 2001</i>	79
FRD 22B	Details of consultancies over \$100,000	75
FRD 22B	Details of consultancies under \$100,000	75
FRD 12A	Disclosure of major contracts	N/A
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FRD 22B	Statement of availability of other information	75
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FRD 8B	Budget portfolio outcomes	N/A
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Financial reporting directions - Report of operation

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SD 4.2 (d)	Rounding of amounts	N/A
SD 4.2 (c)	Compliance with Australian accounting standards and other authoritative pronouncements	44–50
Other disclosures as required by FRDS in Notes to the Financial Statements		
FRD 13	Disclosure of parliamentary appropriations	N/A
FRD 9A	Departmental disclosure of administered assets and liabilities	63
FRD 11	Disclosure of ex-gratia payments	N/A
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FRD 23	Superannuation liabilities and disclosure	62

Legislation

Freedom of Information Act 1982

Building Act 1983

Financial Management Act 1994

Audit Act 1994

Whistleblowers Protection Act 2001

Victorian Industry Participation Policy Act 2003

Appendix L

Whistleblowers Protection Act 2001

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

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

Information required pursuant to *Whistleblowers Protection Act 2001*:

Statistics for 2010-11	
Number and types of disclosures made to the Commission	0
Number of disclosures referred by the Commission to the Ombudsman for determination as to whether they are public interest disclosures	0
Number and types of disclosed matters referred to the Commission by the Ombudsman	0
Number and types of disclosed matters referred by the Commission to the Ombudsman	0
Number and types of investigations of disclosed matters taken over by the Ombudsman from the Commission	0
Number of requests made under section 74 of the <i>Whistleblowers Protection Act</i> to the Ombudsman to investigate disclosed matters	0
Number and types of disclosed matters that the Commission declined to investigate	0
Number and types of disclosed matters that were substantiated on investigation and the action taken on completion of the investigation	0
Recommendations of the Ombudsman under the <i>Whistleblowers Protection Act</i> that relate to the Commission	0

Appendix M

Section 55 Report

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



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