





Responsible body's declaration

19 October 2017

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

Dear Minister,

I am pleased to present the Essential Services Commission's annual report for 2016–17.

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 10 of the Essential Services Commission Regulations.

I would like to record my appreciation to the commission's staff for their commitment to delivering our regulatory, administrative and advisory program in 2016–17.

Yours sincerely,

A stylized signature of Dr Ron Ben-David in blue ink.

Dr Ron Ben-David
Chair

Essential Services Commission

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Our mission

We aim to promote the long-term interests of Victorian consumers with respect to the price, quality and reliability of essential services.

We regulate Victoria's energy, water and transport sectors, and administer the Fair Go Rates system. Our work also includes administering the Victorian Energy Efficiency Target scheme, which aims to reduce greenhouse gases by making energy efficiency improvements more affordable for consumers.

We promote thought leadership and the delivery of great performance in how we regulate the energy, water, local government and transport sectors. We also occasionally review other sectors at the request of the Victorian Government.

Our values

We achieve our mission by implementing our key values:



Integrity

- Being transparent and consistent in making decisions.
- Clearly explaining the rationale behind decisions.
- Acting openly and honestly.



Collaboration

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



Impartiality

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



Excellence

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



Respect

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

Key highlights, 2016–17

109

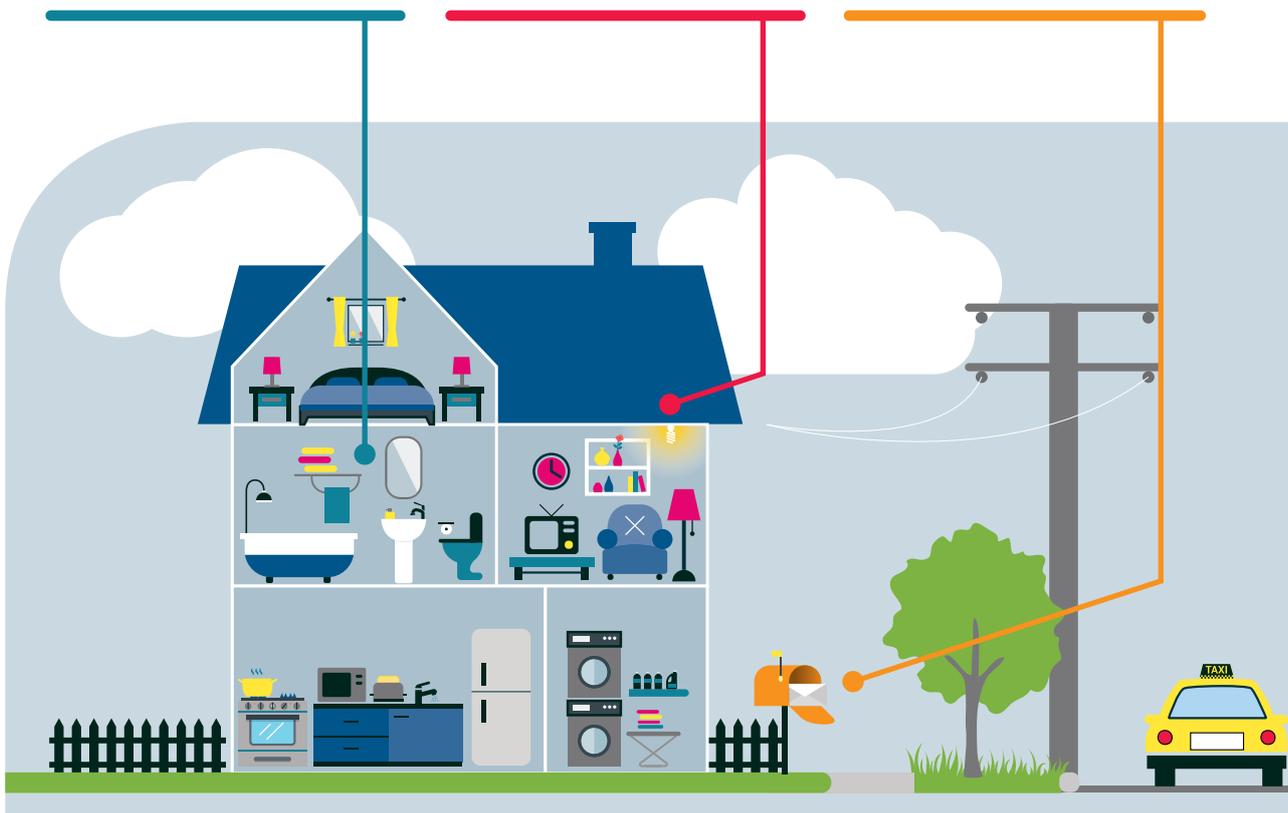
In April, our water team released amendments to our water customer service codes to help customers experiencing family violence. This means we're now one step closer to completing recommendation 109 of the Royal Commission into Family Violence. Strongly supported by Victoria's water businesses, this decision requires the sector to follow new standards that help protect and support people experiencing family violence.

2,152

Our energy efficiency target team approved 2,152 products for use under the Victorian Energy Efficiency Target scheme in 2016–17. The scheme aims to reduce greenhouse gases by making energy efficiency improvements more affordable for consumers.

23,000

In 2015, around 23,000 Victorians had trouble paying their electricity bills. In 2017, our energy team continued looking at how the energy retail code can better protect customers who are at risk of falling into debt and being disconnected. The team is working with industry and community groups to develop an implementation roadmap for a payment difficulty framework, which aims to help vulnerable energy customers.





5

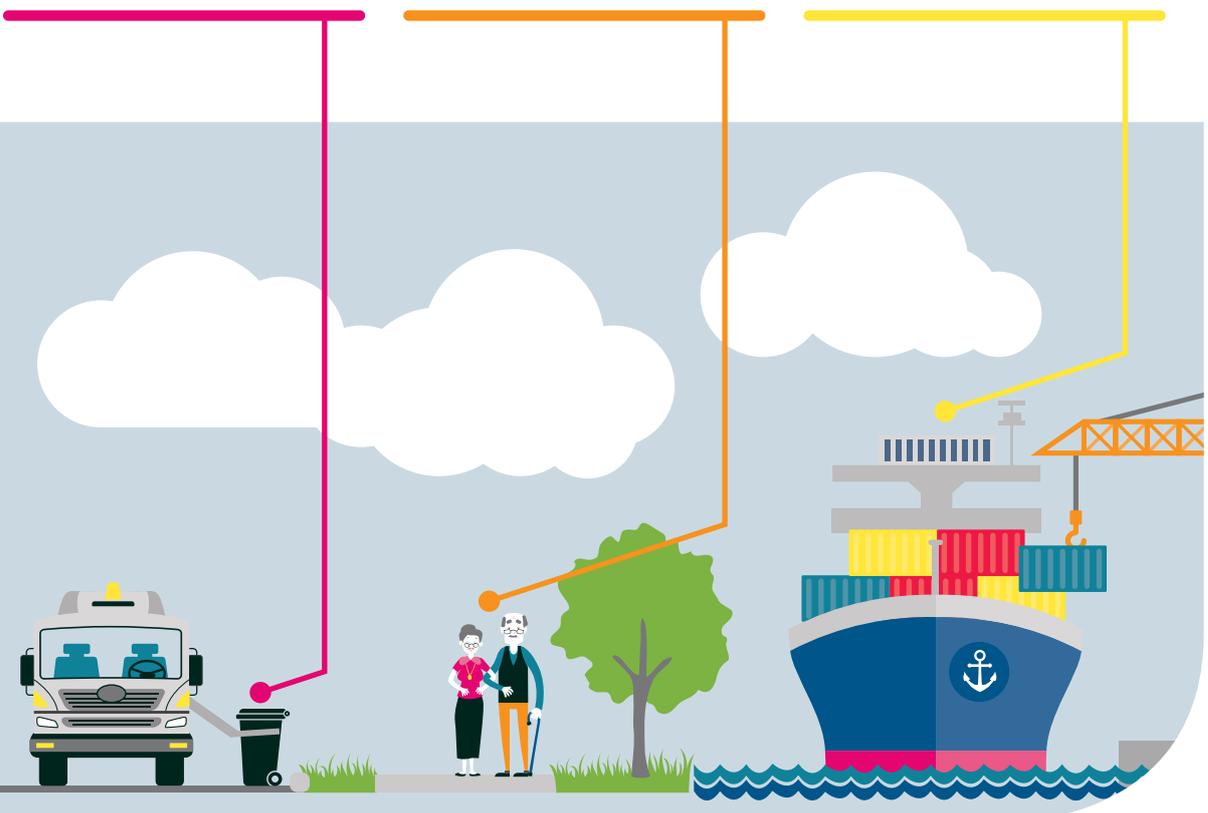
Our local government team reviewed five council applications for higher caps in 2016–17. The commission ultimately approved four applications and rejected one. We also commissioned an independent review of our first-year implementation of the Fair Go Rates system, which aims to ensure council rates reflect the needs of the community.

371

We received 371 submissions in 2016–17 across all of our projects, including work that aims to support vulnerable customers in the energy and water sectors. As part of our commitment to collaborating extensively with regulated businesses and key stakeholders, we use these submissions to inform our work and ensure our projects reflect key challenges.

60

The Port of Melbourne is one of the top 60 container ports in the world. It was leased to a private company in mid-late 2016. We released an overview paper detailing the new economic regulatory regime and our roles. We also released our consultation paper on our proposed approach to the port pricing order.





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Our goals, 2017–18

Delivering effective, consumer-focused regulatory regimes

This year, we seek to achieve our mission and uphold our values through five key goals.



Continue to improve the way we engage with key stakeholders.



Create effective and efficient incentives for regulated businesses to perform.



Deliver high quality advice to government on issues related to economic regulation.



Deliver on our vision to be an organisation that promotes thought leadership and delivers great performance.



Ensure our regulatory regimes are designed to promote outcomes that are in the long-term interests of consumers.

ESSENTIAL SERVICES COMMISSION

Who we are





WHO WE ARE

Our leadership team

We are led by our commissioners, who are responsible for approving the determinations, reviews and decisions that respond to our primary responsibilities as an economic regulator. Our chief executive officer ensures we have a secure, efficient operational framework that supports our work.



Dr Ron Ben-David

Commissioner and Chair

Ron has a broad interest in all aspects of the commission's role in promoting the long-term interests of Victorian consumers.

He was a Deputy Secretary for the Department of Premier and Cabinet. He also established Victoria's Office of Climate Change in 2007 and headed the secretariat for the Garnaut Climate Change Review. Ron was appointed Chair of the Essential Services Commission of Victoria in 2008.

He holds a Bachelor of Science (Optom), a Bachelor of Commerce (Hons) and a PhD (Economics). Ron has presented and written on a wide range of economic issues.



Kate Symons

Commissioner

Kate Symons was appointed part-time commissioner in October 2016. As a lawyer with qualifications in public administration and corporate governance, Kate has experience across a number of key sectors.

Kate has particular expertise in risk, compliance and governance issues. She acted as solicitor-assisting for the HIH Royal Commission, has held roles within the university sector and the Federal Court of Australia, and has worked in private practice both in Australia and overseas.

She holds a Bachelor of Laws (Hons) from the University of Adelaide and a Master of Public Administration from Flinders University.



Richard Clarke

Commissioner

After working for many years as an economist in the public and private sectors, Richard Clarke was appointed part-time commissioner in March 2014.

Richard graduated with a Master of Economics from Monash University. He worked at Monash University's Centre of Policy Studies and spent more than five years as chief economist for Shell Australia. Richard's resume also includes stints with the Victorian Department of Treasury and Finance, the Australian, Queensland and New Zealand productivity commissions, the Better Regulation Executive (London), and the Victorian Competition and Efficiency Commission.



John Hamill

Chief Executive Officer

John Hamill has strong public sector experience, particularly in strategic micro-economic analysis, budget management, organisational performance and policy development. Most recently, he was the Manager of Input Methodologies, then General Manager, Regulation at the Commerce Commission of New Zealand.

John also held several roles at the New Zealand Ministry of Justice and has a PhD in English literature from Victoria University of Wellington.



The executive team

In line with the sectors we regulate, our executive team is led by a chief executive and includes directors for each major essential service area: energy, water, transport, local government, and the Victorian Energy Efficiency Target. We also have corporate executives responsible for organisational performance, legal and risk, and strategic communication.

Shown below (left to right):

Michelle Bryne, Senior Manager, Strategic Communication
Jeff Cefai, Director, Victorian Energy Efficiency Target scheme
Jacinta Davenport, General Counsel and Chief Risk Officer
Dominic L'Huillier, Director, Transport
John Hamill, Chief Executive Officer
David Young, Director, Energy
Marcus Crudden, Director, Water
Andrew Chow, Director, Local Government.

Not shown: **Alix Quirke**, Director, Organisational Performance.



WHO WE ARE

Our organisational structure

Our structure reflects the industries we regulate, which includes gas, electricity, water, local government, taxis, accident towing, rail freight, and the Port of Melbourne. We also have a team responsible for implementing the Victorian Energy Efficiency Target, which aims to reduce greenhouse gases by making energy efficiency improvements more affordable for consumers.

As part of our role, we consider:

- efficiency in regulated industries, and incentives for long-term investment
- the financial viability of the industry
- competition within the industry
- relevant health, safety, environmental and social legislation applying to the industry
- benefits and costs of regulation
- consistency in regulation between states and on a national basis.



We have been operating since 2001

The commission was established in 2001 by the *Essential Services Commission Act 2001*, which came into effect on 1 January 2002. We took over the responsibilities fulfilled by the Office of the Regulator-General, which regulated essential services from 1994 to 2001.

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

The Minister for Finance is responsible for overseeing the administration of the commission.

We have 108 staff members as of 30 June 2017

We also have a commission chair and two additional part-time commissioners. Our general staff are led by a chief executive officer.

Our Act helps define our functions

Beyond regulating essential services, our Act outlines a number of the functions we perform, including:

- providing advice and recommendations to the Minister for Finance on matters relating to economic regulation and regulated industries
- conducting inquiries (at the request of the minister) into any systemic reliability of supply issues related to a regulated industry or other essential service
- conducting inquiries and reporting on matters relating to regulated industries.

We also operate through industry-specific legislation

Aside from the *Essential Services Commission Act 2001*, we also have objectives and functions given to us from industry-specific legislation, including:

- *Accident Towing Services Act 2007*
- *Electricity Industry Act 2000*
- *Gas Industry Act 2001*
- *Local Government Act 1989*
- *Delivering Victorian Infrastructure (Port of Melbourne Lease Transaction) Act 2016*
- *Port Management Act 1995*
- *Rail Management Act 1996*
- *Transport (Compliance and Miscellaneous) Act 1983*
- *Victorian Energy Efficiency Target Act 2007*
- *Water Act 1989*
- *Water Industry Act 1994.*

We use a formal process to exercise our statutory responsibilities

This involves developing reports on how markets operate, delivering price determinations, compliance assessments and audits, and taking enforcement action when required. We also run the Victorian Energy Efficiency Target scheme and provide recommendations on local government rate caps to the relevant minister.

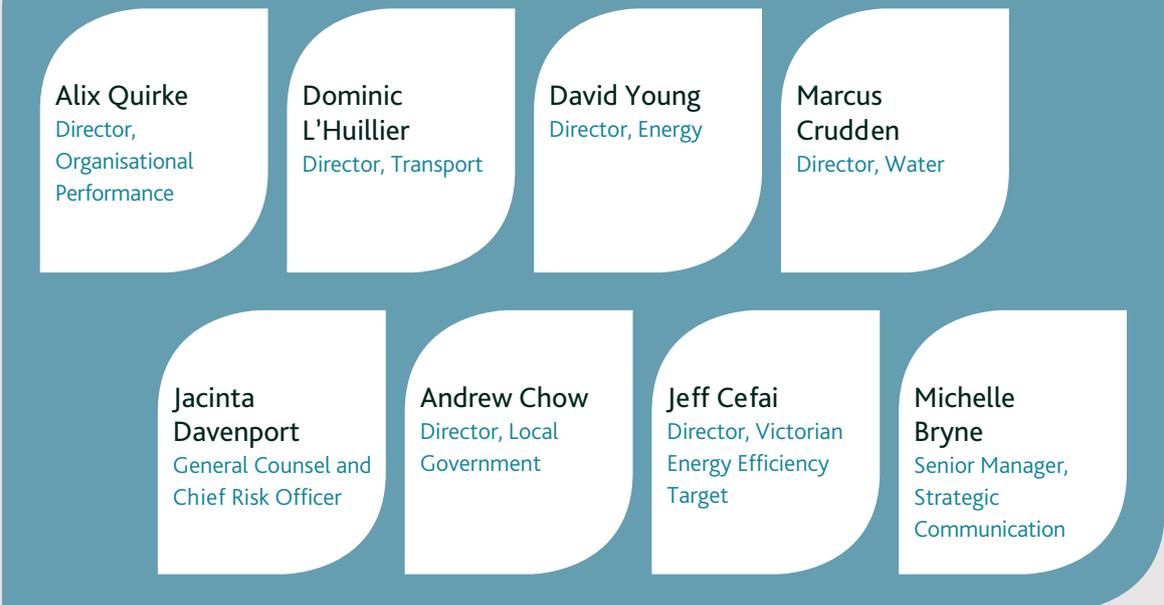
We consult with our stakeholders on these items by conducting workshops, public forums and formal submission processes.



Our organisational chart



Our executive team



WHO WE ARE

Corporate governance

Delivering high standards in decision-making and corporate activities

Our corporate governance is determined by the *Essential Services Commission Act 2001* and enabled by our three commissioners. Our charter of consultation, board of management and memoranda of understanding form the basis of our corporate governance framework.



Corporate governance, by the numbers



Our charter of consultation is currently being reviewed

Our Act requires us to develop and publish a charter of consultation and regulatory practice. It includes guidelines relating to processes for making determinations and other regulatory decisions, and for conducting inquiries.

First published in 2003, the charter was last reviewed in 2012. It includes a commitment to regularly review it in order to improve our approach to consultation. The charter will be reviewed in 2017–18.

The board provides governance oversight

Our commissioners sit on our board of management. The board helps set strategic direction, oversee the performance of the organisation and ensure compliance with corporate governance standards.

Our memoranda of understanding help improve outcomes

The *Essential Services Commission Act 2001* requires us to enter into memoranda of understanding with various Victorian Government agencies. We also enter into memoranda with agencies who share an important working relationship with us.

We use these memoranda as a way to make our outcomes more efficient. They help improve communications and regulatory processes, and reduce the duplication of work across agencies.



We held memoranda of understanding with 15 organisations

In 2016–17, we held memoranda of understanding with the following organisations:

- Australian Competition and Consumer Commission*
- Director of Consumer Affairs Victoria
- Department of Health and Human Services
- Energy Safe Victoria
- Energy and Water Ombudsman (Victoria) Limited (EWOV)*
- Environment Protection Authority (EPA Victoria)
- Environment and Sustainable Development Directorate (ACT)*
- Independent Pricing and Regulatory Tribunal New South Wales*
- Marine Safety Victoria (Transport Safety Victoria)
- Port of Melbourne Corporation*
- Sustainability Victoria
- Victorian Regional Channels Authority
- Taxi Services Commission*
- The Clean Energy Regulator (Commonwealth)*
- Victorian Workcover Authority*.

* An asterisk indicates that we have voluntarily entered into a memoranda with that organisation. All other memoranda are required under section 16 of the *Essential Services Commission Act 2001*.

Our audit and risk committee helps us identify and manage risks

Our audit and risk committee is made up of three people:

- an external independent appointment, David Ashmore
- commissioner Kate Symons
- commissioner Richard Clarke, who is also chair of the committee.

The committee provides recommendations to the responsible body on how we identify and manage risks, and provides a link between the responsible body and internal and external auditors.

This committee helps the commission implement:

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

Risk management framework attestation

I, Ron Ben-David, certify that the Essential Services Commission has complied with the ministerial standing direction 3.7.1 – risk management framework and processes. The Essential Services Commission Audit and Risk Committee verifies this.

Ron Ben-David
Chair
Essential Services Commission



Other declarations

Building works

We do not have any buildings under our direct control and did not enter into works that required compliance under the *Building Act 1993*.

Office-based environmental impacts

Our annual report includes a summary of our energy use, waste production, paper use, water consumption, transportation, fuel consumption and greenhouse gas emissions. For a detailed breakdown of this information, refer to Appendix H.

In 2016–17, we received 376 submissions on our projects

Many submissions related to our energy team's work on the true value of distributed generation and the payment difficulties framework.

Energy

- *Distributed generation – true value inquiry terms of reference* – 185 submissions
- *Distributed generation inquiry draft report: energy value* – 38 submissions
- *Distributed generation inquiry discussion paper: network value* – 13 submissions
- *Distributed generation inquiry draft report: network value* – 18 submissions
- *Draft compliance and performance reporting guideline* – 8 submissions
- *Interim compliance and performance reporting guideline for energy distribution licence holders: draft decision* – 4 submissions
- *Payment difficulties safety net: draft customer advice manual* – 19 submissions
- *Payment difficulties framework: new draft decision* – 21 submissions
- *Review of unaccounted-for gas benchmarks: draft decision – methodology* – 7 submissions

Water

- *Proposed amendments to water customer service codes: draft decision* – 11 submissions
- *Quiet Lakes bore flushing tariff proposal* – 9 submissions
- *Quiet Lakes bore flushing tariff draft decision* – 11 submissions
- *Review of water pricing approach: position paper* – 24 submissions
- *Staff paper: assessing and rating PREMO price submissions* – 8 submissions

Transport

- *Updating the schedule of maximum taxi fares document: consultation paper* – 8 submissions

Local government

- The local government team did not receive any submissions in 2016–17.

Energy efficiency targets

- Victorian Energy Efficiency Target insulation administrative requirements 2016 – 11 submissions



ESSENTIAL SERVICES COMMISSION

Our work, 2016–17





From the chair

This has been a notable year in the history of the Essential Services Commission



In 2016–17, we made significant progress on a number of projects that seek to ensure that consumers are directly involved in determining the service to be delivered by their service providers.

Last October, we formally adopted a new regulatory model for pricing water and sewerage services in Victoria. Known as the PREMO model, it requires the state's water businesses to work with their customers to identify the services and service levels those customers expect in return for paying their water bills. We are greatly encouraged by how enthusiastically the water businesses have embraced this challenge.

Over the past few years, the commission has been working on understanding and improving the assistance arrangements electricity and gas retailers provide customers who may be finding it difficult to pay their bills. Our proposed approach will establish new customer entitlements requiring energy retailers to assist customers to identify realistic and achievable assistance arrangements.

In early 2016, the Royal Commission into Family Violence recommended that we amend our water and energy retail codes to ensure service providers assist customers experiencing family violence. This was an area of social policy for which we were not well prepared. As a first step, we invited water businesses, and consumer and welfare organisations to collaborate with us in responding to the Royal Commission's recommendation.

Thanks to the efforts of all involved, Victoria is now the first jurisdiction to have implemented a regulatory framework requiring water businesses to provide assistance to customers and staff experiencing family violence.

In the year to come, we will be looking to develop similar obligations for electricity and gas retailers.

Beyond these three projects, our framework for administering the Fair Go Rates system continues to promote collaboration between councils and ratepayers if councils seek rate increases above the cap set by the Minister for Local Government.

We are also revamping the way we report on industry performance. In the last year, we released our first *Victorian Energy Market Report*, which aims to give consumers high-quality information about their essential services.

During the last year, we also invested considerable effort in preparing for the expansion of the Victorian Energy Efficiency Target. The target will be increasing over coming years and project-based activities will enter the scheme in 2017–18. We have been working closely with all parties to ensure the smooth introduction of these new activities.

Since the completion of the lease transaction for the Port of Melbourne in November 2016, we have been establishing our processes for administering our new roles in relation to the Port of Melbourne.

In late 2016, Commissioner Julie Abramson left the commission. During her time with us, Julie was instrumental in guiding the establishment of our new enforcement functions in the energy sector. We will miss her experience, guidance and good humour. Kate Symons joined the commission shortly afterwards and has already made her mark. We are looking forward to benefiting from her many years of experience in managing issues related to risk, compliance and governance.

While I may often forget to say so, I never forget that our success as an organisation is only possible because of the efforts of our chief executive, John Hamill, and our dedicated staff.

Dr Ron Ben-David
Chair



From the chief executive

Demonstrating thought leadership – delivering great performance



In 2016–17, our major focus was ensuring we had the resources to address new responsibilities. In the last year, we have been given new functions across almost all of the sectors we regulate, including new powers in the energy and transport sectors, and new activities in the Victorian Energy Efficiency Target scheme.

As an organisation, we are continuing to address key challenges while focusing on outcomes that benefit consumers over the long term.

Our increased responsibilities have had a direct result on the size of the organisation and our staff. We have grown as an organisation from 87 to 104 full-time equivalent employees over the course of the year.

In terms of financial performance, our year-end result was \$2.2 million under budget.

We continue to be driven by our vision to demonstrate thought leadership and deliver great performance. In the current regulatory environment, we are aiming to do this by rethinking how we work to meet the demands of changing markets. Our recent work in this area has included providing advice to government on potential ways to deliver network value for distributed generators, and reshaping the way we regulate the price of water.

To ensure we are well placed to deliver on this vision, and to meet the growing demand for our work, we recently undertook a review of our corporate services. We established five new senior roles. Two of these are executive positions, including a director, organisational performance, and a general counsel and chief risk officer.

We recently developed initial indicators of great regulatory performance in response to the minister's statement of expectations, and will be establishing baseline performance measures and targets over the course of this financial year following a stakeholder survey being conducted in the first part of 2017–18.

In the coming year, we will be responding to our key organisational goals, which include increased government expectations, and the effect of digital disruption on regulatory outcomes.

We look forward to addressing these challenges and continuing to achieve our mission by working closely with the businesses we regulate and representatives of the wider community.

Dr John Hamill
Chief Executive



OUR WORK, 2016–17

Our organisational goals

Collaborating with industry to promote
the long-term interests of consumers

In 2016–17, we sought to fulfil five key goals.



Our organisational progress report, 2016–17

In 2016–17, we established five organisational goals. Each project we completed aimed to respond to at least one of these goals.

Goal, 2016–17 	Progress against goal 
<p>Our regulatory regimes are designed to promote outcomes that are in the interests of consumers.</p>	<p>Water: We have established a new framework for reviewing water prices, published guidance, and held workshops for businesses. There has been a high level of interest among regulated businesses in improving their approach to customer engagement and using this input to set the direction for their pricing proposals. We will be assessing this as part of our price review process in 2017–18.</p> <p>Water: We held workshops with the industry on how to:</p> <ul style="list-style-type: none"> • establish measures to support customers suffering from family violence • amend the water code to reflect these requirements. <p>We had a high level of positive engagement on this project and will monitor its implementation over the next few years.</p> <p>Local government: We established and worked with a technical working group on community engagement. The group aims to promote quality community engagement on the rate-setting process.</p> <p>We have seen improvements in community engagement on rate capping variation proposals, and expect this to continue to improve.</p> <p>Energy: We issued two drafts of a new payment difficulties framework designed to ensure that disconnection from this essential service is a matter of last resort. This project is taking longer than anticipated, but it is critical we develop a framework that ensures customers can effectively engage with energy retailers if they are struggling to pay their bills. We expect to finalise this project in 2018 and move on to implementation.</p> <p>Transport: We decided on the airport rank fee for Melbourne airport and updated the schedule of maximum taxi fares. We also published our annual taxi fare monitoring report for country and regional Victoria.</p> <p>VEET: The Victorian Energy Efficiency Target scheme continues to be very successful in providing Victorian consumers with cost effective and energy efficient products and services. Certificate creation and registration for 2016–17 far exceeded the required target of 5.4 million.</p>



Goal, 2016–17 	Progress against goal 
<p>Create effective and efficient incentives for businesses and markets to perform.</p>	<p>Energy: We published our new compliance and enforcement policy, which provides increased certainty to businesses about how we will exercise our new powers. We also began publishing our quarterly Victorian energy market report, aimed at raising awareness of the performance of the energy market.</p> <p>Transport: We published an overview paper describing the Port of Melbourne lease and the commission's new roles under the new regulatory regime. We published our consultation paper regarding our approach to regulating the Port of Melbourne.</p> <p>Local government: We implemented findings from an independent review of the local government rate capping application process. This included streamlining information requirements to reduce costs of applications for local government. We also initiated a productivity study and a growth study, which will provide insight into opportunities and challenges in the local government sector.</p> <p>VEET: During 2016–17, we continued to undertake a very effective validation program of created Victorian Energy Efficiency Certificates. Additionally, our compliance efforts resulted in the surrender and withdrawal of improperly created certificates.</p>
<p>Deliver high quality advice to government on issues related to economic regulation.</p>	<p>Energy: We completed our inquiry into the true value of distributed generation. This resulted in a number of changes to the function of the feed-in tariff for areas including solar electricity generation. We will continue implementing these changes in the coming year.</p>
<p>Build a high-performing organisation that delivers on our vision 'Promoting thought leadership, delivering great performance'.</p>	<p>We completed a review of our corporate services. We have redirected the focus of the group towards organisational performance, which helps support the growth in our functions. We also established key new leadership roles.</p> <p>We developed a people strategy with a supporting work program to support the delivery of our vision. We have also developed a performance framework, which focuses on good regulatory practice.</p>
<p>Improve the way we communicate externally and internally.</p>	<p>We established a new service model for our communication function and a supporting work program.</p> <p>In 2016–17, we established a centralised communication service, renegotiated key contracts, reviewed digital assets and publication standards, and developed a social media strategy.</p> <p>We also began a review of our charter of consultation and introduced new publication templates that help improve the quality and consistency of our written communication.</p>



Our people strategy initiatives developed thought leadership and improved organisational health

In 2016–17, our people strategy involved:

- creating greater clarity of role and career structure for our senior regulatory adviser classification
- establishing a health and wellbeing program driven by a committee
- reviewing our approach to the performance and development process, and reward and recognition
- understanding our culture and leadership better through surveys and reviews of managers.

In the year ahead, we plan to refresh this strategy.

Our people objectives in 2017–18

Objective 	How we will achieve this objective 
Recognise great performance, and improve consistency and transparency in review processes	<ul style="list-style-type: none"> • Continue regular surveys. • Improve the performance development process. • Review of reward and recognition approach to support regular feedback.
Improve processes for organisational capability development	<ul style="list-style-type: none"> • Establish a catalogue of organisation development learning to meet business requirements. • Develop and implement a people management competency framework to support coaching and career development.
Increase staff awareness, knowledge and skill in relation to activities and functions within the commission and other organisations	<ul style="list-style-type: none"> • Identify opportunities for staff to work across and within branches or organisations. • Reinforce existing recruitment practices. • Monitor ongoing participation in mentoring and graduate programs.

OUR WORK, 2016–17

Our communication objectives

In 2016–17, reviewed our communications practices

We reviewed our communication practices by:

- establishing a centralised communication service model to reduce reliance on external contractors
- renegotiating key contracts, increasing service levels and reducing costs
- conducting reviews of digital assets, completing independent website audit and user testing
- reviewing publications standards and developing new visual and written style guides
- developing new publication templates to improve the quality and consistency of our written communication
- introducing a plain English standard to improve internal and external communication
- commencing a review of our charter of consultation
- conducting the first-ever broad stakeholder survey to set baselines and measure our reputation
- developing a social media strategy.



Why we communicate

Our stakeholders include the sectors we regulate to the wider community. Our key focus is to ensure we engage with these stakeholders while continuing to pursue our legislative objective of supporting the long-term interests of Victorian consumers.

We engage daily with our industry stakeholders and regularly communicate on key projects and approaches. Our focus in 2016–17 was to evaluate how effectively we communicate and work out ways we can do better.

How we communicate

 <p>Publications</p> <p>We publish our decisions and performance reports of the various sectors we regulate.</p>	 <p>Digital communication</p> <p>Our website is popular with the sectors we regulate, with 7,000 to 8,000 visitors a month.</p>	 <p>Direct</p> <p>We meet with stakeholders in person, on the phone and in meetings.</p>
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Our communication objectives, 2017–18:

The review we completed in 2016–17 identified a number of ways to improve the way we communicate. As a result, we set ourselves new objectives and performance measures.

Objective 	How we will achieve this objective 
Improve our profile	Produce timely, frequent, high-value communication.
Reinforce our credibility	Produce consistent, evidence-based communication that demonstrates our knowledge of the sectors we regulate.
Build our relationships	Remain responsive, accessible and transparent.

In 2016–17, we used these objectives to examine how we communicate. We updated our publication standards, developed new web publishing standards, and looked at the way we provide information to the wider community through traditional news media and social media.

We provided training, developed new resources to support plain English, and integrated communication planning into projects and programs.

In June 2017, we conducted our first broad stakeholder survey to measure how we are performing. The results of this survey will be used to guide our plans in 2017–18.

OUR WORK, 2016–17

Our regulatory environment

Continuing our work on major external facing projects, such as our energy codes and major water price reviews

This year, our major organisational objectives will focus on ensuring our regulatory approach responds to three key challenges.

In 2017–18, we face increased government expectations in relation to our work, accelerated digital disruption in the markets that we regulate, and ongoing public focus on the performance of the businesses and markets we regulate.



We are responding to increased government expectations

The government has increased expectations of our performance as a regulator.

The Minister for Finance has outlined a standard for exemplary regulatory practice at the commission. This standard includes:

- ensuring that risk-based approaches guide the delivery of regulatory outcomes
- making improvements to reduce the cost impact on regulated businesses (particularly small businesses)
- engaging in an open and constructive way with all stakeholders
- working with other regulators to promote regulatory coherence and capability development
- improving the efficiency of service delivery.

The government has also increased our responsibilities by introducing new functions relating to local government, the Port of Melbourne, and enforcement within the energy sector. It has also expanded the Victorian Energy Efficiency Target scheme (which we administer).



Digital disruption affects our regulatory objectives

Digital disruption (the effects of an increasingly online, connected world) has an impact on our work as a regulator because it affects:

- how regulated businesses interact with their consumers
- perceptions of the value of traditional forms of power
- expectations about how consumers and other stakeholders engage with us.

Disruption in markets is not new. However, contemporary digital disruption is happening very quickly, and it can run ahead of the regulation-making process. This creates tension between the constraints we face in relation to the law and regulations we administer, and the market outcomes we seek to achieve. This can also affect our relationship with the policy-making process.



We are operating in a changing political and regulatory environment

We take our role as an independent regulator seriously. We look for ways to demonstrate the value of our independence, and our ability to apply robust microeconomic analysis in our broader regulatory environment.

However, the sectors we work in are subject to increasing scrutiny. This is particularly the case in the energy sector, which is currently the focus of multiple reviews at a federal and state level.

It is important that we remain impartial but still contribute constructively to policy discussions. We also need to adapt to potential change but ensure we clearly communicate the outcomes of our work.

With this in mind, we will seek to continue using the right channels (including relevant social media) to better inform policy discussions on relevant issues.



OUR WORK, 2016–17

Water

Promoting better outcomes for water customers

Our water team regulates the pricing of water services for consumers within Victoria. We do this under the *Water Industry Act 1994*, the *Essential Services Commission Act 2001*, and the *Water Industry Regulatory Order 2014*.



Our year in review



We amended our water customer service codes to help people experiencing family violence

Our code amendments seek to protect vulnerable customers and provide support for businesses who are embracing change.

In April 2017, we released our *Amendments to water customer service codes April 2017: final decision*. The paper updated the code to ensure that regulated water businesses provide greater protections to people experiencing family violence.

With high levels of support from the water industry, we released a document in May 2017 that informs water businesses on their approach to compliance.



We introduced a ground-breaking pricing approach to promote better value for water customers

Our new pricing approach will help ensure water businesses are delivering outcomes most valued by customers.

In October 2016, we released *Water pricing framework and approach: implementing PREMO from 2018*, which explains how we will assess water prices from 2018. The new approach requires water businesses to undertake meaningful customer engagement to inform their price submissions.

In December 2016, we released guidance to ensure all price submissions for our 2018 water price review are lodged in line with the requirements of the new approach. We also held workshops with water businesses to help inform their price submissions.



“ People experiencing family violence rely on an informed, secure and consistent response when they contact a water business. Our updated water customer service codes help ensure that water businesses can make this happen.

LUCY WESTON

Project Manager – Customer Engagement, Water ”



Progress report, 2016–17

Objective, 2016–17 	Performance against objective 
<p>Meet the commission's future approach to water pricing</p>	<p>In October 2016, we released <i>Water pricing framework and approach: implementing PREMO from 2018</i>. The paper completed our review of the pricing approach and set out how we will assess water prices from 2018.</p> <p>Our new approach was informed by stakeholder workshops, a conference with the industry, the release of a draft position paper, a call for submissions and the release of a survey.</p> <p>The new approach provides incentives for water businesses to deliver the outcomes most valued by their customers. It also provides opportunities to streamline our price reviews, leading to lower costs for water businesses and the commission.</p>
<p>Prepare to address the Victorian Government's response to the Royal Commission into Family Violence</p>	<p>We addressed the government's response to family violence by:</p> <ul style="list-style-type: none"> • updating the <i>Urban water customer service code</i> and <i>Rural water customer service code</i> to require water businesses to implement family violence policies • issuing the paper <i>Moving towards better practice—implementing family violence policies in the Victorian water sector</i> to inform the development of family violence policies by water businesses. <p>The codes and paper were informed by:</p> <ul style="list-style-type: none"> • workshops with stakeholders • the release of draft code amendments in February 2017 and a paper explaining the proposed changes. <p>Our work will help ensure that water businesses provide greater protections to people experiencing family violence.</p>
<p>Undertake better-quality stakeholder engagement on a more regular basis</p>	<p>We continued to engage extensively with stakeholders. We held:</p> <ul style="list-style-type: none"> • four workshops to inform our work on family violence • seven workshops related to the development of price submissions by water businesses • two webinars with the sector on finance parameters and our pilot customer survey. <p>We visited the executive teams of 17 businesses that were preparing price submissions for the 2018 price review and successfully trialled webinars to present information to our stakeholders.</p> <p>We used LinkedIn to raise the profile of our work and seek feedback from stakeholders. Our engagement helped us to better understand the interests of stakeholders in our work, and take these into account.</p>

**Objective, 2016–17****Performance against objective**

Provide accountability and transparency of water businesses

We continued to report on the performance of urban water businesses and audited them to ensure they comply with their obligations and data requirements. We also checked maximum prices charged in 2016–17 were consistent with the 2013 price determination, and trialled a survey on customer views of water businesses.

Respond to the appeal to our June 2016 price decision for Goulburn-Murray Water

A customer lodged an appeal to our June 2016 price decision for Goulburn-Murray Water. The appeal was withdrawn.



Water team objectives, 2017–18

Our objectives are to:

- approve new prices for 17 water businesses, to take effect from 1 July 2018
- monitor implementation of family violence policies by water businesses
- trial a new survey measuring customer satisfaction with their water business
- release the 2016–17 urban water performance report
- complete annual tariff approvals for Melbourne Water and Goulburn Murray Water
- undertake an assessment of regulatory accounts for 2016–17.

Environmental factors

The main environmental factors influencing our work are:

- a greater scrutiny of the costs and benefits of economic regulation
- the diversity of the water industry
- a focus on affordability and utility prices within the community
- changing technology and communication channels.

Measuring our success in 2017–18

Our water team will be successful if:

- our 17 pricing decisions deliver sound outcomes for Victorian water customers
- we deliver projects on time and within budget
- we receive positive feedback from stakeholders on our engagement process and approach
- there are no successful appeals to our decisions.

Cost of water industry regulation

In 2016–17, the total cost of the water division was \$3.19 million. The cost includes the direct costs incurred by the water team, plus an allocation for overhead costs.



OUR WORK, 2016–17

Energy

Ensuring customers receive appropriate support from retailers and distributors

Our energy team is responsible for licensing all businesses involved in the supply of electricity and gas in Victoria. We also regulate the retail sale of energy and the consumer service standards for energy distribution. However, we have no role in determining energy prices except for setting the minimum feed-in tariff.

Through our functions, we seek to:

- promote effective competition in the energy market to achieve the best outcomes for energy consumers
- report on how well retailers and distributors comply with relevant regulations
- provide gas and electricity customers with information that may help them to actively seek better deals from retailers
- promote and enforce compliance with energy licences.



Our year in review



We improved how we audited energy businesses

In November 2016, we launched a new audit program aimed at ensuring energy businesses are complying with energy rules that protect Victorian energy customers. These rules require retailers to:

- only transfer customers when the customer has given their explicit informed consent to the transfer
- provide accurate billing for customers
- offer assistance to customers experiencing payment difficulties.

Fifteen energy retailers were audited this financial year, including AGL, Origin Energy and EnergyAustralia. Audits of all energy distributors also began in 2016–17.



We set a new feed-in tariff rate for Victoria

On 28 February 2017, we set a new minimum feed-in tariff for Victorian households and businesses who feed power back into the electricity grid from small renewable energy sources.

The new tariff takes in changes to the *Electricity Industry Act 2000 (Vic)*, which took effect in February 2017. The Act requires us to consider the environmental benefits of renewable energy.

In 2017–18, we will seek to implement our recommendation from the distributed generation inquiry to set time varying feed-in tariffs for 2018–19.



We released the *Victorian Energy Market Report*, including quarterly updates

On 30 November 2016, we released our first *Victorian Energy Market Report*, which summarises activity across the electricity and gas retail markets in Victoria. It promotes effective competition in the energy market and aims to provide gas and electricity customers with information that may help them seek better deals from retailers.



“ It’s hard for customers to navigate a complex energy market. That’s why our Victorian energy market reports provide customers and the industry with reliable, easy to read information on how energy companies are performing. ”

AARON YUEN

Manager, Analysis and Reporting - Energy Markets



Our year in review



We completed an inquiry into the true value of distributed generation to Victorians

In September 2015, the Victorian Government asked us to examine the true value of distributed generation (electricity generated by sources including solar panels).

The inquiry involved two separate but related stages. The first stage looked at the energy value of distributed generation (the value of the electricity generated from alternative sources, like solar power). The second stage looked at the network value (the value of the electricity to the network as a whole). In both stages, we looked at the economic, social and environmental benefits that arise from distributed generation.

In 2016–17, we completed both stages of the inquiry, delivering recommendations to the Victorian Government on the energy and network value of distributed generation to consumers. We received over 2500 submissions earlier in the inquiry process (in 2015–16) and held public forums across Victoria, including in Morwell, Shepparton and Moonee Ponds.

In February 2017, the Victorian Parliament passed legislation to give effect to the majority of recommendations arising from our final report on the energy value of distributed generation. This includes providing for a new time varying minimum feed-in tariff and an environmental value to distributed generation.



We continued our work to improve the payment difficulty framework for customers

In 2016–17, we continued our work to provide new protections for customers who are at risk of falling into debt and being disconnected.

On 1 January 2016, Victoria's energy industry legislation was amended to include a new objective for the Essential Services Commission:

To promote protections for customers, including in relation to assisting customers who are facing payment difficulties.

In February 2016, we completed our inquiry into energy retailers' hardship policies and programs. The energy hardship inquiry found that energy retailer hardship programs were not preventing customers from building up large debts or being disconnected, and customers were not getting the assistance they needed.

Consistent with our new objective and the findings of the energy hardship inquiry, we are working with industry and other stakeholders to design a new safety net to help customers who are experiencing difficulty paying their energy bills.



Progress report, 2016–17

Objective, 2016–17



Performance against objective



Improve protection for customers experiencing payment difficulty

This year, we have been working to change the energy retail code to provide new protections for customers who are at risk of falling into debt and being disconnected. Working with consumer advocates and industry representatives, we published a revised set of draft protections aimed at ensuring customers in payment difficulty receive timely and meaningful assistance.

As part of this process, we held four stakeholder forums, six technical workshops and one public forum.

While good progress has been made, we did not meet the original completion date for finalising a new framework. This is because we revised our initial draft decision to take into account stakeholder feedback on the design of the proposed framework.

We will finalise new protections for customers in payment difficulty in 2017–18.

Promote active compliance cultures in the energy sector

We published an energy compliance and enforcement policy. Developed through consultation with consumer advocates and industry representatives, this policy sets out how we undertake our compliance and enforcement functions.

We held quarterly forums for retailers, distributors and consumer advocacy groups.

Reform our energy regulation to be more outcome focused

We have continued our work to reform our energy regulatory framework and make it more outcome focused.

During 2016–17, we focused on reforming regulations affecting customers experiencing payment difficulty.

We provided a submission to the Australian Competition and Consumer Commission's inquiry into electricity prices and supply.

We will continue our reform work program in 2017–18.

Publish the first annual report on the state of the Victorian energy market

We published our first annual report on the Victorian energy market in November 2016.

The report provides a comprehensive analysis of the Victorian energy retail market, including detailed information on each retailer licensed to sell energy in Victoria.



Energy team objectives, 2017–18

The main objectives are to:

- improve protections for customers experiencing payment difficulty
- continue to reform our energy regulation so that it is more outcome-focused
- further enhance the accessibility of our energy market reports
- implement our recommendation from the distributed generation inquiry to set time varying feed-in tariffs for 2018–19
- promote and enforce industry compliance with energy licences
- establish a register of persons who are exempt from holding a licence to sell or distribute electricity
- review and re-set the benchmark for unaccounted-for gas in Victoria.

Environmental factors

The energy market (and the policy framework supporting its operation) is transforming.

New energy technologies and service models are being introduced, and there are multiple government reviews into the energy sector currently underway. These reviews include an independent review into the future security of the national electricity market (the Finkel report), the Victorian Government's review of electricity and gas retail markets, the ACCC's inquiry into electricity prices and supply, and the Victorian Government's review of the electricity and gas network safety framework.

The recommendations arising from these reviews are likely to affect how we regulate Victoria's energy market, including the retail and distribution sector. We will respond to these recommendations, as well as energy market changes, in a timely and effective way through our regulatory reform work program.

Measuring our success in 2017–18

We will be successful if:

- industry conduct delivers desired outcomes for consumers, with respect to price, quality and the reliability of supply
- we deliver planned project outcomes on time and within budget
- energy businesses understand the expected standard of conduct, or proactively seek to clarify with us uncertainty about compliance issues
- stakeholders feel they have been engaged in an effective way during consultation processes.

Cost of energy industry regulation

In 2016–17, the total cost of the energy division was \$6.18 million. The cost includes the direct costs incurred by the energy team, plus an allocation for overhead costs.



OUR WORK, 2016–17

Transport

Creating effective and efficient incentives for businesses and markets to perform

Our transport team monitors pricing for prescribed services at the Port of Melbourne, advises the minister on accident towing prices, assesses and approves rail freight access arrangements, monitors Victorian country and regional taxi fares and determines taxi fares for metropolitan and large regional zones. We also report annually on the performance of Victoria's domestic building insurance scheme.

As part of our new Port of Melbourne responsibilities, we conduct regular reviews of the port's compliance with a pricing order and its processes for setting tenant rents. We also investigate complaints in relation to port pricing.



Our year in review



We implemented our new Port of Melbourne regulatory functions

In November 2016, we became responsible for ensuring the new Port of Melbourne leaseholder complies with the pricing order. This involves conducting five-yearly reviews, and investigating pricing complaints submitted by port users.

In March 2017, we released an overview paper detailing our roles under the new regulatory regime. In May, we released a consultation paper on our proposed regulatory approach to administering the ports pricing order.



We delivered key documents relating to rail and domestic building insurance

Over the 2016–17 financial year, we released three rail access decisions (V/Line, Metro and VicTrack). We also delivered two key reports relating to our domestic building insurance regulatory responsibilities (the 2016 monitoring report and the 2017 validation report).



We consulted on the airport rank fee and updated the taxi fare determination schedule

In August 2016, we released our consultation paper regarding our proposed changes to improve the transparency of how Melbourne Airport set the airport taxi rank fee. In November 2016, we released our final decision relating to an update of the maximum taxi fare schedule.

“ The regulatory approach we’re developing for the Port of Melbourne will promote a stable, predictable and transparent pricing environment for the port and its users.

MATT GIAMPICCOLO
Regulatory Analyst, Transport

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Progress report, 2016–17

Objective, 2016–17 	Performance against objective 
<p>Ports: Administer the Port of Melbourne pricing order</p>	<p>In March 2017, we released an overview paper regarding the Port of Melbourne lease and the commission's new roles under the new regulatory regime.</p> <p>In May 2017, we published our consultation paper regarding our approach to administering the Port of Melbourne pricing order.</p>
<p>Taxis: Decide on the airport rank fee and update the schedule of maximum taxi fares</p>	<p>In August 2016, we released our consultation paper on our proposed changes to the airport rank fee and maximum taxi fare scheduled.</p> <p>In October 2016, we released our final decision and determination in relation to the airport rank fee and update to the maximum taxi fare schedule.</p>
<p>Taxis: Monitor taxi fares in deregulated taxi zones</p>	<p>In December 2016, we released our annual taxi fare monitoring report for the country and regional areas of Victoria.</p>
<p>Rail access: Administer the Victorian Rail Access Regime</p>	<p>In 2016–17, we published three rail access decisions to extend access arrangements for three regulated rail businesses: V/Line, Metro and Vic Track.</p>
<p>Insurance: Monitor the domestic building insurance market</p>	<p>In March 2017, we published our annual performance monitoring report on the domestic building insurance industry.</p> <p>In June 2017, we published our biennial report on the adequacy and validity of the Victorian Managed Insurance Authority's domestic building insurance premiums.</p>



Transport team objectives, 2017–18

The main objectives are to:

- publish our commentary on the Port of Melbourne’s statement regarding its compliance with the pricing order
- finalise our statement of regulatory approach for the Port of Melbourne regulatory pricing order
- deliver our annual monitoring report for country and regional taxi fares
- deliver an accident towing review, which involves setting prices for accident towing services in the greater Melbourne metropolitan area
- review metropolitan taxi fares (if applicable)
- establish our ports pricing complaint investigation function
- deliver our annual domestic building insurance industry monitoring report.

Environmental factors

The main environmental factors influencing our work include the following key areas.

We are operating in an uncertain environment for commercial passenger vehicles (taxis)

We are monitoring the progress of government reforms to taxi licences and fares, which would have a significant impact on our responsibilities in this industry. Depending on the outcome, our role may evolve to reflect changes in this area.

There is a complex legislative and regulatory environment for ports

In 2017, we received new regulatory roles in relation to the Port of Melbourne. One of our key functions involves establishing regulatory processes for the port’s price compliance function under the pricing order. We also administer existing legislation, and develop and manage new relationships with the new private owners and port users to ensure they understand our new functions.

Measuring our success in 2017–18

In 2017–18, we have set the following principles for success within the transport team:

- We receive positive feedback on how we have engaged with stakeholders, for example through commission surveys.
- We deliver our project outputs on time and on budget.
- We present information in a way that is accessible and easily understood.

Cost of transport industry regulation

In 2016–17, the total cost of the transport division was \$2.27 million. The cost includes the direct costs incurred by the transport team, plus an allocation for overhead costs.



OUR WORK, 2016–17

Local government

Promoting sustainable outcomes for councils and community under the Fair Go Rates system

Our local government team focuses on administering the government's Fair Go Rates system. Council rates are capped according to the cap that is set each year by the Minister for Local Government. This cap limits the maximum amount that councils may increase rates in a year unless councils seek approval from the commission for a higher cap.

Our core work involves assessing higher cap applications from councils, reporting on council compliance with rate caps, and providing guidance to the sector

on the requirements of the Fair Go Rates system. Each year we also provide advice to the minister, who then sets the rate cap for councils for the coming financial year.



Our year in review



We completed higher cap assessments and commissioned key reviews

We reviewed higher cap applications from five councils, ultimately approving higher caps in four cases and rejecting one. This year was the first time we assessed multi-year caps.

We also commissioned an independent review of our process and approach in the first-year implementation of the rate-capping system.



We delivered key guidance and advice materials

We have updated our guidance for multi-year higher cap applications, and we provided advice to the Minister for Local Government for the setting of the rate cap for the 2017–18 rating year.

We also commenced two major studies on productivity and growth in the sector.



Progress report, 2016–17

Objective, 2016–17



Performance against objective



Improve our processes for, and approach to, the Fair Go Rates system

We adopted recommendations from an independent review of the first year and improved our process and approach in assessing higher cap applications.

Build up the capacity of the local government sector in relation to the Fair Go Rates system

We held workshops with the sector to explain our higher cap decisions for the previous year and our expectations for the coming year as set out in our guidance.

Incorporate the assessment of multi-year rate caps for councils, allowing councils (from 2017) to apply for a higher cap for more than a year (up to a maximum of four years)

Our guidance was updated to assist councils in making higher cap applications for multiple years. We received three applications for multi-year rate caps for the 2017–18 rating year.

Councils were able to prepare and develop applications for higher caps consistent with the legislation and the commission's expectations.



Local government team objectives, 2017–18

This year, our main objectives are to:

- update our guidance to councils
- publish the 2017–18 rating year compliance report
- undertake a community engagement conference
- advise the Minister for Local Government on the 2018–19 rate cap
- share the lessons from our growth and productivity studies with the local government sector
- undertake 2018–19 rating year higher cap assessments
- develop an agreed set of measures for a report on the financial, service and infrastructure outcomes of the Fair Go Rates system (to be released in December 2018)

Environmental factors

There are several main environmental factors influencing our work:

- We are unable to predict the number of higher cap applications we will receive. We will work with councils to understand whether they will be seeking a higher cap, then plan accordingly.
- The Victorian Government is currently reviewing the *Local Government Act 1993*. This review looks at the objectives, roles and functions of councils and the power that councils need to perform their functions. We will continue to monitor the implications of any changes to the Act for our processes and approach, and adapt our requirements accordingly.
- We will continue to monitor and respond to issues raised by the Environment and Planning Committee.

Measuring our success in 2017–18

In 2017–18, we have set the following principles for success within the local government team:

- Our reports are rigorous, evidence based, well written and balanced.
- We present information and provide guidance that is accessible and easily understood.
- We receive positive feedback from stakeholders on our process, approach and decisions.
- Ratepayers and communities are more informed and participate more actively in council decisions, including the need to apply for higher caps.

Cost of local government industry regulation

In 2016–17, the total cost of the local government division was \$2.94 million. The cost includes the direct costs incurred by the local government team, plus an allocation for overhead costs.

“ The Fair Go Rates system helps us ensure that councils receive appropriate funding to deliver services and critical infrastructure to their communities.

LISA HORSBURGH
Regulatory Analyst, Local Government





OUR WORK, 2016–17

Victorian Energy Efficiency Target

Streamlining our processes to improve service delivery for participants

Our Victorian Energy Efficiency Target team aims to reduce greenhouse gases by making energy efficiency improvements more affordable for consumers. We are empowered to implement this scheme under the *Victorian Energy Efficiency Target Act 2007*.

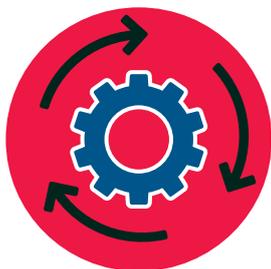
Under the scheme, accredited businesses can offer discounts and special offers on selected energy saving products and appliances installed at homes, businesses or other non-residential premises. The bigger the greenhouse gas reduction, the bigger the potential saving.

As part of this scheme, we:

- continuously review our systems and processes (in consultation with participants) to ensure that all consumers benefit from the scheme
- provide practical advice and information to government and industry about our experience in administering the scheme.



Our year in review



We improved our processes and implemented new initiatives

In 2016–17, we introduced processes for weather sealing products, non-building based lighting installations and project-based activities, which provide incentives for large and custom upgrades.

We also improved our energy efficiency certificate surrender audit process.

Throughout 2016, we successfully implemented new administrative requirements to support the introduction of regulatory changes to the scheme.

In the products area, we undertook a number of initiatives during the year. This included making improvements to the product approval process and undertaking independent safety and performance testing of products.

Our work program was supported by changes to our IT system. These changes were designed to facilitate new administrative requirements and create a better website experience for VEET account holders and our staff.



We strengthened our compliance and enforcement approach

We strengthened our administration of commercial lighting activities, as this became the largest activity in the scheme. Lighting activities overall accounted for more than 90 per cent of created certificates for the year.

We also:

- conducted over 100 audits and investigations of Victorian energy efficiency certificates created by accredited persons
- began a review of our compliance and enforcement approach
- expanded our program to independently verify the safety and performance characteristics of emerging lighting products.

We conduct pre-registration investigations when we have identified potential compliance issues in relation to the creation of Victorian energy efficiency certificates.

In 2016, we called over 1,400 consumers regarding 11 separate pre-registration investigations. These investigations resulted in over 11,200 energy efficiency certificates being withdrawn due to compliance issues in the 2016 calendar year.



We conducted two industry-wide forums, several activity specific workshops and meetings with participants

In 2016–17, we held public information forums in October and April. These half-day events were attended by hundreds of people and included presentations on the status of the scheme, compliance issues, and how to meet scheme requirements.

In the second half of 2016, we held a stakeholder information session on the administrative requirements for non-building based lighting.

We also helped the Australian Government create a consultation regulatory impact statement on setting minimum energy performance standards for LED lighting products and the potential phase-out of halogen lamps. We supported this work through our participation in a technical working group.



Progress report, 2016–17

Objective, 2016–17 	Performance against objective 
<p>Update our systems and processes for administering all new and amended activities prescribed by relevant regulations</p>	<p>We released explanatory and guidance documents to support the introduction of project-based activities, weather sealing and non-building-based lighting. We also updated our IT systems to include the new requirements.</p>
<p>Achieve operational performance targets</p>	<p>This year, we:</p> <ul style="list-style-type: none"> • exceeded our target to register 90 per cent of created energy efficiency certificates within two days of the target timeframe • assessed 100 per cent of accreditation applications within the required legislative timeframe • received 4,558 stakeholder queries and responded to 90 per cent of them within our target response time • approved 2,152 new products to be used in the scheme.
<p>Monitor accredited persons and relevant entities to ensure they comply with the VEET Act and regulations.</p>	<p>We conducted over 100 audits and investigations, leading to 51,387 energy efficiency certificate surrenders and 624,181 certificate withdrawals.</p> <p>Accredited persons surrendered and withdrew all required certificates within the agreed time.</p> <p>Twenty-five relevant entities had a certificate liability in 2016. These entities surrendered 5.3 million certificates to acquit their liability. No relevant entity had a certificate shortfall for the year.</p>
<p>Identify areas for improvement in our systems and processes.</p>	<p>We began a review of our web-based system to identify improvements and ensure our systems could cope with future changes.</p> <p>We streamlined our product approval approach to help us manage a huge increase in applications and feedback from industry groups and participants. The changes resulted in a significant improvement in processing times. We also required relevant entity audits to be completed to a reasonable assurance level – this improved the quality of audit reporting by relevant entities.</p>



Energy efficiency target team objectives, 2017–18

This year, our main objectives are to:

- engage with stakeholders and the Department of Environment, Land, Water and Planning to ensure that we address future scheme developments and responses to emerging issues
- update systems and processes to administer all regulatory amendments, including the introduction of new and updated activities to the scheme as prescribed by the regulations (including project-based activities, non-building based lighting and insulation activities)
- develop and implement solutions to ensure that the Victorian Energy Efficiency Target website (veet.vic.gov.au) continues to operate effectively, particularly as the scheme increases in size and complexity
- scope, discuss, approve and implement improvements as required, and establish systems and processes for new activities
- consult with stakeholders before we implement improvements
- achieve operational performance targets, including:
 - processing 90 per cent of Victorian Energy Efficiency Certificates within two days of the target timeframe
 - providing 90 per cent of investigation results for escalated certificates to participants within two days of the target timeframe
 - processing 100 per cent of accreditation applications within the legislative timeframe
 - processing 90 per cent of product applications within target timeframe
 - assessing 100 per cent of project-based activities applications within legislated timeframes
- monitor accredited persons to ensure they implement all recommendations from audit or investigations undertaken by the commission within a reasonable timeframe
- respond to 90 per cent of stakeholder queries and complaints within 30 days.



“ The Victorian Energy Efficiency Target is Australia’s largest energy efficiency certificate program. It helped householders and businesses save more than \$400 million on their energy bills in 2017.

MICHELLE BARRILE,
Project Officer, Victorian Energy Efficiency Target scheme





Environmental factors

The key environmental factors influencing our work are:

- There are additional risks raised by our administration of new, more complex activities, including:
 - the introduction of project-based activities (new ways of measuring energy efficiency that help large and custom projects)
 - a sub-category of non-residential lighting for outdoor environments called ‘non-building based lighting’ (including public lighting street lighting and other forms of outdoor lighting).
- The VEET scheme and the energy efficiency industry has matured. We aim to adapt our administrative approach to suit changing circumstances, including the introduction of new technology, emerging compliance issues and developments in other state-based and national schemes.
- We will review our process to reflect policy developments in Victoria. In doing this, we seek to ensure that consumers continue to access a seamless and cost efficient energy efficiency program.

Measuring our success in 2017–18

In 2017–18, we have set the following principles for success within the energy efficiency target team:

- We deliver all regulatory changes on time.
- We identify breaches of the VEET Act and take appropriate and timely action.
- We resolve consumer complaints in a timely and professional manner.
- Staff have strong and effective working relationships with participants (demonstrated by stakeholders acknowledging that robust processes are required and effective).

Cost of energy efficiency target industry regulation

In 2016–17, the total cost of the energy efficiency target division was \$7.24 million. The cost includes the direct costs incurred by the energy efficiency target team, plus an allocation for overhead costs.



Financial overview



We recorded an operating surplus

Our operating surplus was \$2.2 million in 2016–17, compared to \$1.2 million in 2015–16.

This summary of our financial performance shows the movement in actual revenues, expenses, balance sheet items and net cash flow.

Five-year financial summary: controlled activities

	2016–17 (\$)	2015–16 (\$)	2014–15 (\$)	2013–14* (\$)	2012–13* (\$)
Financial performance					
Total income from transactions	23,948,697	19,599,126	15,956,224	15,878,000	17,023,361
Total expenses from transactions	21,769,240	18,351,057	15,536,460	15,374,808	17,133,461
Net result from transactions	2,179,457	1,248,069	419,764	503,192	(110,100)
Comprehensive result	2,113,707	1,186,283	407,506	503,677	328,629
Financial position					
Total assets	16,689,963	13,815,973	12,879,451	11,602,652	11,037,075
Total liabilities	4,809,434	4,049,151	4,298,912	3,496,315	3,434,415
Total equity	11,880,529	9,766,822	8,580,539	8,106,337	7,602,660
Cash flow					
Net cash flow from operating activities	13,271	14,047	24,101	35,450	476,603

* In 2013–14, we applied AASB 119 *Employee Benefits* (September 2011, as amended) and the related consequential amendments for the first time. This affected the way annual leave provisions are measured. Comparative figures for 2012–13 have been restated accordingly.



We are funded through parliamentary appropriations

These appropriations increased by \$4.3 million to \$23.9 million in 2016–17. This is largely because we received funding received from the 2016–17 state budget to:

- administer the Fair Go Rates system
- monitor and enforce consumer protection for electricity and gas customers
- implement pricing regulation for port users (as part of the Port of Melbourne lease).

Our expenditure increased by \$3.4 million in 2016–17

This is mainly due to the new works mentioned above.

Our total assets increased from \$13.8 million to \$16.7 million

Our major asset is our receivable from the state administrative unit (SAU). The SAU receivables include the accumulated surplus and accrued employee entitlements and payables.

Our total liabilities increased from \$4.0 million to \$4.7 million. Our major liabilities are accounts payable and employee provisions.

Compliance with financial policies and model report requirements

In line with mandatory requirements, we include the following disclosures:

Advertising	There were no advertising campaigns with a media spend of \$100,000 or greater.
Consultancies over \$10,000	We engaged 40 consultancies at a total expenditure of \$1,719,617 (excluding GST). Details of individual consultancies can be viewed at www.esc.vic.gov.au .
Consultancies under \$10,000	We engaged 4 consultancies at a total expenditure of \$12,968 (excluding GST).
Ex-gratia payments	There were no ex-gratia payments in 2016–17.
Major contracts	There were no major contracts greater than \$10 million awarded during 2016–17.
National Competition Policy	The commission is compliant with the National Competition Policy, including compliance with the requirements of the Department of Treasury and Finance's Competition Neutrality Policy.
<i>Victorian Industry Participation Policy Act 2003</i>	The Victorian Industry Participation Policy must be applied in all procurement activities valued at \$3 million or more in metropolitan Melbourne and for state-wide projects, or \$1 million or more in regional Victoria. The commission did not commence or complete any such procurement activities in 2016–17.



Output summary



Delivering performance reviews, reports and other key regulatory outcomes

Performance measures	Unit of measure	2016–17 actual	2016–17 target	Performance variation (%)
Quantity				
New or revised regulatory instruments issued	number	6	6	-
Performance reports for regulated businesses or industries	number	11	11	-
Performance reviews and compliance audits of regulated businesses	number	137	142	(3.5)
Price approvals of regulated businesses	number	27	40	(32.5)
<i>The 2016–17 actual is lower than the 2016–17 target due to a lesser requirement to perform price approvals of regulated businesses than originally anticipated.</i>				
Registration and accreditation decisions/ approvals in relation to the Victorian Energy Efficiency Target Scheme	number	5980	5 400	10.7
<i>The 2016–17 actual is higher than the 2016–17 target due to more businesses participating and offering VEET services than originally anticipated.</i>				
Reviews, investigations or advisory projects	number	2	2	-
Compliance and enforcement activities – energy	number	10	10	-
Quality				
Decisions upheld where subject to review, appeal or disallowance	per cent	100	100	-
Timeliness				
Delivery of major milestones within agreed timelines	per cent	100	100	-
Cost				
Total output cost	\$ million	22.3	24.6	(9.3)
<i>The 2016–17 outcome is lower than the 2016–17 target mainly due to the timing of expenditure for water price reviews and information technology projects (this cost includes DTF overheads).</i>				

Financial summaries



Licence fee revenue

The following table shows licence fees by type. We are responsible for notifying licensees of the charges determined by the Minister for Finance.

Type of licence	Total revenue 2016–17 (\$)	Total revenue 2015–16 (\$)
Electricity industry		
Electricity generation	188,094	174,000
Electricity transmission	40,538	37,500
Electricity distribution	671,225	341,668
Electricity trader	811	750
Retail (electricity and gas)	2,652,832	2,207,900
Gas industry		
Distribution	394,832	85,417
Ports industry		
Port of Melbourne Corporation	0	319,861
Water industry		
Water and sewerage	3,286,508	3,251,626



Staff snapshot, 2016–17



Staff numbers

All data shown here was correct on 30 June 2017. For more detailed workforce data, refer to Appendix A.

Headcount and full-time equivalent employees for the last five years*

Year	Headcount	Full-time equivalent employees
2013	65	61.26
2014	68	63.37
2015	72	68.57
2016	91	86.87
2017	108	103.69

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

Our staff, by gender, for the last five years (by headcount)*

Year	Female employees	Male employees
2013	30	28
2014	30	29
2015	31	31
2016	35	39
2017	46	46

* Includes ongoing employees only (excludes fixed-term and casual employees).

Our staff, by part-time and full-time employment*

Employment type	Headcount
Part-time employees	12
Full-time employees	80

* Includes ongoing employees only (excludes fixed-term and casual employees).



Staff numbers (continued)

Our staff, by division* (headcount)

Division	Headcount
Corporate	16
Energy	20
Energy targets	37
Local government	12
Transport	9
Water	14
Total	108

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

Our staff by Victorian Public Service (VPS) classification levels*

VPS classification	Headcount
VPS 1	0
VPS 2	4
VPS 3	20
VPS 4	22
VPS 5	23
VPS 6	21
Senior technical specialists	2
Senior regulatory analysts	5
Executives	8
Other†	3

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

† 'Other' indicates casual employees.



Occupational health and safety

We have continued to promote occupational health and safety through a range of measures, including our occupational health and safety policy, health and safety representative and an OH&S committee, which meets quarterly.

Workcover statistics

Workcover statistics	2015–16	2016–17
Claims during the year	0	0

Private interest declarations

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

Employee relations

No employee time was lost in 2016–17 due to industrial disputes.

Employment and conduct principles

We are committed to applying merit and equity principles when we appoint staff. Our selection processes ensure that applicants are assessed and evaluated fairly and equitably on the basis of the key selection criteria and other accountabilities.

We have correctly classified our employees in workforce data collections.



Executive numbers

Reconciliation of executive numbers

For more information on the remuneration of executives, see note 9.3 in the financial statements of this report.

	2017	2016
Executives	8	5
Accountable officer*	1	1
Less separations	0	0
Total executive numbers at 30 June 2017	8	5

* The commission's accountable officer was a statutory appointee and is not included in the executive numbers.

Comparison of executive numbers by gender

Senior employees, by type	2017		2016	
	Female	Male	Female	Male
Senior technical specialists	2	0	0	1
Senior regulatory analysts	2	3	2	3
Executives	2	6	0	5



Executive numbers (continued)

Annualised total salary for senior employees of the commission, by \$20,000 bands*

Salary range	Executives	Senior technical specialists	Senior regulatory analysts	Other
< \$160,000		1	1	
\$160,000–\$179,999		1	4	
\$180,000–\$199,999			1	
\$200,000–\$219,999	7			
\$260,000–\$279,999	1			
Total	8	2	6	0

*The salaries reported above are for the full financial year, at a one-full-time-equivalent rate, and excludes superannuation.

Financial statements

for the year ended 30 June 2017

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Declaration in the financial statements

The attached financial statements for the Essential Services Commission have been prepared in accordance with Direction 5.2 of the Standing Directions of the Minister for Finance under the *Financial Management Act 1994*, applicable financial reporting directions, Australian accounting standards, including interpretations, and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the comprehensive operating statement, balance sheet, statement of changes in equity, cash flow statement and accompanying notes, presents fairly the financial transactions during the year ended 30 June 2017 and financial position of the commission as at 30 June 2017.

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

We authorise the attached financial statements for issue on 10 October 2017.

Anne Hodder
Chief Finance Officer
Essential Services Commission

Melbourne
10 October 2017

Ron Ben-David
Chair
Essential Services Commission

Melbourne
10 October 2017



VAGO

Victorian Auditor-General's Office

Independent Auditor's Report

To the Chairperson and Commissioners of the Essential Services Commission

Opinion	<p>I have audited the financial report of the Essential Services Commission (the Commission) which comprises the:</p> <ul style="list-style-type: none"> • balance sheet as at 30 June 2017 • comprehensive operating statement for the year then ended • statement of changes in equity for the year then ended • cash flow statement for the year then ended • notes to the financial statements, including significant accounting policies • Accountable Officer's and Chief Financial Officer's declaration. <p>In my opinion the financial report presents fairly, in all material respects, the financial position of the Commission as at 30 June 2017 and its financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of the <i>Financial Management Act 1994</i> and applicable Australian Accounting Standards.</p>
Basis for Opinion	<p>I have conducted my audit in accordance with the <i>Audit Act 1994</i> which incorporates the Australian Auditing Standards. My responsibilities under the Act are further described in the <i>Auditor's responsibilities for the audit of the financial report</i> section of my report.</p> <p>My independence is established by the <i>Constitution Act 1975</i>. My staff and I are independent of the Commission in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's <i>APES 110 Code of Ethics for Professional Accountants</i> (the Code) that are relevant to my audit of the financial report in Australia. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.</p> <p>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.</p>
Chairperson and Commissioners' responsibilities for the financial report	<p>The Chairperson and Commissioners are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the <i>Financial Management Act 1994</i>, and for such internal control as the Chairperson and Commissioners determine is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error.</p> <p>In preparing the financial report, the Chairperson and Commissioners are responsible for assessing the Commission's ability to continue as a going concern, and using the going concern basis of accounting unless it is inappropriate to do so.</p>



Auditor's responsibilities for the audit of the financial report

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

As part of an audit in accordance with the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit 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 Commission's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chairperson and Commissioners.
- conclude on the appropriateness of the Chairperson and Commissioners' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Commission to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

I communicate with the Chairperson and Commissioners regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

MELBOURNE
11 October 2017

Timothy Maxfield
as delegate for the Auditor-General of Victoria

Comprehensive operating statement

For the year ended 30 June 2017

	Notes	2017 \$	2016 \$
Income from transactions			
Grants	2	23,948,697	19,599,126
Total income from transactions		23,948,697	19,599,126
Expenses from transactions			
Employee expenses	3.1.1	13,052,561	10,637,168
Depreciation and amortisation	5.1.1	302,926	271,947
Finance lease interest		1,946	2,753
Capital asset charge	3.2	6,528	8,172
Supplies and services	3.3	8,405,279	7,431,017
Total expenses from transactions		21,769,240	18,351,057
Net result from transactions		2,179,457	1,248,069
Other economic flows included in net result			
Net gain/(loss) on disposal of non-financial assets		(116,628)	4,117
Net gain/(loss) from revaluation of leave liabilities		50,878	(65,903)
Total other economic flows included in net result		(65,750)	(61,786)
Net result		2,113,707	1,186,283
Comprehensive result		2,113,707	1,186,283

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



Balance sheet

As at 30 June 2017

	Notes	2017 \$	2016 \$
Assets			
Financial assets			
Cash on hand		-	500
Receivables	6.1	15,925,037	13,073,294
Total financial assets		15,925,037	13,073,794
Non-financial assets			
Prepayments		497,197	155,415
Property, plant and equipment	5.1	128,592	150,957
Intangible assets	5.2	139,137	435,807
Total non-financial assets		764,926	742,179
Total assets		16,689,963	13,815,973
Liabilities			
Payables	6.2	1,629,744	1,351,930
Employee related provisions	3.1.2	3,051,384	2,655,662
Other provisions	6.3	49,089	-
Finance lease liabilities	7.1	79,217	41,559
Total liabilities		4,809,434	4,049,151
Net assets		11,880,529	9,766,822
Equity			
Contributed capital		873,921	873,921
Accumulated surplus		11,006,608	8,892,901
Total equity		11,880,529	9,766,822

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

Cash flow statement

For the year ended 30 June 2017

	Notes	2017 \$	2016 \$
Cash flows from operating activities			
Receipts from government		21,861,123	19,018,880
Payments to suppliers and employees		(21,839,378)	(18,993,908)
Capital asset charge paid		(6,528)	(8,172)
Interest paid		(1,946)	(2,753)
Net cash flows from operating activities	7.2	13,271	14,047
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		22,637	37,727
Net cash flows from/(used in) investing activities		22,637	37,727
Cash flows from financing activities			
Repayment of finance leases		(36,408)	(51,774)
Net cash flows from/(used in) financing activities		(36,408)	(51,774)
Net increase in cash and cash equivalents		(500)	-
Cash and cash equivalents at the start of the year		500	500
Cash and cash equivalents at the end of the year		-	500

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



Statement of changes in equity

For the year ended 30 June 2017

	Contributed capital	Accumulated surplus	Total
	\$	\$	\$
Balance at 1 July 2015	873,921	7,706,618	8,580,539
Net result for the year		1,186,283	1,186,283
Balance at 30 June 2016	873,921	8,892,901	9,766,822
Revaluation increment			
Net result for the year		2,113,707	2,113,707
Balance at 30 June 2017	873,921	11,006,608	11,880,529

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



Notes to the financial statements

Note 1: About this report

The Essential Services Commission is a government commission of the State of Victoria, established under the *Essential Services Commission Act 2001*.

Its principal address is:

Essential Services Commission

Level 37, 2 Lonsdale Street
Melbourne VIC 3000

A description of the nature of its operation and its principal activities is included in the 'Report of operation', which does not form part of these financial statements.

Basis of preparation

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

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

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

Revisions to accounting estimates are recognised in the period in which the estimate is revised and also in future periods that are affected by the revision.

The financial statements cover the commission as an individual reporting entity and include all the controlled activities of the commission.

Compliance

These general purpose financial statements have been prepared in accordance with the *Financial Management Act 1994* and applicable Australian accounting standards (AASs) including interpretations, issued by the Australian Accounting Standards Board (AASB). In particular, they are presented in a manner consistent with the requirements of AASB 1049 *Whole of Government and General Government Sector Financial Reporting*.

Where relevant, those paragraphs of the AASs applicable to not-for-profit entities have been applied. Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.



Note 2: Funding delivery of our services

We operate under the *Essential Services Commission Act 2001*. The Act designates us as an economic regulator (pricing, standards and monitoring for anti-competitive conduct) and lays a foundation for us to perform our functions and exercise our powers in respect of regulated industries operating under relevant legislations.

At 30 June 2017 the regulated industries included electricity, gas, water and sewerage, ports, taxis and rail freight.

We are predominantly funded by accrual based parliamentary appropriations for the provision of outputs. These appropriations are received by the Department of Treasury and Finance and on forwarded to us in the form of grants.

Our objective is to promote the long-term interests of Victorian consumers with regards to the price, quality and reliability of essential services.

Item	2017	2016
	\$	\$
Income from transactions		
Grants from Department of Treasury and Finance	23,948,697	19,599,126
Total income from transactions	23,948,697	19,599,126

Income is recognised to the extent it is probable the economic benefits will flow to the commission and the income can be reliably measured at fair value.

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

Note 3: The cost of delivering services

This section provides an account of the expenses incurred by us in delivering services, including:

- 3.1 Expenses incurred in the delivery of services
 - 3.1.1 Employee expenses in the comprehensive operating statement
 - 3.1.2 Employee benefits in the balance sheet
- 3.2 Capital asset charge
- 3.3 Supplies and services.

3.1 Expenses incurred in the delivery of services

Item	Notes	2017	2016
		\$	\$
Employee expenses	3.1.1	13,052,561	10,637,168
Capital asset charge	3.2	6,528	8,172
Supplies and services	3.3	8,405,279	7,431,017
Total expenses incurred in delivery of services		21,464,368	18,076,357

3.1.1 Employee expenses – comprehensive operating statement

Item	2017	2016
	\$	\$
Salaries and wages	10,028,044	8,299,024
Superannuation		
- Defined contribution plans	990,894	811,326
- Defined benefits expense	15,622	16,763
Annual and long service leave expense	1,392,539	970,311
On-costs	625,462	539,744
Total employee expenses	13,052,561	10,637,168

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



Superannuation

Superannuation expenses represent the employer contributions for members of both defined benefit and defined contribution superannuation plans that are paid or payable during the reporting period.

The Department of Treasury and Finance (DTF) centrally recognises, on behalf of the State as the sponsoring employer, the net defined benefit cost and the defined benefit liability or surplus related to the members of these plans as administered items. Refer to DTF's annual financial statements for more detailed disclosures in relation to these plans.

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

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

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

Fund type	Superannuation company name
Defined benefit funds	Emergency Services and State Super - New Scheme
Defined contribution funds	VicSuper

We do not have any contributions outstanding to the above funds and there have been no loans made from the fund.

3.1.2 Employee benefits in the balance sheet

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave for services rendered to the reporting date and recorded as an expense during the period the services are delivered.

Provisions	2017	2016
	\$	\$
Current:		
- Annual leave		
Unconditional and expected to settle within 12 months	782,896	594,638
Unconditional and expected to settle after 12 months	160,806	196,518
- Long service leave		
Unconditional and expected to settle within 12 months	272,119	255,243
Unconditional and expected to settle after 12 months	1,451,856	1,267,122
- Redundancy	78,945	-
- Performance bonus	9,240	74,000
Total current provisions for employee benefits	2,755,862	2,387,521
Non-current:		
- Long service leave	295,522	268,141
Total provisions for employee benefits	3,051,384	2,655,662

Provisions made in respect of employee benefits expected to be wholly settled within 12 months are measured at their nominal values, using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be wholly settled within 12 months are measured as the present value of the estimated future cash outflows to be made by us in respect of services provided by employees up to the reporting date. The liability is classified as a current liability where we do 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 we have an unconditional right to defer the settlement of the entitlement until the employee has completed the requisite years of service.



3.2 Capital asset charge

Item	2017	2016
	\$	\$
Capital asset charge	6,528	8,172

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

3.3 Supplies and services

Supplies and services	2017	2016
	\$	\$
Rentals and outgoings	966,699	956,921
Purchases of services	5,866,817	5,162,141
Other	1,571,763	1,311,955
Total supplies and services	8,405,279	7,431,017

Supplies and services are recognised as an expense in the reporting period in which they are incurred.

Rental 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.

Note 4: Administered items

In addition to the specific controlled operations which are included in the balance sheet, comprehensive operating statement, statement of equity and cash flow statement, we administer or manage activities on behalf of the State. The transactions relating to these State activities are reported as administered in this note. Administered transactions give rise to income, expenses, assets and liabilities and are determined on an accrual basis. Administered income consists principally of licence fees. Administered assets include licence fee income earned but yet to be collected. Licence fees are accrued on the basis of a determination made by the Minister for Finance.

We act on behalf of the Victorian Government in collecting licence fees administered by us under the *Electricity Industry Act 2000*, the *Gas Industry Act 2001*, the *Water Industry Act 1994* and the *Port Management Act 1995*. These and certain other administered revenues are collected by the commission but not controlled by it, and are not recognised as revenues/receivables within the body of the financial statements, but are reported as administered revenues/receivables. Such amounts are required to be paid to the Consolidated Fund.

Item	2017	2016
	\$	\$
Administered income from transactions		
Licence and other fees	15,059,925	12,638,027
Other income	130,000	1,413,142
Total administered income from transactions	15,189,925	14,051,169
Administered expenses from transactions		
Payments into the Consolidated Fund	14,276,566	12,955,083
Total administered expenses from transactions	14,276,566	12,955,083
Administered net result	913,359	1,096,086
Administered assets		
Financial assets		
Debtors	146,250	58,377
Accrued income	7,114,208	6,418,722
Total administered assets	7,260,458	6,477,099
Administered liabilities		
Unearned income	-	130,000
Total administered liabilities	-	130,000
Administered net assets	7,260,458	6,347,099



Note 5: Key assets available to support delivery of services

We control property plant and equipment that are utilised in fulfilling its objectives and conducting its activities. They represent the key resources that have been entrusted to the commission to be utilised for delivery of services including:

- 5.1 Property, plant and equipment
 - 5.1.1 Depreciation and amortisation
 - 5.1.2 Reconciliation of movements in carrying values of property, plant and equipment
- 5.2 Intangible assets.

5.1 Property, plant and equipment

Public Administration Purpose Group						
Item	Gross carrying amount		Accumulated depreciation		Net carrying amount	
	\$		\$		\$	
	2017	2016	2017	2016	2017	2016
Leasehold improvements	49,089	462,762	(3,273)	(364,970)	45,816	97,792
Office and computer equipment at fair value	64,228	91,575	(60,068)	(79,660)	4,160	11,915
Motor vehicle under finance lease	101,506	64,185	(22,890)	(22,935)	78,616	41,250
Net carrying amount	214,823	618,522	(86,231)	(467,565)	128,592	150,957

Initial recognition

Items of property, plant and equipment, are measured initially at cost and subsequently revalued at fair value less accumulated depreciation and impairment. Where an asset is acquired for no or nominal cost, the cost is its fair value at the date of acquisition.

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

Subsequent measurement

Property, plant and equipment are subsequently measured at fair value less accumulated depreciation and impairment. Fair value is determined with regard to the asset's highest and best use (considering legal or physical restrictions imposed on the asset, public announcements or commitments made in relation to the intended use of the asset).

Leasehold improvements

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

5.1.1 Depreciation and amortisation

Item	2017	2016
	\$	\$
Charge for the period		
Leasehold improvements	18,930	101,867
Office and computer equipment	5,517	3,675
Motor vehicles under finance lease	20,935	17,522
Intangible assets	257,544	148,883
Total depreciation and amortisation	302,926	271,947

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

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

Typical estimated useful lives applicable for the years ended 30 June 2017 and 30 June 2016 are as follows:

Item	Useful life
Leasehold improvements	4–10 years
Office and computer equipment	3–10 years
Motor vehicles under finance lease	2–3 years
Capitalised software development	3–7 years

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



Impairment of non-financial assets

All non-financial physical assets and intangible assets, except non-financial physical assets held for sale, 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 to other economic flows except to the extent that the write-down can be debited to an asset revaluation surplus amount applicable to that class of asset.

If there is an indication that there has been a reversal in the estimate of an asset's recoverable amount since the last impairment loss was recognised, the carrying amount shall be increased to its recoverable amount. The impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised in prior years.

5.1.2 Reconciliation of movements in carrying values of property, plant and equipment

Public Administration Purpose Group				
Item	Leasehold improvements	Office and computer equipment	Motor vehicles under finance lease	Total
	\$	\$	\$	\$
2017				
Carrying amount at start of year	97,792	11,915	41,250	150,957
Additions	49,089		74,065	123,154
Disposals	(82,136)	(2,238)	(15,764)	(100,137)
Transfers between classes				
Net transfers free of charge				
Revaluation of land				
Net transfers through contributed capital				
Depreciation expense	(18,930)	(5,517)	(20,935)	(45,382)
Carrying amount at end of year	45,816	4,160	78,616	128,592
2016				
Carrying amount at start of year	199,659	15,590	64,942	280,191
Additions	-	-	27,441	27,441
Disposals	-	-	(33,611)	(33,611)
Depreciation expense	(101,867)	(3,675)	(17,522)	(123,064)
Carrying amount at end of year	97,792	11,915	41,250	150,957

5.2 Intangible assets

Item	2017	2016
	\$	\$
Intangible assets		
Capitalised software development	1,251,572	1,383,037
Less: accumulated depreciation	(1,112,435)	(947,230)
Total intangible assets	139,137	435,807
Reconciliation of carrying amount		
Carrying value at start of year	435,807	584,690
Additions	(39,126)	
Depreciation expense	(257,544)	(148,883)
Carrying value at end of year	139,137	435,807

Initial recognition

Intangible assets represent identifiable non-monetary assets without physical substance. Purchased intangible assets are initially recognised at cost. Subsequently, purchased intangible assets with finite useful lives are carried at cost less accumulated depreciation and impairment. Depreciation and amortisation 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. Our internally generated produced assets comprise capitalised software development.

The intangible assets with finite useful life are tested for impairment whenever an indication of impairment is identified. The policy in connection with testing the impairment is outlined in the section 5.1.1.

Note 6: Other assets and liabilities

This section sets out those assets and liabilities that arose from our controlled operations, including:

- 6.1 Receivables
- 6.2 Payables
- 6.3 Other provisions.

6.1 Receivables

Item	2017	2016
	\$	\$
Current:		
Contractual		
Debtors	71,515	15,634
	71,515	15,634
Statutory		
Amounts owing from government departments	15,439,808	12,687,404
GST recoverable	118,193	102,114
	15,558,001	12,789,518
Total current receivables	15,629,516	12,805,152
Non-current:		
Statutory		
Amounts receivable from government departments	295,521	268,142
Total non-current receivables	295,521	268,142
Total receivables	15,925,037	13,073,294

Receivables consist of:

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

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

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

6.2 Payables

Item	2017	2016
	\$	\$
Current:		
Contractual		
Creditors and accruals	1,629,744	1,351,930
Statutory		
Amounts payable to other government agencies	-	-
Total payables	1,629,744	1,351,930

Payables consist of:

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

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

6.3 Other provisions

	2017	2016
	\$	\$
Current:		
Make-good provision	49,089	-
Total other provisions	49,089	-

Other provisions are recognised when we have a present obligation, 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.



Note 7: Financing our operation

This section provides information on the sources of finance we use during our operations, along with interest expenses (the cost of borrowings) and other information related to our financing activities.

This section includes disclosures of balances that are financial instruments (such as borrowings and cash balances), including:

- 7.1 Finance lease liabilities
- 7.2 Reconciliation of net result to cash flow from operating activities
- 7.3 Commitments for expenditure.

7.1 Finance lease liabilities

Item	2017	2016
	\$	\$
Secured		
Current:		
Finance lease liabilities	20,506	23,015
Non-current:		
Finance lease liabilities	58,711	18,544
Total borrowings	79,217	41,559

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:

Item	2017	2016
Motor vehicles under finance lease	78,616	41,250



Item	2017	2016
	\$	\$
Finance lease liabilities		
Liabilities in relation to finance leases are payable as follows:		
Within one year	22,927	24,194
Later than one year but not later than five years	59,612	19,434
Minimum lease payments	82,539	43,628
Less: future finance charges	(3,322)	(2,069)
Present value of minimum lease payments	79,217	41,559
Shown in the financial statements as:		
Current	20,506	23,015
Non-current	58,711	18,544
	79,217	41,559

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

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

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

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



Maturity analysis of finance lease liabilities

Item	Maturity					
	Carrying amount	Nominal amount	Less than 1 month	1–3 months	3 months – 1 year	1–5 years
	\$	\$	\$	\$	\$	\$
2017						
Finance leases	79,217	82,539	1,911	3,821	17,195	59,612
	79,217	82,539	1,911	3,821	17,195	59,612
2016						
Finance leases	41,559	43,628	1,317	2,635	20,242	19,434
	41,559	43,628	1,317	2,635	20,242	19,434

7.2 Reconciliation of net result to cash flow from operating activities

Item	2017	2016
	\$	\$
Net result	2,113,707	1,186,283
Non-cash movements		
Depreciation	302,926	271,947
Gain on disposal of property, plant and equipment	116,628	(4,117)
Movements in assets and liabilities		
(Increase)/decrease in receivables	(2,851,743)	(1,216,556)
(Increase)/decrease in prepayments	(341,782)	1,918
Increase/(decrease) in payables	277,814	(242,328)
Increase/(decrease) in provisions	395,721	16,900
Net cash flows from operating activities	13,271	14,047

During the year, motor vehicles with a fair value of \$74,065 (2016 – \$27,441) were acquired by means of finance lease.

7.3 Commitments for expenditure

Item	2017	2016
	\$	\$
Outsourcing commitments		
Information technology services, payable:		
Within one year	824,328	330,379
Later than one year but not later than five years	1,305,186	-
Total outsourcing commitments (inclusive of GST)	2,129,514	330,379
Less GST recoverable	193,592	30,034
Total commitments (exclusive of GST)	1,935,922	300,345
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	822,360	601,054
Later than one year but not later than five years	3,353,605	-
Total operating commitments	4,175,965	601,054

Commitments for future expenditure include operating and capital commitments arising from contracts.

These commitments are disclosed at their nominal value and inclusive of 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. These future expenditures cease to be disclosed as commitments once the related liabilities are recognised in the balance sheet.



Note 8: Risks, contingencies and valuation judgements

We are exposed to risk from our activities and outside factors. In addition, it is often necessary to make judgements and estimates associated with recognition and measurement of items in the financial statements. This section sets out financial instrument specific information, (including exposures to financial risks) as well as those items that are contingent in nature or require a high level of judgement to be applied, which for the commission related mainly to fair value determination.

This section includes:

- 8.1 Financial instruments specific disclosures
 - 8.1.1 Categorisation of financial instruments
 - 8.1.2 Net holding gain/(loss) on financial instruments by category
 - 8.1.3 Financial risk management objectives and policies
- 8.2 Contingent assets and contingent liabilities.

8.1 Financial instruments specific disclosures

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

Categories of non-derivative financial instruments

Loans and receivables

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

Loans and receivables category includes cash and deposits, trade receivables and loans, but not statutory receivables.

Financial liabilities at amortised cost

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

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

Offsetting financial instruments

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

8.1.1 Categorisation of financial instruments

	Note	Category	Carrying amount 2017	Carrying amount 2016
			\$	\$
Financial assets				
Cash on hand		Cash	-	500
Receivables*	6.1	Loans and receivables	71,515	15,634
			71,515	16,134
Financial liabilities				
Payables	6.2	Financial liabilities at amortised cost	1,629,744	1,351,930
Borrowings	7	Financial liabilities at amortised cost	79,217	41,559
			1,708,961	1,393,489

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

8.1.2 Net holding gain/(loss) on financial instruments by category

	Category	Carrying amount 2017	Carrying amount 2016
		\$	\$
Financial assets			
Cash on hand	Cash	-	-
Receivables*	Loans and receivables	-	-
		-	-
Financial liabilities			
Payables	Financial liabilities at amortised cost	-	-
Borrowings	Financial liabilities at amortised cost	(1,946)	(2,753)
		(1,946)	(2,753)

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

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

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



8.1.3 Financial risk management objectives and policies

Financial instruments: credit risk

Credit risk arises from our financial assets and trade and other receivables. Our exposure to credit risk arises from the potential default of counterparties on their contractual obligations resulting in financial loss to the commission. Credit risk is measured at fair value and is monitored on a regular basis.

Credit risk associated with our financial assets is insignificant because the main debtor is the Victorian Government. For debtors other than government, it is our policy to only deal with entities with high credit ratings and to obtain sufficient collateral or credit enhancements where appropriate. We do 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 our maximum exposure to credit risk without taking account of the value of any collateral obtained.

Financial instruments: Liquidity risk

Liquidity risk arises when we are unable to meet our financial obligations as they fall due. We operate 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.

Our 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. We manage our liquidity risk by maintaining an adequate level of uncommitted funds that can be drawn at short notice to meet our short term obligations.

Financial instruments: market risk

We have no exposure to interest rate, foreign currency or other price risks. Interest rates on our finance lease liabilities are fixed.

8.2 Contingent assets and contingent liabilities

We had no contingent assets or contingent liabilities at 30 June 2017 (30 June 2016: Nil).



Note 9: Other disclosures

This section includes additional material disclosures required by accounting standards or otherwise, for the understanding of this financial report.

This section contains:

- 9.1 Other economics flows included in net result
- 9.2 Responsible persons
- 9.3 Remuneration of executives
- 9.4 Related parties
- 9.5 Remuneration of auditors
- 9.6 Other accounting policies
- 9.7 Australian accounting standards issued that are not yet effective
- 9.8 Glossary of terms.

9.1. Other economic flows included in net result

Other economic flows measure the change in volume or value of asset or liability that do not result from transactions. Other gains/(losses) from other economic flows include the gains or losses from:

Disposal of non-financial assets

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

Other gains and losses from other economic flows

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

9.2 Responsible persons

The persons who held the positions of minister and accountable officer in the commission (from 1 July 2016 to 30 June 2017 unless otherwise stated) were:

Responsible minister	The Hon. Robin Scott, MP, Minister for Finance
Accountable officer	Dr Ron Ben-David, Chair

Tim Pallas MP acted for the Minister for Finance in the absence of the Hon. Robin Scott MP.

Richard Clarke acted as the chair in the absence of Dr. Ron Ben-David.

Remuneration

Total remuneration received or receivable by the accountable officer in connection with the management of the commission during the reporting period was in the range of \$360,000–\$360,999 (\$350,000–\$359,999 in 2015–16).



9.3 Remuneration of executives

The number of executive officers, other than ministers and accountable officers, and their total remuneration during the reporting period are shown in the table below. Total annualised employee equivalents provides a measure of full time equivalent executive officers over the reporting period.

Remuneration comprises employee benefits in all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered, and is disclosed in the following categories.

Short-term employee benefits include amounts such as wages, salaries, annual leave or sick leave that are usually paid or payable on a regular basis, as well as non-monetary benefits such as allowances and free or subsidised goods or services.

Post-employment benefits include pensions and other retirement benefits paid or payable on a discrete basis when employment has ceased.

Other long-term benefits include long service leave, other long-service benefit or deferred compensation.

Termination benefits include termination of employment payments, such as severance packages.

Remuneration of executive officers	2017	2016
	\$	\$
Short-term employee benefits	1,533,716	
Post-employment benefits	153,595	
Other long-term benefits	67,005	
Termination benefits	-	
Total remuneration^{(a) (b)}	1,754,316	
Total number of executives	9	6
Total annualised employee equivalents^(c)	6.9	4.9

Notes:

a) No comparatives have been reported because remuneration in the prior year was determined in line with the basis and definition under FRD 21B. Remuneration previously excluded non-monetary benefits and comprised any money, consideration or benefit received or receivable, excluding reimbursement of out-of-pocket expenses, including any amount received or receivable from a related party transaction. Refer to the prior year's financial statements for executive remuneration for the 2015–16 reporting period.

b) The total number of executive officers includes persons who meet the definition of key management personnel of the entity under AASB 124 *Related Party Disclosures* and are also reported within the related parties note disclosure (note 9.4).

c) Annualised employee equivalent is based on the time fraction worked over the reporting period.

9.4 Related parties

The commission is a wholly owned and controlled entity of the State of Victoria. Related parties of the commission include:

- all key management personnel and their close family members
- all cabinet ministers and their close family members
- all departments and public sector entities that are controlled and consolidated into the whole of state consolidated financial statements.

All related party transactions have been entered into on an arm's length basis.

Significant transactions with government-related entities

Significant transactions entered into by us during 2016–17 are disclosed in relevant notes as detailed below:

- We received grant funding from the Department of Treasury and Finance which is disclosed in note 2.
- We (on behalf of the Victorian Government) collected licence fees from Victorian water businesses and the Port of Melbourne Corporation. This is disclosed in note 4.

Key management personnel of the commission include the Portfolio Minister, the Hon. Robin Scott MP, and the members of the senior executive team, which includes:

- Chair Ron Ben-David
- Commissioner Richard Clarke
- Commissioner Kate Symons
- Chief Executive Officer John Hamill.

The compensation detailed below excludes the salary and benefit the portfolio minister receives. The minister's remuneration and allowance, set by the *Parliamentary Salaries and Superannuation Act 1968*, are reported within the Department of Parliamentary Services' financial report.

Compensation of key management personnel	2017
	\$
Short-term employee benefits	788,731
Post-employment benefits	71,511
Other long-term benefits	14,460
Termination benefits	-
Total (a)	874,702

Note:

a) Note that key management personnel, who are also executive officers, are reported in the disclosure of remuneration of executive officers (Note 9.3).



9.5 Remuneration of auditors

Item	2017	2016
	\$	\$
Audit fees paid or payable to the Victorian Auditor-General's Office		
Audit of the annual financial statements	16,600	16,200

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

9.6 Other accounting policies

Contributions by owners

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

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

9.7 Australian accounting standards issued that are not yet effective

As at 30 June 2017, the following standards and interpretations, applicable to the commission, had been issued but were not mandatory for the 30 June 2017 reporting period. The Department of Treasury and Finance assesses the impact of these new standards and advises us of their applicability and early adoption where applicable.

AASB 9 Financial Instruments, applicable for reporting periods commencing 1 January 2018. The key changes include the simplified requirements for the classification and measurement of financial assets, a new hedging accounting model and a revised impairment loss model to recognise impairment losses earlier, as opposed to the current approach that recognises impairment only when incurred. While our assessment has not identified any material impact arising from AASB 9, there will be changes to the way financial instruments are disclosed.

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

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

The assessment has indicated that there will be no significant impact for us.

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

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

AASB 15 Revenue from Contracts with Customers, applicable for reporting periods commencing 1 January 2018. The core principle of AASB 15 requires an entity to recognise revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer. The changes in revenue recognition requirements in AASB 15 may result in changes to the timing and amount of revenue recorded in the financial statements. The standard will also require additional disclosures on service revenue and contract modifications. The assessment has indicated that there will be no significant impact for us.

AASB 2015-8 Amendments to Australian Accounting Standards – Effective Date of AASB 15, applicable for reporting periods commencing 1 January 2018. This standard defers the mandatory effective date of AASB 15 from 1 January 2017 to 1 January 2018. This amending standard will defer the application period of AASB 15 for for-profit entities to the 2018–19 reporting period in accordance with the transition requirements.



AASB 2016-3 *Amendments to Australian Accounting Standards – Clarifications to AASB 15*, applicable for reporting periods commencing 1 January 2018. This standard amends AASB 15 to clarify the requirement on identifying performance obligations, as follows:

- a promise to transfer to a customer a good or service that is 'distinct' to be recognised as a separate performance obligation
- for items purchased online, the entity is a principal if it obtains control of the good or service prior to transferring to the customer
- for licences identified as being distinct from other goods or services in a contract, entities need to determine whether the licence transfers to the customer over time (right to use) or at a point in time (right to access).

The assessment has indicated that there will be no significant impact for the commission.

AASB 16 *Leases*, applicable for reporting periods commencing 1 January 2019. The key changes introduced by AASB 16 include the recognition of most operating leases (which are currently not recognised) on balance sheet. The assessment has indicated that as most operating leases will come on balance sheet, recognition of the right-of-use assets and lease liabilities will cause net debt to increase. Rather than expensing the lease payments, depreciation of right-of-use assets and interest on lease liabilities will be recognised in the income statement with marginal impact on the operating surplus.

9.8 Glossary of terms

Term	Definition
Administered item	Administered item generally refers to a department lacking the capacity to benefit from that item in the pursuit of the department's objectives and to deny or regulate the access of others to that benefit.
Annualised employee equivalent	Annualised employee equivalent is based on paid working hours of 38 ordinary hours per week over 52 weeks for a reporting period.
Capital asset charge	A charge levied on the written-down value of controlled non-current physical assets in the commission's balance sheet which aims to: attribute to the opportunity cost of capital used in service delivery; and provide incentives to the commission to identify and dispose of underutilised or surplus assets in a timely manner.
Commitments	Commitments include those operating, capital and other outsourcing commitments arising from non-cancellable contractual or statutory sources.
Comprehensive result	The net result of all items of income and expense recognised for the period. It is the aggregate of operating result and other comprehensive income.
Controlled item	Controlled item generally refers to the capacity of a department to benefit from that item in the pursuit of the department's objectives and to deny or regulate the access of others to that benefit.
Depreciation	Depreciation is an expense that arises from the consumption through wear or time of a produced physical or intangible asset. This expense is classified as a transaction and so reduces the net result from transactions.
Employee benefits expenses	Employee benefits expenses include all costs related to employment including wages and salaries, fringe benefits tax, leave entitlements, redundancy payments and superannuation contributions.



Term	Definition
Financial asset	<p>A financial asset is any asset that is:</p> <ol style="list-style-type: none"> a) cash; b) an equity instrument of another entity; c) a contractual right: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • 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	<p>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.</p>
Financial liability	<p>A financial liability is any liability that is:</p> <ol style="list-style-type: none"> a) a contractual obligation: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • 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.



Term	Definition
Financial statements	<p>A complete set of financial statements comprises:</p> <ol style="list-style-type: none"> a comprehensive operating statement for the period; a balance sheet as at the end of the period; a statement of changes in equity for the period; a cash flow statement for the period; notes, comprising a summary of significant accounting policies and other explanatory information; comparative information in respect of the preceding period as specified in paragraph 38 of AASB 101 <i>Presentation of Financial Statements</i>; and a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraph 41 of AASB 101.
Grants	<p>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.</p> <p>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.</p>
Interest expense	<p>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.</p>
Net result	<p>Net result is a measure of financial performance of the operations for the period. It is the net result of items of income, gains and expenses (including losses) recognised for the period, excluding those that are classified as 'other economic flows – other comprehensive income'.</p>



Term	Definition
Net result from transactions	Net result from transactions or net operating balance is a key fiscal aggregate and is revenue from transactions minus expenses from transactions. It is a summary measure of the ongoing sustainability of operations. It excludes gains and losses resulting from changes in price levels and other changes in the volume of assets. It is the component of the change in net worth that is due to transactions and can be attributed directly to government policies.
Non-financial assets	Non-financial assets are all assets that are not 'financial assets'.
Other economic flows included in net result	Other economic flows included in net result are changes in the volume or value of an asset or liability that do not result from transactions. They include gains and losses from disposal, revaluation and impairment of non-current physical and intangible assets; actuarial gains and losses arising from defined benefit superannuation plans and fair value changes of financial instruments. In simple terms, they are changes arising from market re-measurements.
Other economic flows - other comprehensive income	Other economic flows - other comprehensive income comprises items (including reclassification adjustments) that are not recognised in net result. The components of 'other economic flows - other comprehensive income' include changes in physical asset revaluation surplus.
Payables	Includes short and long term trade debt and accounts payable, grants and interest payable.
Receivables	Includes short and long term trade credit and accounts receivable, grants, taxes and interest receivable.
Supplies and services	Supplies and services generally represent cost of goods sold and the day to day running costs, including maintenance costs, incurred in the normal operations of the entity.
Transactions	Transactions are those economic flows that are considered to arise as a result of policy decisions, usually an interaction between two entities by mutual agreement. They also include flows within an entity such as depreciation where the owner is simultaneously acting as the owner of the depreciating asset and as the consumer of the service provided by the asset. Taxation is regarded as mutually agreed interactions between the government and taxpayers. Transactions can be in kind (e.g. assets provided/given free of charge or for nominal consideration) or where the final consideration is cash. In simple terms, transactions arise from the policy decisions of the government.



Appendices



Appendix A: Detailed workforce data

June 2017							
	All employees		Ongoing			Fixed-term and casual	
	Number (Headcount)	Full-time equivalent	Full-time (Headcount)	Part-time (Headcount)	Full-time equivalent	Number (Headcount)	Full-time equivalent
Demographic data							
Gender							
Male	56	55.30	43	3	45.40	10	9.90
Female	52	48.39	37	9	43.35	6	5.04
Age							
15–24	6	5.04	3	0	3.00	3	2.04
25–34	41	40.20	34	3	36.20	4	4.00
35–44	35	32.95	21	7	25.95	7	7.00
45–54	21	20.90	19	0	19.00	2	1.90
55–64	4	3.60	2	2	3.60	0	0.00
65+	1	1.00	1	0	1.00	0	0.00
Classification data							
Victorian Public Sector (VPS) 1–6 grade							
VPS 1	0	0.00	0	0	0.00	0	0.00
VPS 2	4	4.00	4	0	4.00	0	0.00
VPS 3	20	19.35	14	2	15.35	4	4.00
VPS 4	22	21.20	15	3	17.20	4	4.00
VPS 5	23	22.60	21	2	22.60	0	0.00
VPS 6	21	19.60	12	5	15.60	4	4.00
Senior employees							
Senior technical specialist	2	2.00	2	0	2.00	0	0.00
Senior regulatory analyst	5	5.00	4	0	4.00	1	1.00
Executives	8	8.00	8	0	8.00	0	0.00
Other*	3	1.94				3	1.94
Total Employees	108	103.69	80	12	88.75	16	14.94

* 'Other' indicates casual employees.

This data excludes our commissioners and chair.

June 2016							
	All employees		Ongoing			Fixed-term and casual	
	Number (Headcount)	Full-time equivalent	Full-time (Headcount)	Part-time (Headcount)	Full-time equivalent	Number (Headcount)	Full-time equivalent
Demographic data							
Gender							
Male	46	46.90	38	1	38.80	7	8.10
Female	45	39.97	32	3	33.77	10	6.20
Age							
15–24	3	2.20	2	0	2.00	1	0.20
25–34	38	37.80	29	1	29.80	8	8.00
35–44	25	22.67	17	3	18.77	5	3.90
45–54	21	20.20	18	0	18.00	3	2.20
55–64	2	2.00	2	0	2.00	0	0.00
65+	2	2.00	2	0	2.00	0	0.00
Classification data							
Victorian Public Sector (VPS) 1–6 grade							
VPS 1	0	0.00	0	0	0.00	0	0.00
VPS 2	4	4.00	4	0	4.00	0	0.00
VPS 3	14	13.57	10	1	10.57	3	3.00
VPS 4	21	20.60	18	1	18.60	2	2.00
VPS 5	22	21.50	16	1	16.80	5	4.70
VPS 6	13	12.60	11	1	11.60	1	1.00
Senior employees							
Senior technical specialist	1	1.00	1	0	1.00	0	0.00
Senior regulatory analyst	5	5.00	5	0	5.00	0	0.00
Executives	5	5.00	5	0	5.00	0	0.00
Other*	6	3.60				6	3.60
Total Employees	91	86.87	70	4	72.57	17	14.30

* 'Other' indicates casual employees.

This data excludes our commissioners and chair.

Appendix B: Regulatory framework

At 30 June 2017, the following industries were regulated industries within the ambit of the commission by virtue of the relevant legislation specified below:

- the electricity industry – retailing and distribution (licensing and non-economic rule-making), under the *Electricity Industry Act 2000*
- the gas industry – retailing and distribution (licensing and non-economic rule-making), under the *Gas Industry Act 2001*
- the water industry - prices, service standards and conditions of service for the Victorian water industry under the *Water Act 1989* and the *Water Industry Act 1994*
- the Port of Melbourne under the *Delivering Victorian Infrastructure (Port of Melbourne Lease Transaction) Act 2016*
- the rail industry from 29 April 1999 (access only) under the *Rail Management Act 1996*
- the taxi industry – regulating prescribed prices, regional price monitoring and non-cash payment transactions under the *Transport (Compliance and Miscellaneous) Act 1983*.

In addition the commission is responsible for:

- the administration of the Victorian Energy Efficiency Target scheme under the *Victorian Energy Efficiency Target Act 2007*
- recommending accident towing charges under the *Accident Towing Services Act 2007*
- advising the minister on setting an average rate cap and setting higher council rate caps.

Appendix C: Our publications in 2016–17

June 2017

Energy	<ul style="list-style-type: none"> • <i>Unaccounted for gas benchmarks draft decision: methodology</i> • <i>Victorian Energy Market Report: Jan – March 2017 update</i> • <i>Payment difficulty framework: new draft decision</i> • <i>Interim compliance and performance reporting guideline for energy distribution Licence holders: final decision</i>
Transport	<ul style="list-style-type: none"> • <i>Domestic building insurance premium validation review 2014–16</i>
Victorian Energy Efficiency Target (VEET)	<ul style="list-style-type: none"> • VEET decommissioning requirements • Project-based activities regulations 2017 • VEET mandatory safety training requirements
Water	<ul style="list-style-type: none"> • <i>Quiet Lakes bore flushing tariff: final decision</i>

May 2017

Energy	<ul style="list-style-type: none"> • <i>Unaccounted for gas benchmarks draft decision: methodology</i> • <i>Payment difficulty framework: new draft decision</i> • <i>Interim compliance and performance reporting guideline for energy distribution Licence holders: draft decision</i>
Local government	<ul style="list-style-type: none"> • <i>Pyrenees higher cap application: final decision</i> • Higher cap applications • Borough of Queenscliffe • Towong Shire Council • West Wimmera Shire Council • Hindmarsh Shire Council
Transport	<ul style="list-style-type: none"> • <i>Port of Melbourne – regulatory approach to the pricing order: consultation paper</i> • Pacific National access arrangement extension 2017 • VicTrack access arrangement extension 2017
Victorian Energy Efficiency Target	<ul style="list-style-type: none"> • VEET requirements updates (gas connections and electrical safety certificates)
Water	<ul style="list-style-type: none"> • <i>Moving towards better practice – implementing family violence policies in the Victorian water sector</i>

April 2017

- | | |
|---|--|
| Energy | <ul style="list-style-type: none"> • <i>Interim compliance and performance reporting guideline for energy distribution licence holders: draft decision</i> |
| Transport | <ul style="list-style-type: none"> • <i>Domestic building insurance scheme 2015–16: performance report (amended)</i> |
| Victorian Energy Efficiency Target | <ul style="list-style-type: none"> • VEET public presentation – updates and highlights of the scheme • Product application requirements update |
| Water | <ul style="list-style-type: none"> • <i>Amendments to water customer service codes: final decision</i> • Customer service code – rural water businesses • Customer service code – urban water businesses • <i>Quiet Lakes bore flushing tariff: draft decision</i> |

March 2017

- | | |
|---|---|
| Energy | <ul style="list-style-type: none"> • <i>Victorian Energy Market Report: July – December 2016 Update</i> • <i>Distributed generation inquiry network value: final report</i> • Electricity licences: applications and procedures for licences and transfer for licences – guidance notes • Gas licences: applications and procedures for licences and transfer for licences – guidance notes • Onsite Energy Solutions Pty Ltd: electricity retail licence variation • Wrongful disconnections: AGL and Customer F, AGL and Customer P, AGL and Customer R |
| Local government | <ul style="list-style-type: none"> • <i>Fair Go Rates system: guidance for councils 2017–18 (amended)</i> • Pyrenees Shire Council higher cap application |
| Transport | <ul style="list-style-type: none"> • <i>Port of Melbourne: overview of the Essential Service Commission's regulatory role</i> • <i>Domestic building insurance scheme 2015–16 – performance report (amended)</i> |
| Victorian Energy Efficiency Target | <ul style="list-style-type: none"> • <i>VEET insulation administrative requirements: consultation paper</i> |
| Water | <ul style="list-style-type: none"> • <i>Customer service code changes: response to recommendation 109 of the Royal Commission into Family Violence</i> |



February 2017

Energy

- *Feed-in tariff from July 1 2017: final decision*
- Payment difficulties safety net: notification of new draft decision pending
- SparQ Gas Pty Ltd: gas retail licence
- Powershop Australia Pty Ltd: gas retail licence
- OzGen Retail Pty Ltd: electricity retail licence
- AGL Sales and Customer C: wrongful disconnection

Water

- *2018 Lower Murray Water rural price review: guidance paper for infrastructure services*
- *Water pricing framework and approach (PREMO): summary*
- *Proposed amendments to water customer service codes: new requirements for family violence policies – draft decision*
- Proposed customer service code: rural water businesses
- Proposed customer service code: urban water businesses

January 2017

Energy

- AGL administrative undertaking: audit summary and commission response
- Caravan park tariffs 2017

Transport

- *V/Line access arrangements: decision paper – extension 2016*

December 2016

Local government

- Fair Go Rates system: guidance for councils 2017–18
- Compliance with 2016–17 rate caps
- Financial module
- Community engagement module

Transport

- *Taxi fare monitoring report 2015–16*
- *Domestic building insurance scheme 2015–16: performance report*

Victorian Energy Efficiency Target

- *VEET insulation: administrative requirements consultation paper*

Water

- *Review of hardship measures: metropolitan water businesses 2015–16*
- *Water performance report 2015–16*
- *Water performance report 2016–17*
- *2018 Water price review: guidance paper – November 2016*

November 2016

Energy	<ul style="list-style-type: none"> • <i>Victorian Energy Market Report 2015–16</i> • Online power and gas: audit report summary • Ausnet Services Administrative Undertaking: audit report summary • Distributed Generation Inquiry Network Value: Draft Report • Interim compliance and performance reporting guideline • Licence applications • Tas Gas Retail Pty Ltd (gas retail) • Brookfield Regional Networks (Victoria) Pty Ltd (gas distribution) • SparQ Gas Pty Ltd t/a Sumo Power (gas retail)
Local government	<ul style="list-style-type: none"> • Fair Go Rates system: community engagement technical working group meeting notes

October 2016

Corporate	<ul style="list-style-type: none"> • <i>Annual Report 2015–16</i>
Energy	<ul style="list-style-type: none"> • <i>Payment difficulties safety net: draft decision</i> • Customer advice manual • Mojo Power Pty Ltd: application to sell electricity • Powershop Australia Pty Ltd: application to sell gas
Local government	<ul style="list-style-type: none"> • Community engagement reference material for the Fair Go Rates system • Budget baseline information template • Review of year 1: Fair Go Rates system • Peter Brown report • <i>ESC response to the recommendations of the independent review of the 2016–17 higher cap application process</i>
Research	<ul style="list-style-type: none"> • A new approach to (water) pricing: chair's paper • 'Why I don't lie awake at night thinking about microgrids' (chair's paper) • 'The role of customers in Victoria's new water pricing framework' (chair's paper)
Transport	<ul style="list-style-type: none"> • Maximum taxi fares: final decision, determination and schedule of fares
Water	<ul style="list-style-type: none"> • <i>Water pricing framework and approach: final paper</i> • Assessing and rating PREMO price submissions: staff paper

September 2016

Local government	<ul style="list-style-type: none"> • Fair Go Rates System: annual baseline information template • Community engagement technical working group: meeting notes
Research	<ul style="list-style-type: none"> • Tips and traps: a director's guide to the new water pricing framework (chair's paper)

August 2016

- Energy**
- Ararat Wind Farm Pty Ltd: electricity generation licence
 - Citipower Pty: electricity distribution licence
 - NovaPower Pty Ltd: electricity generation licence
 - *Distributed generation inquiry – energy value: final report*
 - Payment difficulties newsletter

- Transport**
- *Maximum taxi fares schedule – consultation paper*

July 2016

- Energy**
- Audit summary reports for five energy retail businesses
 - *Energy compliance and enforcement policy: decision paper*
 - Click Energy – wrongful disconnection decision (Customer S)
 - Compliance breach reporting template 2016–17
 - Monthly wrongful disconnection reporting template
 - Performance indicators for energy retailers: gas template 2016–17
 - Performance indicators for energy retailers: electricity template 2016–17

- Local government**
- *Higher cap applications 2016–17: terms of reference*

- Transport**
- Taxi Fare Review 2016 fact sheet: metropolitan zone final decision

- Water**
- 2016–17 tariff schedules for 19 water businesses
 - Water performance indicator definitions

Appendix D: Legislation

The following is a list of legislation applying to the commission's responsibilities in relation to regulated industries as at 30 June 2016:

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

Appendix E: Price determinations

Price determinations made under section 33 of the *Essential Services Commission Act 2001* in the 2016–17 financial year included the taxi fare review 2016 determination and amendments to the Goulburn-Murray Water price review 2016 determination and the Melbourne Water price review 2016 determination.

The approved minimum feed-in tariff from 1 July 2017 is 11.3 c/kWh.

Appendix F: Notices issued by the commission

Section 37 of the *Essential Services Commission Act 2001* empowers us to obtain information or documents that may assist in the performance of our functions. No notices were issued under section 37 during 2016–17.

Appendix G: Disclosure by the commission

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

No disclosures were made by the commission under section 38 during 2016–17.

Appendix H: Office-based environmental impacts

We have continued to monitor key indicators of our environmental impact in 2016–17. While most indicators show that our environmental impact has increased since 2015–16, this is in line with an increase in our full-time equivalent (FTE) count. When this is taken into account most indicators, including carbon emissions, show a decrease in our environmental impact per FTE.

Overview of performance, 2016–17

Category	Quantity used	Quantity per employee	Greenhouse gas emissions (tonnes CO ₂)
Energy consumption (MJ)	447,737	4664	157
Waste management* (tonne)	8,391	87.4	15
Paper procurement (reams)	923	9.6	3
Transport utilisation – Car (litres of petrol)	1,180	12.3	3
Transport utilisation – Aeroplane (km)	96,871	1009	20
Water consumption	n/a	n/a	n/a
Total greenhouse gas emissions			198

* Waste figures for the financial year 2017 represent the average results for waste audits for financial years 2014–15 to 2016–17. Only one waste audit is held each year.

Energy

Energy consumption data is taken from our energy retailer billing information.

Data was available all of 2016–17, but only for one floor of our two-floor offices. The figures below have been estimated assuming that the ratio of energy used between the floors has not changed since last year. Usage per employee is based on an annual employee average for the whole year. In financial year 2016–17, our energy usage increased, but our usage per full-time equivalent employee (FTE) decreased.

Indicator	2016–17	2015–16
Total energy usage segmented by primary source (MJ)	447,737*	426,561*
Greenhouse gas emissions associated with energy use, segmented by primary source and offsets (t CO ₂ -e)	157*	149*
Percentage of electricity purchased as Green Power	0	0
Units of energy used per FTE (MJ/FTE)	4,664*	4,903*
Units of energy used per unit of office area (MJ/m ²)	321*	305*

* Estimates

Waste

We conduct a single waste audit each year. As the audit only measures waste production for one day, this day may not be representative of average waste production. To account for this potential inaccuracy the figures displayed below represent the average for all waste audits up to and including the year in question. Relative to 2015–16, our waste production increased in 2016–17.

Indicators (Estimates)		2016–17*	2015–16*	Difference compared to previous year (%)
		(Tonnes/Year)	(Tonnes/Year)	
General waste / landfill	Total units of waste disposed per year by destination	2.13	1.57	36%
	Units of office waste disposed per full-time equivalent (FTE)	0.02	0.02	23%
Co-mingled recycling	Total units of waste disposed per year by destination	0.96	1.23	-22%
	Units of office waste disposed per FTE	0.01	0.01	-29%
Organic recycling	Total units of waste disposed per year by destination	0.61	0.75	-18%
	Units of office waste disposed per FTE	0.01	0.01	-26%
Paper and cardboard recycling	Total units of waste disposed per year by destination	4.69	4.65	0%
	Units of office waste disposed per FTE	0.05	0.05	-9%

*Estimated data.

Paper

The paper data is based on supplier billing information and paper storage auditing. Our overall and per-employee consumption of paper increased in 2016–17. We have also increased our use of recycled paper.

Indicator	2016–17	2015–16	Difference compared to previous year (%)
Total units of copy paper used (reams)	923	1034	-11%
Units of copy paper used per FTE (reams/FTE)	9.6	11.9	-19%
Percentage of 75–100 recycled content copy paper purchased	99.6%	94.2%	6%
Percentage of 0–50 recycled content copy paper purchased	0.4%	5.8%	-93%
Greenhouse gas emissions associated with paper use, segmented by primary source and offsets (t CO ₂ -e)	3.4	3.9	-11%



Water

Water consumption for the commission is not available. Water consumption is measured for the entire building and not specifically for the floors that we occupy. Building management is not able to provide individual water consumption data to occupants. The building, however, has a black water treatment plant with onsite sewage processing and high efficiency water fixtures and fittings. The building has been awarded a 3.5 NABERS water certification.

Transport

Transport data was collected from VicFleet logs and our air travel records. We use the Victorian Government vehicle pool for all our operational car travel. Use of hybrid fuel vehicles by staff is encouraged. In financial year 2016–17 the amount of travel by car for the commission increased significantly. This was largely driven by consultation processes in regional areas for our water price reviews and increased audit activity within the Victorian Energy Efficiency Target scheme.

Transport type	Indicator	2016–17	2015–16	Difference compared to previous year (%)
Car (ULP)	Total travel associated with entity operations (km)	15,461	10,683	45%
	Greenhouse gas emissions from fleet (t CO ₂ -e)	2.87	1.90	51%
	Greenhouse gas emission from fleet per 1000km travelled (t CO ₂ -e)	0.19	0.18	4%
Aeroplane	Total distance travelled (km)	96,871	85,482	10%
	Greenhouse gas emission (t CO ₂ -e)	19.7	17.39	13%

Summary of greenhouse gas emissions

Emission source		CO ₂ emissions (t CO ₂ -e)		
		2016–17	2015–16	Difference (%)
Direct emissions	Vehicle hire	2.9	1.9	51%
Indirect emissions	Electricity	156.7	149.3	5%
Optional emissions	Office paper	3.4	3.9	-11%
	Waste	15.3	14.8	3%
	Flights	19.7	17.4	13%
Total		198.0	187.2	6%
Total per FTE		2.1	2.7	-24%

Appendix I: Freedom of information

Information is available on request

In compliance with the requirements of the Standing Directions of the Minister for Finance, we have retained details about the items listed below. These are available on request, subject to the provisions of the *Freedom of Information Act 1982*:

- a statement that declarations of pecuniary interests have been duly completed by all relevant officers
- details of shares held by a senior officer as a nominee or held beneficiary in a statutory authority or subsidiary
- details of publications produced by us about us, and how these can be obtained
- details of changes in prices, fees, charges, rates and levies charged by us
- details of any major external reviews carried out on us
- details of major research and development activities undertaken by us
- details of overseas visits undertaken including a summary of the objectives and outcomes of each visit
- details of major promotional, public relations and marketing activities undertaken by us to develop community awareness of the commission and its services
- details of assessments and measures undertaken to improve the occupational health and safety of employees
- a general statement on industrial relations within the commission and details of time lost through industrial accidents and disputes
- a list of major committees sponsored by the commission, the purposes of each committee and the extent to which the purposes have been achieved, and
- details of all consultancies and contractors including consultants/contractors engaged, services provided and expenditure committed to for each engagement.

Requests	2016–17	2015–16
Requests received	4	3
Requests granted in full	0	1
Requests granted in part	4	1
Requests denied	0	0
Requests transferred	0	0
Requests withdrawn	0	0
No document in existence	0	0
Requests pending as at 30 June	1	1



Requesting more information from us

Nominated contact person

Requests for access to documents should be addressed to our freedom of information officer:

Jacinta Davenport
 General Counsel and Chief Risk Officer
 Essential Services Commission
 Level 37
 2 Lonsdale Street
 Melbourne Victoria 3000

Further information

Further information may be obtained from:

- *Freedom of Information Act 1982*
- *Freedom of Information (Access Charges) Regulation 2014*
- *Freedom of Information Regulations 2009*
- www.foi.vic.gov.au.

Reports, publications and informal requests

Find details about our reports and publications on our website: www.esc.vic.gov.au.

Requests may also be directed to:

Essential Services Commission
 Level 37
 2 Lonsdale Street
 Melbourne Victoria 3000

Telephone: (03) 9032 1300 or 1300 664 969
publications@esc.vic.gov.au

Appendix J: ICT expenditure

For the 2016-17 reporting period, the commission had a total ICT expenditure of \$1,180,645 with the details shown below.

All operational ICT expenditure	ICT expenditure related to projects to create or enhance ICT capabilities		
	Business as usual (BAU) ICT expenditure	Non business as usual (non BAU) ICT expenditure	Operational expenditure
(Total)	(Total = operational expenditure and capital expenditure)		
1,060,366	120,279	120,279	0

ICT expenditure refers to our costs in providing business enabling ICT services within the current reporting period. It comprises BAU ICT expenditure and Non-BAU ICT expenditure. Non-BAU ICT expenditure relates to extending or enhancing our current ICT capabilities. BAU ICT expenditure is all remaining ICT expenditure which primarily relates to ongoing activities to operate and maintain the current ICT capability.

Appendix K: Disclosure index 2016–17

Our annual report is prepared in accordance with all relevant Victorian legislations and pronouncements. This index page facilitates the identification of the commission's compliance with statutory disclosure requirements.

Ministerial directions and financial reporting directions (FRDs)

Legislation	Requirement	Page number
Charter and purpose		
FRD 22H	Manner of establishment and relevant ministers	12
FRD 22H	Purpose, functions, powers and duties	1, 11, 12
FRD 8D	Objectives, indicators and outputs	18–59
FRD 22H	Key initiatives and projects	18–59
FRD 22H	Nature and range of services provided	11
Management and structure		
FRD 22H	Organisational structure	11–13
Financial and other information		
FRD 22H	Performance against output performance measures	18–59
FRD 22H	Employment and conduct principles	57
FRD 22H	Occupational health and safety policy	57
FRD 15D	Executive officer disclosures	88–90
FRD 22H	Summary of the financial results for the year	51–54
FRD 22H	Significant changes in financial position during the year	52
FRD 22H	Major changes or factors affecting performance	N/A
FRD 22H	Subsequent events	N/A
FRD 22H	Application and operation of <i>Freedom of Information Act 1982</i>	114
FRD 22H	Compliance with building and maintenance provisions of <i>Building Act 1993</i>	17
FRD 29B	Workforce data disclosures	56–59, 100–101
FRD 25C	Victorian Industry Participation Policy disclosures	N/A
FRD 22H	Statement on National Competition Policy	52
FRD 22H	Application and operation of the <i>Protected Disclosures Act 2012</i>	116
FRD 22H	Application and operation of the <i>Carers Recognition Act 2012</i>	N/A
FRD 22H	Details of consultancies over \$10,000	52
FRD 22H	Details of consultancies under \$10,000	52
FRD 12B	Disclosure of major contracts	52
FRD 24C	Reporting of office-based environmental impacts	109–111

Legislation	Requirement	Page number
FRD 22H	Statement of availability of other information	113
FRD 10A	Disclosure index	114–115
FRD 8D	Budget portfolio outcomes	N/A
FRD 22H	Disclosure of ICT expenditure	113
SD 5.2	Specific information requirements under Standing Direction 5.2	i
Compliance attestation and declaration		
SD 5.1.4	Attestation for compliance with Ministerial Standing Directions	16
SD 5.2.3	Declaration in report of operations	i
Financial statements Declaration		
SD 5.2.2	Declaration in financial statements	61
Other requirements under Standing Directions 5.2		
SD 5.2.1(a)	Compliance with Ministerial Directions	61–63
SD 5.2.1(a)	Compliance with Australian accounting standards and other authoritative pronouncements	61–63
SD 5.2.1(b)	Compliance with model financial report	61–63
Other disclosures as required by FRDs in notes to the financial statements (a)		
FRD 13	Disclosure of parliamentary appropriations	52
FRD 9A	Departmental disclosure of administered assets and liabilities	74
FRD 11A	Disclosure of ex-gratia payments	N/A
FRD 21C	Disclosures of Responsible Persons, Executive Officers and other Personnel (Contractors with Significant Management Responsibilities) in the Financial Report	88–90
FRD 103F	Non-financial physical assets	75–78
FRD 110A	Cash flow statements	66
FRD 112D	Defined benefit superannuation obligation	71
Note (a) References to FRDs have been removed from the disclosure index if the specific FRDs do not contain requirements that are of the nature of disclosure		
Legislation		
	<i>Freedom of Information Act 1982</i>	112–113
	<i>Building Act 1993</i>	17
	<i>Protected Disclosure Act 2012</i>	116
	<i>Carers Recognition Act 2012</i>	N/A
	<i>Victorian Industry Participation Policy Act 2003</i>	52
	<i>Financial Management Act 1994</i>	i, 61, 68

Appendix L: Disclosures

We are a public body required to make certain disclosures pursuant to section 70 of the *Protected Disclosures Act 2012*. We have developed procedures to satisfy our obligations under Part 9 of the Act. Those procedures are extensive and may be obtained by contacting us. No disclosures were notified to Independent Broad-based Anti-corruption Commission by the commission under Section 21 (2) of the Act during 2016–17.

Appendix M: Appeals

One appeal was lodged under Section 55 of the *Essential Services Commission Act 2001* during 2016–17. The appeal was later withdrawn.





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