ESSENTIAL SERVICES COMMISSION

ANNUAL REPORT
2013–14

ESSENTIAL SERVICES COMMISSION

ANNUAL REPORT

2013–14

CONTACT DETAILS

Essential Services Commission
Level 37
2 Lonsdale Street
Melbourne Victoria 3000
ABN: 71 165 498 668

Telephone: 61 3 9032 1300 or 1300 664 969
Facsimile: 61 3 9032 1301
Email: reception@esc.vic.gov.au
Website: http://www.esc.vic.gov.au

BUSINESS HOURS

8.30am to 5.00pm
Monday to Friday

CHAIRPERSON

Dr Ron Ben-David

COMMISSIONERS*

Mr Dennis Cavagna
Mr Richard Clarke

SENIOR STAFF*

Chief Executive Officer

– David Heeps

Director, Transport

– Andrew Chow

(Acting) Director, Water

– Marcus Crudden

Director, Energy

– Jeff Cefai

(Acting) Director, Reviews & Research

– Angelina Garces

Legal Counsel & Secretary

– John Henry

Chief Financial Officer

– Tony Mastroianni

Communications Manager

– Amanda Clark

*As at 30 June 2014

ISSN: 1447-6029
Designed by Xsd, Melbourne.

RECYCLED
Paper made from recycled material
FSC® C010628

16 September 2014

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

Dear Minister

ESSENTIAL SERVICES COMMISSION ANNUAL REPORT 2013–14

We are pleased to present the Essential Services Commission's Annual Report for 2013–14.

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

During 2013–14, the Commission completed a range of regulatory projects across energy, water, transport and other industry sectors. Most notably, the Commission completed a taxi fare review (2013–14), the periodic review of accident towing and storage fees, a review of Victorian ports regulation, and a project to harmonise the Energy Retail Code and Guidelines with the National Energy Customer Framework.

In addition, it continued its administration of the Victorian Energy Efficiency Target (VEET) scheme.

We place on record our appreciation to the Commission's staff for their commitment to delivering our regulatory, administrative and advisory program throughout 2013–14.

Yours sincerely

DR RON BEN-DAVID
Chairperson

DENNIS CAVAGNA
Commissioner

RICHARD CLARKE
Commissioner

Highlights of 2013–14

- Completed a project to harmonise the Commission's regulations in its codes and guidelines with the National Energy Customer Framework (effective from 13 October 2014).
- Investigated and addressed systemic energy retailer compliance issues, including billing issues, incorrect early termination fees and wrongful disconnections.
- Worked with major urban water businesses and customer interest groups to identify how water businesses can improve, and report on, their work in supporting vulnerable customers.
- Enhanced the internet-based accreditation, application and product approval systems for the Victorian Energy Efficiency Target (VEET) scheme to reduce processing times associated with applications and approvals.
- Completed a review of, and provided recommendations to the Minister for Transport, taxi fares in the Metropolitan, Urban and large Regional taxi zones for 2013–14. The Commission's fare recommendations were adopted in full and came into effect on 19 May 2014.
- Completed a five yearly review of economic regulation for prescribed services at the Port of Melbourne Corporation.
- Released reports into the annual performance of the water, retail electricity and gas and domestic building insurance sectors.

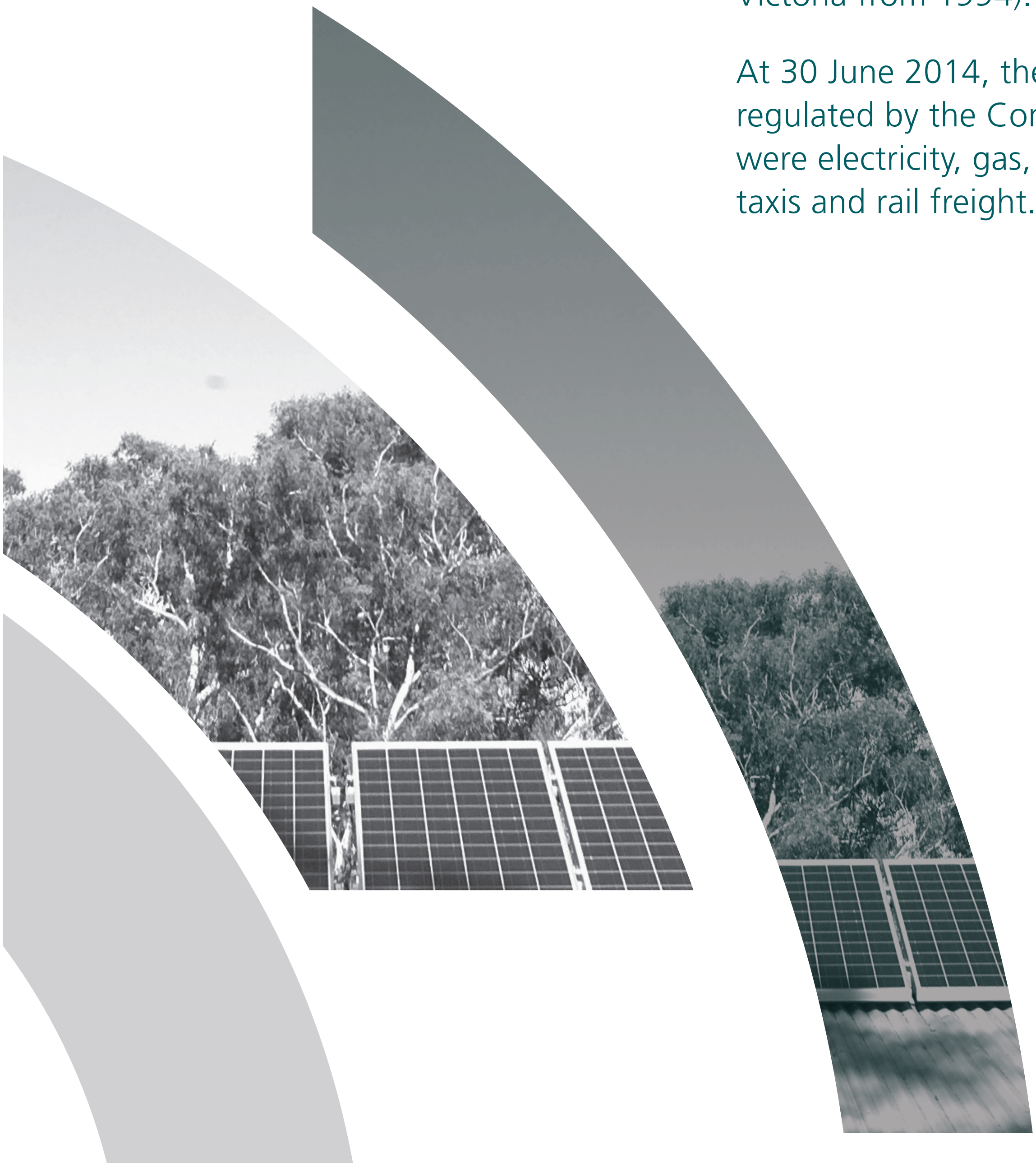
Contents

ESSENTIAL SERVICES COMMISSION

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

The Act established the Commission as an economic regulator, subsuming the former Office of the Regulator-General (the economic regulator of regulated utility industries in Victoria from 1994).

At 30 June 2014, the industries regulated by the Commission were electricity, gas, water, ports, taxis and rail freight.



About the Essential Services Commission

WHY THE COMMISSION WAS ESTABLISHED

The Commission was established to provide support to the Victorian Government's microeconomic reform program. This program was designed to improve the efficiency and competitiveness of the State's economy through the reform of the electricity, gas, water and other current and former government business enterprises. The Government perceived the establishment of an independent regulatory body, as necessary, to ensure that the benefits of industry restructuring were passed on to household, commercial and industrial customers. Since its establishment, the Commission has widened its program to include additional functions for Ministerial reviews and the administration of the Victorian Energy Efficiency Target (VEET) scheme.

OBJECTIVES OF THE COMMISSION

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

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

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

FUNCTIONS OF THE COMMISSION

The Act specifies the following functions of the Commission:

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

In addition to these objectives and functions, the Commission has objectives and functions conferred by industry-specific legislation. The industry-specific legislation includes: *the Electricity Industry Act 2000, the Gas Industry Act 2001, the Water Industry Act 1994, the Water Act 1989, the Rail Management Act 1996, the Accident Towing Services Act 2007, and the Transport (Compliance & Miscellaneous) Act 1983, the Port Act 1995 and the Victorian Energy Efficiency Target Act 2007.*

PERFORMING THE COMMISSION'S FUNCTIONS

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

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

GOALS

The Essential Services Commission's goals are to:

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

THE ESC'S ORGANISATIONAL STRUCTURE

The ESC is structured as a Commission, comprising of a Chairperson and two part-time Commissioners, supported by 68 staff (as at 30 June) led by a Chief Executive Officer.

The Chairperson:

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

Dr Ron Ben-David joined the Victorian Department of Treasury and Finance in 1998. This was followed by a number of years in the Department of Premier and Cabinet, where he became a Deputy Secretary in 2004. In 2007, he established Victoria's Office of Climate Change and then headed the Secretariat for the Garnaut Climate Change Review. He has served as Chairperson of the Essential Services Commission of Victoria since late 2008. Dr Ben-David has written and presented on a wide range of issues including: governance and regulation in the water industry, retail energy markets, climate change, sustainability, federalism, local government, taxi reform and economic philosophy.

In 2005, Dr Ben-David became a Fellow of the Institute of Public Administration Australia (Vic.) He is a member of numerous advisory councils.

Commissioners:

Mr Dennis Cavagna was re-appointed to the Commission for two years in November 2012. His term concluded in June 2014. Ms Mary Anne Hartley SC was appointed in October 2011 and her term concluded in February 2014. Mr Richard Clarke commenced in March 2014.

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

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

M A (Mary Anne) Hartley SC, BA (Hons) LL.B (Hons)

Mary Anne Hartley was appointed Commissioner in October 2011. Ms Hartley is a practising barrister, admitted to the legal profession in 1984 and appointed a Senior Counsel in 2009. She has served as a Director of Melbourne Water, the Victorian Channels Authority, Gascor Ltd, the Port of Melbourne Corporation and Monash Gallery of Art. Before joining the Victorian Bar, Ms Hartley was a partner in a national law firm, where she advised public hospitals and practised insurance and shipping law. She is an accredited mediator. Ms Hartley chairs the Risk Audit and Finance committee of the Victorian Responsible Gambling Foundation.

R (Richard) Clarke, M.Ec

Richard was appointed commissioner in March 2014. He has had extensive experience working as an economist in both the public and private sectors. After graduating with a Master of Economics from Monash University, Richard worked for the Centre of Policy Studies at Monash University, Shell Australia (including five and a half years as chief economist), the Victorian Department of Treasury and Finance, the Australian and New Zealand Productivity Commissions, the Better Regulation Executive (London), and the Victorian Competition and Efficiency Commission.

Chief Executive Officer

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

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

Prior to City West Water he worked for six years in the Victorian Government on both federal and state-wide water resources issues, and later headed a group supporting the relevant Ministers in their role of over-viewing the performance of the various water businesses in the State.

He worked in various roles over 16 years in the Melbourne Metropolitan Board of Works and spent three years as a research fellow at Monash University. He has attained qualifications in corporate governance with the Australian Institute of Company Directors and Governance Institute of Australia.

Senior Administrative Structure

The Commission's organisational structure (as at 30 June 2014) and senior management team are set out below.

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

ORGANISATIONAL STRUCTURE *

MINISTER FOR FINANCE^
The Hon Robert Clark MP

COMMISSIONER
Dennis Cavagna
(until 30 June)

CHAIRPERSON
Dr Ron Ben-David

COMMISSIONER
M A Hartley (until 2 February)
Richard Clarke (from 31 March)

CHIEF EXECUTIVE OFFICER
David Heeps

DIRECTOR, TRANSPORT
Andrew Chow

(ACTING) DIRECTOR, WATER
Marcus Crudden

DIRECTOR, ENERGY
Jeff Cefai

(ACTING) DIRECTOR, REVIEWS AND RESEARCH
Angelina Garces

LEGAL COUNSEL & SECRETARY
John Henry

CHIEF FINANCIAL OFFICER
Tony Mastroianni

COMMUNICATIONS MANAGER
Amanda Clark

* As at 30 June 2014
^ Responsible Minister

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

ANNUAL REPORT OF THE ESSENTIAL SERVICES COMMISSION

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

The year in review – Chairperson

I am pleased to present the Annual Report for the year ending 30 June 2014. This has been an especially significant year in the history of the Essential Services Commission, as the Commission commemorated its 20th year of operation. Initially established as the Office of the Regulator General in 1994, the Essential Services Commission subsumed the roles of that office in 2004.

In light of our 20th anniversary, this year we have included an essay discussing economic regulation and the evolving role and outlook of the Commission as Victoria's economic regulator.

During 2013–14, the Commission completed a wide-ranging regulatory program across various industry sectors, including energy, water, taxis, ports and domestic building insurance. We also continued to administer the Victorian Energy Efficiency Target (VEET) scheme on behalf of the Victorian Government.

In energy regulation, a major area of activity for the Commission in 2013–14 was in monitoring and enforcing compliance with the Energy Retail Code. The Commission also continued its work on harmonising Victoria's code with the National Energy Customer Framework. The new code will come into effect on 13 October 2014.

In response to the rising rate of energy disconnections identified in the Commission's annual performance report last December, the Commission convened a roundtable forum comprising industry representatives, consumer and welfare groups and financial counsellors.

As in previous years, the Commission ran an advertising campaign seeking to inform Victorians about their rights as customers. The campaign directed customers to our *YourChoice* website for more information. The website provides customers with fact sheets, covering a range of billing-related issues, and advice on how to deal with payment difficulties. Some interesting observations about that campaign are included in this annual report.

Our administration of the VEET scheme was further streamlined during the year, with enhancements to our internet-based accreditation, application and product approval systems. These upgrades have significantly reduced the processing times associated with applications and approvals. Overall, the Commission registered a total of 3.7 million certificates during 2013–14 and we accredited 25 new businesses to participate in the scheme. We also approved 2,147 new products for installation as eligible activities.

The Commission continued to act on its commitments arising from last year's Water Price Review. One particular area of interest was our work with water businesses and customer interest groups to identify how water businesses can improve, and report on, their work in supporting vulnerable customers. We were also very busy responding to the independent review of the regulatory framework for the water sector.

The Commission completed some significant projects in the transport sector during 2013–14. Following the Taxi Industry Inquiry in 2012, the Commission was given the role to determine taxi fares in the Metropolitan, Urban and large Regional taxi zones every two years from 1 July 2014. Subsequently, the Commission was asked by the Minister for Public Transport to complete the review by March 2014. The Commission's final taxi fare report was submitted to the Government on 31 March 2014. Our fare recommendations were adopted in full and came into effect on 19 May 2014.

In June 2014, the Commission completed its five yearly review of economic regulation for prescribed services at the Port of Melbourne Corporation (PoMC). We recommended that the current prescribed services provided by the Port of Melbourne continue to be subject to a light-handed monitoring regime. However, we identified opportunities to reduce significantly the PoMC's regulatory reporting burden.

In November 2013, the Commission also completed its annual review of Victoria's domestic building insurance (DBI) scheme. This report examined trends in the number of eligible builders, the number of project certificates (policies), premium levels, and the number and amount of claims made under the DBI scheme.

This year, we farewelled Dennis Cavanaga, after seven years as a Commissioner. We are very grateful for the experience and wisdom that Dennis brought to the many and varied aspects of the Commission's work program. I also extend my appreciation to Mary Anne Hartley SC who completed her term as a Commissioner in February 2014. Mary Anne's insights and counsel proved invaluable in the two years she served on the Commission.

It is my pleasure to welcome Richard Clarke and Julie Abramson, who commenced as Commissioners on 31 March and 18 August 2014, respectively.

Finally, I would like to express my gratitude to David Heeps for his leadership as our Chief Executive Officer. I commend David and all staff members for their efforts, commitment and support over the last year.

Dr Ron Ben-David
Chairperson

What is Economic Regulation?

In recent times, the role of economic regulation seems to have become confused and conflated with other forms of regulation. This short essay sets out what economic regulation is, what it is not, and why it is important.

LONG TERM INTERESTS OF CONSUMERS

Since the Hilmer Review in 1994, it has generally been accepted that, wherever possible, the interests of consumers are maximised by having goods and services provided through competitive markets. These competitive markets ensure resources are directed towards producing those things consumers value most and at the lowest possible cost (often referred to as allocative and productive efficiency, respectively). As firms compete for customers, they lower their prices until they reflect their genuine production costs. Competitive tension also ensures that firms are rewarded when they invest in innovation that results in improved and valued goods and services for consumers (dynamic efficiency).

In the absence of any barriers to doing so, markets will efficiently coordinate the actions of countless individuals for their mutual betterment. The economist and philosopher Adam Smith referred to the self-coordinating power of competitive markets as an 'invisible hand' guiding production and consumption decisions throughout society. The 'invisible hand' obviates the need for any form of external control over those decisions (that is, regulation).

In certain circumstances, markets may not effectively (or efficiently) maximise the interests of consumers. The presence of such 'market failures' (specifically natural monopoly, externalities, and network effects) gives rise to the traditional textbook rationale for economic regulation. For example, in the case of natural monopoly, where there is no competitive market to curtail the market power of the monopolist, economic regulation can help ensure that the prices paid by consumers are reasonable and reflect the efficient costs of providing on-going and reliable services.

A MODERN DEFINITION FOR ECONOMIC REGULATION: AN ENABLER

There are various explanations for economic regulation. A survey of the literature indicates that it can refer to creating or influencing markets; or it can mean the institutions for the setting of prices and service standards. Other explanations argue that it is a form of government-imposed restriction on a firm's decisions regarding price and quantity in the market. More novel variants will argue it is about protecting the sunk investments of service providers and consumers.

A more modern explanation sees economic regulation being less about *correcting* for market failures and more about enabling markets to work more effectively. That is, where the disciplines of competition are weak or absent, an economic regulator acts as a 'visible hand', seeking to guide service providers towards outcomes (eg. in terms of price, quality or both) that would have occurred had the market been subject to those competitive disciplines.

This shift in emphasis towards 'enabling' rather than 'correcting' means economic regulators' aims have also evolved over time. Modern economic regulators seek to improve economic efficiency by introducing incentives for service providers and customers to respectively produce and consume at levels that would have been observed had they been able to trade (or negotiate) their way towards a mutually desirable outcome.

As economic regulation has evolved so too has the role of the Essential Services Commission. Whereas once we were primarily responsible for determining and imposing price and service outcomes, now we seek ways to facilitate market driven solutions. Even in those areas where we continue to be responsible for authorising prices and service standards, our frameworks seek to promote market-like outcomes. This involves requirements that regulated entities engage closely with their customers to identify what is wanted, when it's wanted and the price that the parties are willing to bear.

Our approach is broader, more ambitious and less interventionist than the standard or traditional form of utility or infrastructure regulation — with its focus solely on setting prices, reviewing costs and monitoring service standards of monopoly service providers.

Because our approach is focussed on ‘economic enabling’ rather than imposing outcomes, the Victorian Government has seen the Essential Services Commission as a valued source of advice in a range of areas that are not utility in nature but which might benefit from applying greater market-like discipline.

NOT JUST A COMPLIANCE EXERCISE

Enabling markets to work is not simply about enforcing compliance with regulatory obligations. Nor is it about perpetuating economic regulation for economic regulation’s sake. After all, economic regulation is only a second best solution to effectively functioning competitive markets. It is always preferable to let a competitive market emerge, if possible. Of course, what is possible can change over time due to changing patterns of consumption, technological developments or both. It might also change as customers become more adept at dealing with less-than-competitive market conditions.

Our role as an economic enabler sees us regularly reviewing our regulatory frameworks and standing ready to advise Government to modify or withdraw our functions where competitive markets have matured sufficiently to meet the interests of consumers without our involvement.

WHAT ECONOMIC REGULATION IS NOT

Economic regulation must also be distinguished from other forms of regulation. At its core, economic regulation focuses on the pursuit of economic efficiency — typically defined in terms of price, service quality and upholding competitive outcomes wherever possible. In contrast, social regulation is ultimately focussed on addressing risks. That is, the risk of harm to: individuals (eg. health and safety), property (eg. financial), community (eg. discrimination) or future generations (eg. environment). In so doing, social regulation defines acceptable standards and outcomes, whereas economic regulation focusses on efficient production (and by implication, consumption).

In recent times, the discipline of economic regulation has also been applied in sectors where services are provided by public sector entities. In such instances, economic regulation must be distinguished from governance of those sectors (by government) and governance in those sectors (by government appointed Boards). Governance is not a substitute for economic regulation. Likewise, economic regulation does not displace or compete with the need for good governance. Governance is about the processes for making and implementing decisions. Good governance processes should always exist. Economic regulation is about providing an assurance to customers who must bear the price of those decisions that those prices are indeed fair and reasonable. When services are provided by a public sector entity, economic regulation and good governance serve as complements in driving organisational performance and efficiency in satisfying customer requirements.

MAKING ECONOMIC REGULATION EFFECTIVE: INDEPENDENCE AND ACCOUNTABILITY

The effectiveness of economic regulation depends on the institutions and rules that facilitate it. Throughout Australia and internationally, economic regulators have been established at arms-length from the day-to-day operations of government. Theory and experience shows that such independence has been a central design feature in upholding confidence in those areas of the economy — that is, confidence by consumers, incumbent businesses and new entrants, and upstream and downstream industries looking to make their own investments. Economic regulation provides this confidence by creating a stable and predictable environment for investment. Such independence is, and always should be, limited in its scope. For economic regulators to be effective they need statutory guidance regarding their tasks. In general, an economic regulator operates under the authority and constraints of legislation which sets out its objectives, powers and procedural obligations. In so doing, the legislation rightly defines the scope and scale of an economic regulator's independence.

We are established as Victoria's independent economic regulator by the *Essential Services Commission Act 2001*. Our legislation requires us to take a long term view when exercising our regulatory powers. Maintaining our focus on long-term outcomes ensures a stable and predictable investment environment for regulated entities and their customers. This does not preclude change to the way in which we exercise our regulatory powers, but it means that any such change must proceed in a measured and reasonable manner.

THE FLIPSIDE OF INDEPENDENCE IS ACCOUNTABILITY.

While the Commission is independent from the day-to-day operations of government, we exercise our powers and discretion within the limits of the law and under the supervision of the bodies to which we are accountable, including Ministers and the Parliament. Importantly, we are also accountable to those people for whom our decisions have unavoidable implications, namely, regulated entities and their customers. Our accountability is manifested in the transparency required in our decision making by our Act. It is also demonstrated in our organisational commitment to open and inclusive processes. In the case of our regulatory decisions we typically publish an initial issues paper outlining relevant matters, which is later followed by draft and final decisions that explain how we reached our decisions. We also publish statements about how we conduct ourselves, our consultation processes and our work program.

Open and constructive engagement with stakeholders (eg. industry, consumers, policy makers and other regulators) is fundamental to the transparency of our decision making. It helps ensure parties have the opportunity to scrutinise and contest the reasons for our proposed decisions or actions. As an essential failsafe, our statutes provide for the right for our decisions to be challenged through appeal mechanisms. The potential for appeal imposes a very powerful discipline in all our regulatory decisions or actions.

CONCLUSION

Independent economic regulation is a powerful tool in policy-makers' tool kit in promoting the long terms interests of consumers. It does so by creating incentives — rather than directives — for service providers to engage fairly with customers and to operate their businesses efficiently. While economic regulation provides an enabling framework, there is one thing that should never be in doubt. Service providers, and not the economic regulator, are responsible for delivering services that meet their customers' expectations and financial outcomes that satisfy their owners' commercial requirements. The Essential Services Commission clearly understands this distinction.

Review of Organisation and Operations – CEO

In 2013–14 the Essential Services Commission spent $15.4* million to achieve its forecast outputs. The main areas of external expenditure included the Melbourne Ports Regulation Review, the metropolitan and regional Taxi Fare Review, and the Harmonisation of the Energy Retail Code with the National Energy Customer Framework.

Maintenance of effective corporate governance was achieved through 40 Commission meetings, 12 Board meetings and four Audit and Risk Committee meetings during the financial year

A number of internal audits were conducted, including those of Stakeholder Engagement (Oct 2013), Occupational Health and Safety (Feb 2014), Financial Management Compliance Framework (FMCF) (Aug 2013) and Licence Fee processing (May 2014). The findings were mostly of a low risk, considered by our Audit and Risk Committee and implemented.

The Victorian Government Purchasing Board approved new procurement rules for the Treasury portfolio, and the Commission changed to the new rules on 1 July 2013. Procurement initiation and outcome documents above $10 000 are reviewed by the Department of Treasury and Finance.

The Commission further developed its cloud-based computing so that remote access to our network is no longer dependent on electricity supply to our premises. Another enhancement (ready but not yet tested and implemented) is to use a cloud-based disaster recovery site.

A Senior Regulatory Manager was appointed within the Energy Division to assist with our focus on managing compliance issues and breaches.

The Commission's policies regarding Occupational Health and Safety, Performance Management, New Starter Induction, Working from Home, Sexual Harassment and Bullying and Equal Opportunity were all reviewed and updated.

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

Finally, the Commission conducted a Staff Climate Survey, from which both overarching organisational and divisional improvement action plans were prepared and implemented.

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

David Heeps
Chief Executive Officer

* excluding DTF overheads

Commission outcomes 2013–14 – Energy division

The Essential Services Commission is responsible for the regulation and licensing of gas and electricity retail businesses, as well as the licensing of electricity generation and transmission businesses, and gas and electricity distribution businesses. The Energy Division also oversees the administration of the Victorian Energy Efficiency Target (VEET) scheme.

ENERGY PROJECTS

Harmonisation of Guidelines with National Framework

At the request of the Minister for Energy and Resources, the Commission continued a major project to harmonise Victoria's codes and guidelines with the National Energy Customer Framework (NECF). After extensive consultation with retailers and consumer groups, the new version 11 of the Energy Retail Code ('Code') was finalised, with amendments reflecting changes to the existing version of the Code following the adoption of flexible pricing. The harmonised version 11 of the code was published and will take effect on 13 October 2014.

Flexible Pricing

The Energy Division previously undertook projects to facilitate the introduction of flexible pricing. The necessary changes to codes and guidelines became effective in August 2013.

YourChoice Website

The Commission continued to play a role in informing customers of the competitive market and how to exercise choice of their retailer. Through the *YourChoice* initiative, the Commission provided advice and information to customers through the internet and the Information Victoria call centre.

The Commission also continued its advertising campaign, providing the community with information (located on the *YourChoice* website) on their rights under the Energy Retail Code regarding a range of billing issues. The aim was to empower consumers to be better informed about their rights and responsibilities when liaising with their energy retailer.

YourChoice also provides tariff comparison on gas market and standing offers, and a link to the DSDBI website, 'My Power Planner', for electricity tariff comparison.

Review of Audit Guideline

During 2013–14 the Commission completed a review of its audit guidelines and developed a panel of auditors approved to complete audits pursuant to the new guideline. Future audits will be conducted using the updated process.

Energy Saver Incentive (Victorian Energy Efficiency Target – VEET)

During 2013–14, the Commission continued its administration of the Energy Saver Incentive scheme under the *Victorian Energy Efficiency Target Act 2007*. The Act requires large electricity and gas retailers to reduce greenhouse gas emissions through energy reduction improvements in homes and businesses. The Act and the *Victorian Energy Efficiency Target Regulations 2008* set an annual target of abating 5.4 million tonnes of carbon dioxide equivalent of greenhouse gases for each of the calendar years 2012, 2013 and 2014. A tradeable energy efficiency certificate is created for each tonne of emissions deemed to have been abated.

By 30 June 2014, the Commission had registered a total of approximately 22.6 million certificates, of which 3.7 million certificates were created during 2013–14. A total of 162 businesses and individuals (compared with 139 the previous financial year) were accredited to participate in the scheme, including 25 new businesses. A total of 2,147 new products were approved during 2013–14.

Approximately 41 per cent of certificates registered during the year were for lighting activities, 28 per cent for standby power controllers (devices that switch off electrical appliances after a period of inactivity) and 13 per cent for insulation/weather sealing. Of the remaining 18 per cent, most were for efficient shower roses and water heating activities. Over the lifetime of the scheme, to 30 June 2014 the most dominant activities have been standby power controllers (45 per cent of certificates) and lighting (34 per cent), with the balance including water heating, weather sealing and shower roses.

The Commission also maintained its rigorous audit and compliance program, with systems and processes in place to support the assessment of companies and individuals applying for accreditation to undertake energy efficiency installations under the scheme, as well as the validity of certificate claims made as a result of such installations. Apart from its standing program of pre-accreditation and major compliance audits of participants, the Commission's processes, focussing on higher risk participants, resulted in nine special investigations during the financial year that led directly to approximately 75,000 certificates being withdrawn or surrendered by accredited businesses. The accreditation of one participant, ENCERCC Pty Ltd, was revoked. The Commission required another participant, EET Pty Ltd, to undertake an independent audit under section 19A of the Act.

For the 2013 (calendar) compliance year, 19 energy and gas retailers were identified with a liability under the scheme, from whom a total of 5,354,286 certificates were accepted for obligatory surrender under the Act. AGL was issued a civil shortfall penalty for 293 certificates ($12,748).

During the financial year, the Commission enhanced and strengthened technical and regulatory requirements for the new commercial lighting activity introduced the previous year, and expanded its program of independent testing of the safety and performance characteristics of selected 'emerging technology' lighting products – in particular, light emitting diode (LED) lamps. A product approval process was also introduced for another new activity, in home displays, that allow energy users to monitor the quantity and real-time cost of electricity consumption. The Commission's new internet-based accreditation application and product approval systems were also enhanced, to reduce further the processing times for such applications. Efforts also continued to align the administrative processes of the NSW, SA, ACT and Victorian energy efficiency schemes.

Cost of Energy Industry Regulation

In 2013–14, the total cost of energy industry regulation was $2.4 million and administration of the Victorian Energy Efficiency Target scheme, $6.1 million.

The costs include the direct costs incurred by the energy team, plus an allocation for overhead costs.

ENERGY REGULATORY COMPLIANCE

The Commission took action against energy businesses for various compliance matters. In addition, the Commission assessed a number of licence applications and other licensing issues. Some of the key compliance and licensing matters addressed during 2013–14 included:

Billing Issues

The Commission continued to investigate significant errors and delays in billing by retailers and monitored their remedial action to a successful conclusion.

Origin Energy had given an administrative undertaking to correct a deficiency in bills it provided to those smart meter customers whose accounts it acquired from Country Energy. Alinta Energy had given a similar undertaking with respect to bills for Neighbourhood Energy customers. The bills lacked start and end index reads. The retailers complied with the undertaking by transferring the accounts to the new and compliant billing systems they use for other customers.

As at 1 August 2013, EnergyAustralia had an unacceptably high number of accounts that it had not billed for 30+ and 90+ days ('late bills'). It gave the Commission an administrative undertaking to reduce the number of late bills by 15 September 2013, and met that undertaking.

EnergyAustralia gave a further administrative undertaking at the end of November 2013 to reduce the number again, and later reported to the Commission that it had met the undertaking. Throughout the 12-month period EnergyAustralia has continued to report the number of late bills, which, as at end June 2014, showed more than 90 per cent improvement over its performance a year ago.

Marketing Issues

The Commission investigated an incident reported by EnergyAustralia, whose third-party telemarketing agents had engaged significant numbers of customers in market contracts without adequate record of the customers' explicit informed consent. The Commission monitored EnergyAustralia's action to contact these customers and either confirm and record consent or release the customers from their contracts. This action has been completed.

Incorrect Early Termination Fees

The Commission established that Australian Power & Gas (APG, now part of AGL) had overcharged Early Termination Fees to customers who exited their market contracts early. APG gave an undertaking to use its best endeavours to contact those customers and refund the overcharge. APG met the requirements of the undertaking and 10,049 customers were contacted and received a refund.

Wrongful Disconnection

Eleven cases involving AGL and its customers were referred to the Commission for a formal decision on whether the customer had been disconnected in breach of the Energy Retail Code and was therefore entitled to compensation. AGL withdrew two cases, and in six cases the Commission found in favour of the customer. In one of these cases the retailer has declined to make the payment. This case and the remainder are under review. Five more cases, involving three other retailers, are pending a decision.

From January 2011 to December 2013 the Commission assessed 37 wrongful disconnection Payment referrals from EWOV. The Commission has decided 31 in favour of customers and six in favour of retailers.

WDP REFERRALS	ESC ASSESSED	OUTCOME IN FAVOUR OF CUSTOMER	OUTCOME IN FAVOUR OF RETAILER
AGL	21	20	1
AP&G	1	1	0
Lumo Energy	3	1	2
Neighbourhood Energy	1	1	0
Origin Energy	1	1	0
Red Energy	2	0	2
TRU Energy	8	7	1
	37	**31**	**6**

Auditing

To strengthen its ability to detect and respond to compliance breaches, the Commission completed a review of Guideline 22 on independent regulatory audits, and published the revised Guideline. As a result of the review, a panel of qualified independent auditors has been set up and more applications to join the panel are being reviewed.

An audit of EnergyAustralia's billing compliance was conducted, according to the requirements of Guideline 22, with a follow-up audit to confirm that the retailer satisfactorily completed remedial action in one area. The audits confirmed the reliability and accuracy of EnergyAustralia's reported late-billing numbers.

Independent audits of the five licensed electricity distributors commenced, to assess compliance with their Advanced Metering Infrastructure (AMI) regulatory obligations. The final audit report is due later in 2014.

The Commission also assessed the reports of independent audits, commissioned by Energy Assured Limited (EAL), into compliance with its code of conduct for door-to-door marketing. EAL is an industry body set up to improve face-to-face marketing practices through the code, which is approved by the ACCC.

Disconnections Forum

In March 2014, the Commission conducted a forum with industry and community leaders on responding to the rising rate of energy disconnections, identified in the Commission's annual performance report. Energy retailers, community groups, financial counsellors, the Energy and Water Ombudsman (EWOV) Victoria and other stakeholders participated. Following this forum, the industry has organised a broader discussion on energy affordability in the national energy market.

Licensing applications and other issues

Licensing staff assessed 16 energy licence applications over the year, resulting in grants, variations and revocations of licence. The Commission granted one new licence to sell to residential customers, two new licences to sell to business and large customers, two new licences to generate electricity and one new licence to transmit electricity. Licensing staff also consulted with more than 50 parties considering licensable activity.

Other matters referred

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

VEET regulatory compliance investigations

The Commission carried out nine formal investigations of accredited participants (compared with five the previous year) and 18 annual audits (compared with 10 the previous year). As a result of this compliance activity, the Commission may require withdrawal or surrender of energy efficiency certificates improperly created under the VEET Act and Regulations.

YOURCHOICE ADVERTISING CAMPAIGN

For the second year in succession, the Commission conducted an advertising campaign* to inform consumers of their rights and responsibilities in relation to energy billing issues. The aim was to empower consumers with information to assist them to engage in a well-informed discussion if, and when, billing issues arise with their energy retailer.

According to the Energy and Water Ombudsman (EWOV) Victoria, the largest number of cases that it manages are in relation to energy (primarily electricity) billing-related issues**.

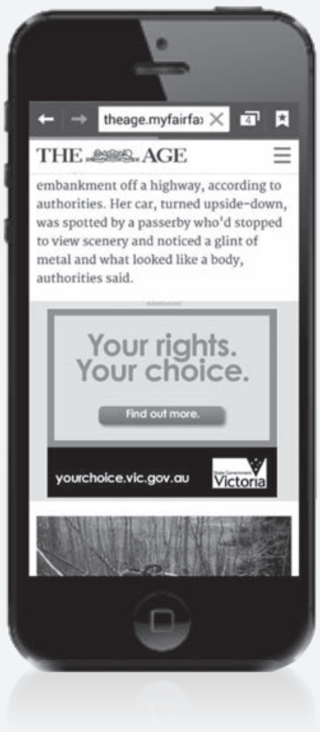
During the campaign, retail energy customers were directed to visit the Commission's *YourChoice* consumer website for information on a range of billing issues that consumers may encounter – billing errors, unusually high bills, delays or non-billing, and back billing.

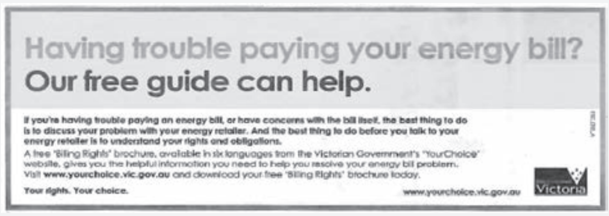
Specific media utilised during the campaign included Victoria-wide online advertising on popular news, sport and lifestyle websites, regional press and press and radio on a range of non-English speaking media outlets. The advertisied messages were translated into Mandarin, Vietnamese, Arabic, Italian, Greek and Turkish. Specific regional areas were targeted which, according to EWOV, register the greatest number of bill complaints.

The 2014 advertising campaign resulted in over 50,000 people visiting the billing pages of the *YourChoice* website during the campaign. Approximately 70 per cent of website visitors were new visitors.

Women of 35–44 years, followed by women of 18–24 years age groups, were the main respondents to the advertised messages, and clicked most frequently on the online ads to refer them to the *YourChoice* website for more information.

Overall, the campaign result was well above expectations, with a significant number of energy consumers (in relation to the advertising expenditure) not only seeing or hearing the advertisement, but taking action to visit the Commission's website for further information.





* The campaign ran from 4 May to 30 June, 2014

** Source: Energy and Water Ombudsman (EWOV), Victoria *Res Online No.7 (May 2014)*

MAJOR PROJECTS COMMENCED AND BENEFITS GENERATED IN 2013–14

ENERGY REGULATION

Project	Output/Results	Benefits/Impact
Harmonisation of regulatory instruments	Finalised review to align Commission's codes and guidelines with national framework	Lowered the regulatory burden on retailers while ensuring that Victorian customer protections are maintained
Review of audit Guideline 22	Finalised a review to streamline audits of licensed energy businesses	Provided clearer guidance on audit expectations and timelimes
Feed-in tariff rate assessment	Finalised a review to set feed-in tariff rate for 2014. Commenced a review to set the feed-in tariff rate for 2015	Supported the generation of renewable energy at local level
Flexible pricing	Finalised a review of Commission's codes and guidelines to facilitate flexible pricing	Ensured adequate customer protections in place to support flexible pricing
Energy retailer compliance statement – removal of carbon price	Commenced a consultation to develop a compliance statement allowing energy retailers to vary standing offer tariffs to reflect the removal of the carbon price	Allows retailers to lower standing offer tariffs to remove the carbon price

FACILITATING COMPETITION

Project	Output/Results	Benefits/Impact
Customer Liaison	Responded to energy customers' queries on a range of topics throughout the year, including prices, maintenance responsibilities, and information provision on customer bills	Provided customers with greater understanding of their rights and obligations in the retail energy sector

COMPANY APPROVALS AND REVIEWS

Project	Output/Results	Benefits/Impact
Electricity Distribution Business AMI Audits	Commenced audit of AMI regulatory obligations on electricity distribution businesses	Ensured distribution businesses were meeting their AMI regulatory obligations
Energy Performance Reporting	Released 2012–13 Energy Retail Businesses Comparative Performance Reports, including customer service and pricing in the competitive market	Provided information to customers and key stakeholders on the comparative performance of 13 retailers servicing Victoria

MAJOR PROJECTS COMMENCED AND BENEFITS GENERATED IN 2013–14

ENERGY TARGETS

Project	Output/Results	Benefits/Impact
Victorian Energy Efficiency Target (VEET) scheme	Maintained ongoing administration of the Victorian Energy Efficiency Target (VEET) scheme	Reduced greenhouse gas emissions by promoting more energy efficient use of electricity and gas, initially in the residential sector
	Implemented new VEET scheme prescribed activity – In Home Displays – that included amendments to VEET explanatory guidelines and product registers	Provided clarity and certainty in the operation of the VEET scheme to accredited persons and retailers
	Upgraded accreditation application and approvals systems	Increased scheme integrity through improved automated data assessment and reduced the regulatory burden via streamlined approval processes for industry
	Upgraded certificate validation and auditing processes	Increased scheme integrity focusing on higher risk activities and businesses
	Developed a product testing protocol to ensure product performance meets regulations	Increased scheme integrity through improved product monitoring
	Released Victorian Energy Efficiency Target scheme Performance Report 2012	Maintained public accountability for the scheme

Water division

The Water Division's work program in 2013–14 focused on completing follow up actions from the 2013 Water Price Review, responding to the independent review of the regulatory framework for the water sector and strengthening customer protection.

The Commission successfully completed a number of actions that followed from the Water Price Review. These included approving Melbourne Water's amended expenditure and prices for jetty-related services in Patterson's Lakes and Coliban Water's rural tariffs.

Over the year, the Commission consulted with water businesses on its approach to assessing the financial viability of the businesses. It is important that the businesses are financially viable so they can service customers over the long-term, without resorting to price shocks.

The Commission completed guidance material to assist the urban water businesses and developers to apply the new principles based developer charges framework. The guidance material was prepared with input from the water and development industries.

The Commission prepared three detailed submissions in response to the review of Victoria's framework for the economic regulation of the water sector.

The Division prepared a staff paper that discusses how the effects of additional allowances for hardship – granted to the businesses during the Metropolitan Water Price Review – may be measured. Following this paper, the Division held a forum with metropolitan water businesses (including Western Water), customer interest groups and key industry stakeholders to discuss how the allowances would be used and reported on. The Division also began a set of surveys of financial counsellors, consumer advocates and consumers in hardship to determine a baseline for future reporting.

The Division updated the Service Standards in the Customer Service Codes, reflecting the decisions made in the Water Price Review. The Division reviewed and approved all of the Rural and Urban Customer Charters provided by the 19 water businesses. The Division also clarified the checklist for minimum "reasonable endeavours" of the Hardship related Guaranteed Service Level, in response to industry concerns. The Division has also commenced some preparatory work for the next set of price reviews.

During the year, the Commission prepared a final report on the monitoring of returns of unrequired desalination funds by the metropolitan water businesses to customers (as requested by the Minister for Water). Final figures will be released in the Water Performance Report (Dec 2014).

In December 2013, the Commission released its *Water Performance Report for 2012–13*. The Report provides a basis for interested parties to compare the performance of urban water businesses in areas such as household bills, dealing with customer financial hardship, service reliability, approach to customer hardship, and customer service. The Commission also finalised the 2012–13 regulatory accounts and approved tariffs for 2014–15 for all of the water businesses.

COST OF WATER INDUSTRY REGULATION

In 2013–14, the total cost of regulation of the Victorian water industry was $2.6 million.

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

MAJOR PROJECTS COMPLETED AND BENEFITS GENERATED IN 2013–14

WATER TARGETS

Project	Output/Results	Benefits/Impact
Actions arising from the 2013 price review	Approved Melbourne Water's prices for jetty services in Patterson's Lakes	Prices for jetty services in Patterson's Lakes are now cost reflective
	Approved Coliban Water's rural tariffs	Customer expectations are met in relation to rural tariffs
	Completed the development of guidance material on the new principles based New customer contributions (NCC) framework	Assists the urban water businesses and developers to apply the new principles based NCC framework
Financial viability	Consulted with the water businesses on the Commissions approach to assessing the financial viability of the businesses	Ensuring that the Commission's approach to assessing financial viability is appropriate
Regulatory Accounts	Completed a review of all water businesses regulatory accounts	Ensured regulatory accounts for each business are up to date The Information contained in the accounts is used in many Water Division projects
Independent review of the economic framework for Victoria's water sector	Prepared three detailed submissions in response to the review	Added important perspectives and practical experience to the review
Hardship allowances	Prepared a staff paper that discusses how the effects of additional allowances for hardship may be measured Consulted with stakeholders to discuss how the allowances would be used and reported on Surveyed financial counsellors, consumer advocates and consumers in hardship to determine a baseline for future reporting	Ensures additional funds for hardship are used in a way that is useful for customers who are either in hardship or may be facing hardship
Customer Service Codes	Reviewed and approved all of the Rural and Urban Customer Charters provided by the 19 water businesses	Specifies the standards and conditions of service and supply that the water businesses must comply with
Monitoring the return of unrequired desalination funds to customers	Finalised monitoring the return of unrequired desalination funds to customers by the metropolitan water businesses (including Western Water) Released quarterly updates on return of funds	Promoted transparency and facilitated the return of funds to customers Commission also ensured that businesses have a process to resolve any customer disputes
Regulatory Audits	Audit of urban and rural water businesses for compliance with reporting requirements	Demonstrated high level of compliance with customer service obligations Demonstrated accuracy of reporting performance data
2012–13 Water Performance Report	Released performance report for metropolitan and regional urban water businesses	Enhanced accountability and transparency of information on water industry performance Provided consistent basis for assessing performance across businesses Encouraged competition by comparison or performance over time to benefit customers

Transport division and Reviews & Research

The Transport division is responsible for administering the Commission's regulatory functions in the taxi, accident towing, ports and rail freight sectors, as well as undertaking reviews and inquiries referred by Ministers. The Reviews and Research division is responsible for undertaking research and reviews to support the Commission's work program and confidential advisory work referred by Departments and Ministers.

TAXIS

Following the Taxi Industry Inquiry in 2012, the Commission was given the role to determine taxi fares in the Metropolitan, Urban and Large Regional taxi zones every two years from 1 July 2014. In August 2013, the Commission commenced its taxi fare review and embarked on an extensive consultation with the industry. Subsequently in February 2014, the Commission was asked by the Minister for Public Transport to complete the review earlier, by March 2014. This review was also broadened to provide taxi fare advice for the rest of Victoria prior to the new legislation coming into effect on 1 July 2014.

The Commission's final taxi fare report was submitted to the Government on 31 March 2014 and its fare recommendations adopted in full. Implementation of the new Victorian taxi fares took effect on 19 May 2014. A fuller description of the Commission's 2014 taxi fare review is provided as a case study on page 33.

TAXI PRICE MONITORING

Following deregulation of taxi fares in country and regional Victoria on 1 July 2014, the Commission is now required to monitor the price, costs and return on assets of taxi operators in these areas. Each year, the Commission is required to release an annual monitoring report, with the first due in September 2015. In addition, in 2014 the Commission gained a new legislative role to review taxi non-cash service surcharges.

ACCIDENT TOWING

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

The Commission's most recent review commenced with the release of an issues paper on 21 February 2013, and subsequently a draft report on 16 May 2013. The Commission finalised its review in July 2013 and provided its final report to the Minister for Roads. All but one of the Commission's recommendations were adopted by the Victorian government. The Commission publicly released the report on its website in August 2013.

PORTS

In June 2014, the Commission completed its five yearly review of economic regulation for prescribed services at the Port of Melbourne Corporation. In our Draft Report, released in May 2014, the Commission recommended that the current prescribed services provided by the Port of Melbourne continue to be regulated for the next five years via a light-handed monitoring regime, as well as recommended a reduction in the regulatory reporting burden. The final report was provided to the Minister for Finance on 30 June.

RAIL

We have continued to administer the State's third party access regime for Victoria's four declared rail freight access providers, namely VicTrack; V/Line; Metro Trains Melbourne; and Asciano (South Dynon).

DOMESTIC BUILDING INSURANCE

In November 2013, the Commission released its annual report on the performance of Victoria's Domestic Building Insurance (DBI) scheme. This report examined trends in the number of eligible builders; the number of project certificates (policies); premium levels; and the number and amount of claims made under the DBI scheme.

COST OF TRANSPORT AND REVIEWS & RESEARCH

The total costs of the Transport and Reviews and Research divisions in 2013–14 was:

Industry	Estimated cost
Port services industry	$0.26 million
Transport industries	$2.4 million
Other	$1.6 million

Note: The costs include the direct costs incurred by the Transport and Reviews and Research divisions, plus an allocation for overhead costs.

MAJOR PROJECTS COMPLETED AND BENEFITS GENERATED IN 2013–14

TRANSPORT AND REVIEWS & RESEARCH TARGETS

Project	Output/Results	Benefits/Impact
2014 Taxi Fare Review	Call for Ideas paper (September 2013). Principles Paper (October 2013) Final report submitted to the Minister for Public Transport (March 2014) Final report released publicly (April 2014)	Provided advice on taxi fares to apply for whole of Victoria that took into account the interests of taxi users and financial viability of the industry. New fare structures were also proposed to improve incentives and services
2014 Taxi Fare Determination	Taxi Fare Determination (June 2014) Notice of Determination (June 2014)	The determination sets the maximum fares that can be charged by taxi operators who hold a Metropolitan or Urban and Large Regional taxi licence
2014 Ports Review	Draft Report (May 2014) Public hearing (June 2014) Final report submitted to the Minister for Finance (June 2014) Final report publicly released (August 2014)	Provided recommendations on the economic regulation of prescribed services at the Port of Melbourne Advice sought to protect users and consumers from the potential exercise of market power while reducing the regulatory burden of the price monitoring regime
2013 Accident Towing Review	Issues Paper (February 2013) Draft Report (May 2013) Final Report submitted to Minister for Roads (June 2013) Final report publicly released (August 2013)	Provided recommendations to clarify and improve the economic regulation of accident towing & storage in the greater Melbourne area for the benefit of consumers
2013 Geelong Share-ride Taxi Review	Issues Paper (May 2013) Final Report to Minister for Public Transport (August 2013) Final Report publicly released (August 2013)	Provided advice recommending a fixed fare, per head pricing structure for the proposed late night, share-ride taxi pilot program in Geelong
Performance of domestic building insurance (DBI) scheme	Report publicly released in November 2013 covering the 2012–13 financial year	Informed the public on the performance of DBI scheme, providing information about scheme eligibility, premiums and claims performance from 2002 to June 2013

TAXI FARE REVIEW 2013–14

In March 2014, the Commission finalised its report for the Victorian taxi fare review 2013–14. The report was the conclusion of a process that involved extensive public consultation and analysis by the Commission. This was the first review of taxi fares since 2008, and came at a time when the industry was undergoing significant reforms. The review therefore generated strong stakeholder interest.

A focus on consultation

The review commenced in September 2013 on the basis of the Victorian Government's industry reforms, with the Commission to set fares for the new Melbourne Metropolitan and Urban and Large Regional taxi zones. The Commission commenced the review with a *Call for Ideas* paper, inviting interested stakeholders to submit their views and ideas on the state of the industry and options for fare changes. The Commission also released a *Principles Paper* (October 2013) and *Summary of initial consultations* paper (November 2013).

As the above suggests, consultation with industry was a key aspect of the review process. To better understand the financial circumstances of the industry, how taxi operators run their business, and the incentives and decisions faced by taxi drivers, the Commission undertook separate surveys of operators and drivers in the Melbourne Metropolitan and Urban and Large Regional taxi zones.

To ensure all operators and drivers in these zones were informed of the surveys, the Commission utilised several avenues to distribute them. The surveys were made available at the depots of network service providers and fleet operators, at the Melbourne Airport taxi holding rank (where hundreds of taxis pass through each day) and via the Commission's stakeholder contact list. The surveys were also released on the websites of the Commission, the Taxi Services Commission and the Victorian Taxi Association, and they were 'advertised' by the network service providers to their drivers via their taxi dispatch systems.

The survey information provided by operators and drivers was an important input to the Commission's decision on taxi fares.

Commission staff also visited the premises of network service providers, taxi co-operatives, large and small fleet operators and taxi meter providers, and met with consumer groups to better understand the industry. Over 50 meetings were held with stakeholders.

While most stakeholder interest came from those involved in supplying taxi services (e.g. operators and drivers), the Commission actively pursued input from users of taxi services. For example, the Commission engaged with consumer groups providing disability services (Scope and Inclusion Melbourne) and spoke with organisers of major Melbourne events.

A broadening of the review

The Commission was to finalise its fare review by late June 2014. However, during the course of review, the Victorian Government requested earlier taxi fare advice. It issued terms of reference to the Commission to provide fare advice to the Minister for Public Transport. The terms of reference was issued to the Commission on 2 February 2014, with a final report required by 31 March 2014.

Under the Terms of Reference the Commission was to provide advice on taxi fares for all existing taxi zones in Victoria (i.e. Metropolitan Melbourne, Outer Suburban, Urban and Country) — rather than the Commission setting fares for the new Melbourne Metropolitan and Urban and Large Regional taxi zones only, which was the initial focus of the fare review.

How the Commission developed its fare advice

Using the taxi cost information from the operator and driver surveys, the Commission was able to estimate a cost profile for the standard metropolitan taxi. This cost profile was tested and refined via consultations with operators. The Commission also determined a reasonable investment return for the taxi industry. Using the cost profile and investment return estimates, the Commission determined that fares should increase by an average of 12.5 per cent.

The Commission then had to determine how this increase should be applied to the fare structure.

As well as obtaining information and survey data from taxi operators, drivers and other stakeholders, the Commission was able to analyse very detailed trip and driver shift information provided by Melbourne network service providers. Based on the analysis of this information, the Commission altered the fare structure in Melbourne. Specifically, the Commission's advice was to have a day fare period (9am to 5pm), an overnight fare period (5pm to 9am, excluding the peak fare period) and a peak fare period (10pm to 4am Friday and Saturday nights).

Applying this fare structure, the Commission identified a fare levels for the Melbourne Metropolitan and Outer Suburban taxi zones that best balanced changes in fares across hours of the day and days of the week.

In other areas of Victoria, the Commission advised that the existing fare structure be maintained, with fare components (except booking fees) uplifted by 12.5 per cent. This simpler approach was applied to the Urban and Country taxi zones because the Commission did not have any detailed cost information on which to estimate a cost profile for these zones, or any trip information to analyse taxi supply and use — the operator and driver surveys only collected information for the Melbourne Metropolitan and Urban and Large Regional taxi zones, as these were the initial focus of the Commission's fare review.

The Commission's fare advice

The Commission provided its fare advice to the Minister for Public Transport on 31 March 2014. This advice was accepted by the Minister, and the new fares were implemented from 19 May 2014.

All submissions, consultant reports and Commission papers supporting the taxi fare review are available on the Commission's website: www.esc.vic.gov.au/Taxis/Taxi-fare-review-2013–14

Output performance

The output targets set for 2013–14 and actual results are:

MAJOR OUTPUTS/DELIVERABLES PERFORMANCE MEASURES

	Unit of measure	2013–14 Target	2013–14 Actual
QUANTITY			
Performance reviews and compliance audits of regulated businesses	Number	105	106
New or revised regulatory instruments issued	Number	8	8
Performance reports for regulated businesses or industries	Number	4	4
Price approvals of regulated businesses	Number	19	19
Reviews, investigations or advisory projects[1]	Number	5	4
Registration and accreditation decisions/approvals in relation to the Victorian Energy Efficiency Target Scheme[2]	Number	1000	2355
QUALITY			
Decisions upheld where subject to review, appeal or disallowance	Per cent	100	100
TIMELINES			
Deadlines met for major milestones	Per cent	100	100
COST			
Total output cost	**$ million**	**$17.5**	**$15.9**[3]

1 The 2013–14 outcome is lower than the 2013–14 target due to the Taxi Fare Determination being delayed to 2014–15.

2 The 2013–14 outcome is higher than the 2013–14 target due to an online processing method introduced that allowed a higher amount of approvals to be carried out.

3 The 2013–14 underspend is partly due to lower expenditure on the Victorian Energy Efficiency Target expansion scheme and the Taxi Price Review project. Includes DTF overheads.

OUTPUT TARGETS 2014–15

MAJOR OUTPUTS/DELIVERABLES PERFORMANCE MEASURES

Economic Regulatory Service	Unit of measure	2014–15 Target
QUANTITY		
Performance reviews and compliance audits of regulated businesses[1]	Number	102*
New or revised regulatory instruments issued[2]	Number	6**
Performance reports for regulated businesses or industries	Number	4
Price approvals of regulated businesses	Number	19
Reviews, investigations or advisory projects[3]	Number	3***
Registration and accreditation decisions/approvals	Number	3000
QUALITY		
Decisions upheld where subject to review, appeal or disallowance	Per cent	100
TIMELINES		
Deadlines met for major milestones	Per cent	100
COST		
Total output cost	**$ million**	**$17.0**[4]

1 The 2014–15 target is lower than the 2013–14 target as two audits of rural water businesses will not be required and one further audit is not required due to lower activity in the VEET Scheme.

2 The lower 2014–15 target reflects the number of new or revised regulatory instruments proposed to be made within the current legislative schedule for 2014–15.

3 The lower 2014–15 target reflects the number of reviews requested and the timeframes specified by the Government.

4 The 2014–15 target is lower than the 2013–14 target as two audits of rural water businesses will not be required and one further audit is not required due to lower activity in the VEET Scheme.

WORKFORCE DATA BY DIVISION

Total Employment* as at 30 June 2014 (by division)	Headcount
Water Division	10
Energy Division	9
Energy Targets	23
Corporate and Operations	10
Transport Division	10
Reviews and Research Division	6
Total	**68**

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

WORKFORCE DATA STAFFING TRENDS

As at 30 June 2014	Headcount	FTE
2004	58	55
2005	63	61
2006	62	61
2007	71	69
2008	66	66
2009	56	54
2010	74	72
2011	71	69
2012	70	68
2013	65	61
2014	68	63

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

	ONGOING EMPLOYEES				FIXED TERM & CASUAL
	employee headcount	full-time headcount	part-time headcount	FTE	FTE
Jun-13	58	51	7	55.96	5.30
Jun-14	59	50	9	56.64	6.73

	2013			2014		
		Ongoing	Fixed term & Casual		Ongoing	Fixed term & Casual
	employee headcount	FTE	FTE	employee headcount	FTE	FTE
GENDER						
Female	30	28.35	2.80	30	28.04	3.83
Male	28	27.36	2.50	29	28.60	2.90
AGE						
Under 25	2	2.00	1.07	3	3.00	0.19
25-34	19	18.24	3.63	15	14.80	4.64
35-44	23	22.12	0.60	26	24.24	1.60
45-54	9	8.60	0.00	11	10.60	0.30
55-64	3	3.00	0.00	2	2.00	0.00
Over 64	2	2.00	0.00	2	2.00	0.00
Total	**58**	**55.96**	**5.30**	**59**	**56.64**	**6.73**
	employee headcount	FTE	FTE	employee headcount	FTE	FTE
CLASSIFICATION						
VPS1	0	0.00	0.00	0	0.00	0.00
VPS2	0	0.00	0.00	3	3.00	0.00
VPS3	15	14.72	2.00	10	9.60	2.00
VPS4	11	10.40	0.63	13	12.20	1.00
VPS5	11	9.84	0.60	12	10.84	1.60
VPS6	12	12.00	0.00	13	13.00	1.00
STS	2	2.00	0.00	1	1.00	0.00
SRM	3	3.00	0.00	4	4.00	0.00
Executive	4	4.00	0.00	3	3.00	0.00
Casual	0	0.00	2.07	0	0.00	1.13
Total	**58**	**55.96**	**5.30**	**59**	**56.64**	**6.73**

Note: Excludes 1.8 FTE Commissioners (2014) and 1.8 FTE Commissioners (2013)

EXECUTIVE OFFICER DISCLOSURES

NUMBER OF EXECUTIVE OFFICERS CLASSIFIED INTO 'ONGOING' AND 'SPECIAL PROJECTS'

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

BREAKDOWN OF EXECUTIVE OFFICERS INTO GENDER FOR 'ONGOING' AND 'SPECIAL PROJECTS'

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

RECONCILIATION OF EXECUTIVE NUMBERS

	2013	2014
Executives with remuneration over $100,000	4	3
ADD Vacancies (table 2)	0	0
Executives employed with total remuneration below $100,000	0	0
Accountable Officer* (Secretary)	1	1
LESS separations	0	0
Total executive numbers at 30 June 2013	**4**	**4**

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

OCCUPATIONAL HEALTH AND SAFETY

The Commission has continued to promote occupational health and safety through a range of measures. The Commission has a health and safety representative and an OH& S Committee, which meets quarterly.

PRIVATE INTEREST DECLARATIONS

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

WORKCOVER

WorkCover statistics	2012–13	2013–14
Claims during the year	1	0

EMPLOYEE RELATIONS

No employee time was lost in 2013–14 due to industrial disputes.

CORPORATE GOVERNANCE

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

Commissioners also comprise a board of management, which is responsible for the oversight of the organisation supporting the Commission through participation in strategic planning, management of resources, monitoring of project activity and overseeing compliance with corporate governance. The Commission met 40 times and the Board met 12 times during 2013–14.

The Commission also operates under its own Corporate Governance Statement, which is posted on the Commission's external website. This statement also outlines the role of the Commission's Audit and Risk Management Committee, which in 2013–14 comprised two part-time Commissioners (Mr Dennis Cavagna and Ms Mary Anne Hartley. Ms Hartley's appointment finished on 2 February and was succeeded by Mr Richard Clarke, who commenced on 31 March) and one external appointment, an accountant (Mr David Ashmore). Internal and external auditors also attended the meetings as required.

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

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

The Audit and Risk Management Committee reviews and provides recommendations to the Commission on the adequacy of the processes for identifying and managing significant risks. It also provides a direct link between the Commission and the internal and external auditors, and enables any concerns of the auditors to be conveyed to the Commission independently of management. In 2013–14, the Audit and Risk Management Committee met four times.

ATTESTATION ON COMPLIANCE WITH THE AUSTRALIAN/NEW ZEALAND RISK MANAGEMENT STANDARD

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

Ron Ben-David
Chairperson
Essential Services Commission

ATTESTATION FOR FULL COMPLIANCE WITH THE MINISTERIAL STANDING DIRECTION 4.5.5.1 – INSURANCE

I, Ron Ben-David, certify that the Essential Services Commission has complied with Ministerial Direction 4.5.5.1 – Insurance.

Ron Ben-David
Chairperson
Essential Services Commission

MEMORANDA OF UNDERSTANDING

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

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

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

In 2013–14, Memoranda of Understanding were held with the following organisations:

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

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

CHARTER OF CONSULTATION AND REGULATORY PRACTICE

The *Essential Services Commission Act 2001* requires the Commission to develop and publish a Charter of Consultation and Regulatory Practice. First published in 2003, an updated version of the Charter was released in July 2012.

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

Staff of the Commission refer to the Charter when planning price and regulatory reviews and other activities, and are guided by it in conducting public consultation and seeking comment from stakeholders. A copy is available on the Commission's website.

STAKEHOLDER CONSULTATION PROCESSES

The Commission encourages stakeholder participation in its regulatory, advisory and administrative activities. This is achieved through both the Commission's public forums and the ability to respond by providing a written submission to publicly advertised projects and reviews.

PUBLIC FORUMS

In total, the Commission held 25 public hearings, forums and workshops during 2013–14 as part of its work program. The majority of these related to industry and community group consultations for the Taxi Fare Review prior to release of both the Draft Decision and Final Decision, and the Accident Towing Fee Review.

SUBMISSIONS

The ESC received over 73 submissions across a wide range of projects during the year. The number of submissions to major pricing and other regulatory reviews and activities received during 2013–14 included the following:

- Minimum Feed-in Tariffs: Jan – Dec 2014: Draft Decision – 10 submissions
- Taxi Fare Review 2013–14: Call for Ideas Paper – 24 submissions
- New Customer Contributions – Staff Framework & Approach Paper – 6 submissions
- Coliban Water – New Tariff Application – 2 submissions
- Melbourne Water's Special Drainage Areas Price Review 2014-16 – 6 submissions
- Notice of Inquiry – Review of Victorian Ports Regulations 2014 – 2 submissions
- Late night share-ride taxis – A pilot Program – Issues Paper (Oct 2012) – 4 submissions
- Periodic review of Accident Towing and Storage Fees – Issues Paper (Feb 2013) – 4 submissions
- Periodic Review of Accident Towing & Storage Fees (May 2013) – 6 submissions

In addition, the Commission's consultation processes included:

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

OTHER DECLARATIONS

National Competition Policy

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

Building Works

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

FIVE-YEAR FINANCIAL SUMMARY: CONTROLLED ACTIVITIES

	2009–10 ($)	2010–11 ($)	2011–12 ($)	2012–13 ($)[1]	2013–14 ($)[1]
Total Income from transactions	13,501,800	12,641,789	15,439,162	17,023,361	15,878,000
Total expenses from transactions	13,257,872	14,187,002	14,342,970	17,133,461	15,374,808
Net result from transactions	243,928	-1,545,213	1,096,192	-110,100	503,192
Net result	246,142	-1,539,294	1,041,127	328,629	503,677
Net cash flow from operating activities	642,769	327,596	789,850	476,603	35,450
Total assets	11,698,634	9,944,028	11,130,876	11,037,075	11,602,652
Total liabilities	3,848,123	3,739,375	3,885,096	3,434,415	3,496,315

[1] In 2013–2014 the Commission applied AASB 119 Employee Benefits (Sept 2011, as amended) and the related consequential amendments for the first time. This impacted the way annual leave provisions are measured. Comparative figures for 2012–2013 have been restated accordingly.

LICENCE FEE REVENUE

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

Type of licence	Total Revenue 2013–14* ($)
ELECTRICITY INDUSTRY	
Generation ≤ 200MW	3,000
Generation 200-999 MW	9,000
Generation ≥ 1000 MW	15,000
Trader	750
Transmission – State-wide	15,000
Transmission – Interconnector	7,500
Distribution	151,700
Restricted retail and retail contestable	1,046,796
GAS INDUSTRY	
Distribution	65,014
Retail	745,145
PORTS INDUSTRY	
Port of Melbourne Corporation	165,279
WATER INDUSTRY	
Water and sewerage	3,270,198

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

Appendices

APPENDIX A

ESSENTIAL SERVICES COMMISSION

Financial Statements

For the Year Ended 30 June 2014

Comprehensive operating statement
For the year ended 30 June 2014

	Notes	2014 $	2013 $
Income from transactions			
Grants	2	**15,878,000**	17,023,361
Total income from transactions		**15,878,000**	17,023,361
Expenses from transactions			
Employee benefits	3	**9,317,111**	9,630,643
Depreciation	3	**334,622**	383,976
Finance lease interest		**3,872**	2,222
Capital asset charge	1(f)	**16,257**	34,716
Supplies and services	3	**5,702,946**	7,081,904
Total expenses from transactions		**15,374,808**	17,133,461
Net result from transactions		**503,192**	(110,100)
Other economic flows included in net result			
Net gain/(loss) on disposal of property, plant and equipment		**3,965**	545
Net gain/(loss) arising from revaluation of leave liabilities		**(3,480)**	12,060
Net gain/(loss) arising from revaluation of restoration costs provision		**-**	426,124
Total other economic flows included in net result		**485**	438,729
Net result		**503,677**	328,629
Other economic flows – other comprehensive income		**-**	-
Comprehensive result		**503,677**	328,629

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

Balance sheet
As at 30 June 2014

	Notes	2014 $	2013 $
Financial assets			
Cash on hand		**500**	500
Receivables	4	**10,427,247**	9,569,708
Total financial assets		**10,427,747**	9,570,208
Non-financial assets			
Prepayments		**2,558**	2,741
Property, plant and equipment	5	**438,773**	581,669
Intangible assets	6	**733,574**	882,457
Total non-financial assets		**1,174,905**	1,466,867
Total assets		**11,602,652**	11,037,075
Liabilities			
Creditors and accruals		**1,150,598**	1,179,797
Provisions	7	**2,256,059**	2,168,387
Borrowings	8	**89,658**	86,231
Total liabilities		**3,496,315**	3,434,415
Net assets		**8,106,337**	7,602,660
Equity			
Contributed capital		**873,921**	873,921
Accumulated surplus		**7,232,416**	6,728,739
Total equity		**8,106,337**	7,602,660

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

Essential Services Commission

Statement of changes in equity
For the year ended 30 June 2014

	Contributed capital $	Accumulated surplus $	Total $
Balance at 1 July 2012	873,921	6,400,110	7,274,031
Net result for the year		328,629	328,629
Balance at 30 June 2013	**873,921**	**6,728,739**	**7,602,660**
Net result for the year		**503,677**	**503,677**
Balance at 30 June 2014	**873,921**	**7,232,416**	**8,106,337**

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

Essential Services Commission

Cash flow statement
For the year ended 30 June 2014

	Notes	2014 $	2013 $
Cash flows from operating activities			
Receipts from government		**15,519,020**	17,881,695
Payments to suppliers and employees		**(15,463,441)**	(17,368,154)
Capital asset charge paid		**(16,257)**	(34,716)
Interest and other finance costs paid		**(3,872)**	(2,222)
Net cash flows from operating activities	16	**35,450**	476,603
Cash flows from investing activities			
Payments for property, plant and equipment		**(15,769)**	(462,763)
Proceeds from sale of property, plant and equipment		**13,636**	36,273
Net cash flows used in investing activities		**(2,133)**	(426,490)
Cash flows from financing activities			
Repayment of finance leases		**(33,317)**	(50,113)
Net cash flows used in financing activities		**(33,317)**	(50,113)
Net increase in cash held		**-**	-
Cash at the start of the year		**500**	500
Cash at the end of the year		**500**	500
Non-cash financing and investing activities	17		

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

Note 1. Summary of significant accounting policies

(a) Statement of compliance

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

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

(b) Basis of preparation

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

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

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

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

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

(c) Reporting entity

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

Administered resources
The Commission acts on behalf of the Victorian Government in collecting licence fees administered by the Commission under the *Electricity Industry Act 2000*, the *Gas Industry Act 2001*, the *Water Industry Act 1994* and the *Port Services Act 1995*. These and certain other administered revenues are collected by the Commission but not controlled by it, and are not recognised as revenues/receivables within the body of the financial statements, but are reported as administered revenues/receivables (see note 18). Such amounts are required to be paid to the Consolidated Fund.

Objectives and funding
The Essential Services Commission operates under the *Essential Services Commission Act 2001* ("the Act"). The Act designates the Commission as an economic regulator (pricing, standards and monitoring for anti-competitive conduct) and lays a foundation for the Commission to perform its functions and exercise its powers in respect of regulated industries operating under relevant legislation.

At 30 June 2014 the regulated industries included electricity, gas, water, ports, taxis and rail facilities and water associated services. The Commission also has economic regulatory roles in other industries.

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

(d) Scope and presentation of financial statements

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

Balance sheet
Assets and liabilities are presented in liquidity order with assets aggregated into financial assets and non-financial assets. Current and non-current assets and liabilities are disclosed in the notes, where relevant. Non-current assets or liabilities are those expected to be recovered or settled more than 12 months after the reporting period.

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

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

(e) Income from transactions

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

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

(f) Expenses from transactions

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

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

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

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

Typical estimated useful lives applicable for the years ended 30 June 2014 and 30 June 2013 are as follows:

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

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

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

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

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

(g) Other economic flows included in net result

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

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

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

Impairment of non-financial assets
All non-current physical assets and intangible assets are assessed annually for indications of impairment. If there is an indication of impairment, the assets concerned are tested as to whether their carrying value exceeds their recoverable amount. Where an asset's carrying value exceeds its recoverable amount, the difference is written off as another economic flow except to the extent that the write-down can be debited to an asset revaluation reserve amount applicable to that class of asset.

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

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

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

(h) Financial assets

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

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

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

Receivables that are contractual are classified as financial instruments. Statutory receivables are recognised and measured on the same basis as contractual receivables (except for impairment) but are not classified as financial instruments as they do not arise from a contract.

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

(i) Non-financial assets

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

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

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

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

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

(j) Liabilities

Creditors and accruals
Creditors and accruals represent liabilities for goods and services provided to the Commission that are unpaid at the end of the financial year. Creditors and accruals are initially measured at fair value, being the cost of the goods and services, and then subsequently measured at amortised cost.

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

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

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

(k) Leases

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

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

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

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

(l) Goods and Services Tax (GST)

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

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

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

(m) Contributions by owners

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

(n) Commitments

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

(o) Contingent assets and contingent liabilities

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

(p) Changes in accounting policies

Subsequent to the 2012-13 reporting period, the following new and revised Standards have been adopted in the current period with their financial impact detailed as below.

AASB 13 *Fair Value Measurement*
AASB 13 establishes a single source of guidance for all fair value measurements. AASB 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under Australian Accounting Standards when fair value is required or permitted. The Commission has considered the specific requirements relating to highest and best use, valuation premise, and principal (or most advantageous) market. The methods, assumptions, processes and procedures for determining fair value were revisited and adjusted where applicable. In light of AASB 13, the Commission has reviewed the fair value principles as well as its current valuation methodologies in assessing the fair value, and the assessment has not materially changed the fair values recognised.

However, AASB 13 has predominantly impacted the disclosures of the Commission. It requires specific disclosures about fair value measurements and disclosures of fair values, some of which replace existing disclosure requirements in other standards, including AASB 7 *Financial Instruments: Disclosures*.
The disclosure requirements of AASB 13 apply prospectively and need not be applied in comparative information before first application. Consequently, the 2012-13 comparatives of these disclosures have not been provided.

AASB 119 *Employee Benefits*
In 2013-14, the Commission has applied AASB 119 *Employee benefits* (Sept 2011, as amended) and the related consequential amendments for the first time.

The revised AASB 119 changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligation and plan assets. As the current accounting policy is for the Department of Treasury and Finance to recognise and disclose the State's defined benefit liabilities in its financial statements, changes in defined benefit obligations and plan assets will have limited impact on the Commission.

The revised standard also changes the definition of short-term employee benefits. These were previously benefits that were expected to be settled within twelve months after the end of the reporting period in which the employees render the related service, however, short-term employee benefits are now defined as benefits expected to be settled wholly within twelve months after the end of the reporting period in which the employees render the related service. As a result, accrued annual leave balances which were previously classified by the Commission as short-term employee benefits no longer meet this definition and are now classified as long-term employee benefits. This has resulted in a change of measurement for the annual leave provision from an undiscounted to discounted basis.

Comparative amounts for 2012-13 and the related amounts as at 1 July 2012 have been restated in accordance with the relevant transitional provisions set out in AASB 119. The impact is as follows:

	2013
Impact on comprehensive result	$
Increase in employee expense	1,597

	As previously reported	AASB 119 adjustments	Restated
Impact on liabilities and equity	$	$	$
As at 1 July 2012			
Current employee benefit provision - annual leave	660,135	(28,251)	631,884
Accumulated surplus	6,371,859	28,251	6,400,110
As at 30 June 2013			
Current employee benefit provision - annual leave	622,721	(26,654)	596,067
Accumulated surplus	6,702,085	26,654	6,728,739

(q) New Accounting Standards and Interpretations

As at 30 June 2014, the following standards and interpretations (applicable to the Commission) had been issued but were not mandatory for the 30 June 2014 reporting period. The Commission has not adopted, and does not intend to adopt, these standards early.

AASB 9 *Financial Instruments*. This standard simplifies requirements for the classification and measurement of financial assets resulting from Phase 1 of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement* (AASB 139 *Financial Instruments: Recognition and Measurement*). Applicable for annual reporting periods beginning on 1 January 2017. Preliminary assessment has identified that the financial impact of available for sale assets will now be reported through other comprehensive income and no longer recycled to profit and loss. While the preliminary assessment has not identified any material impact arising from AASB 9, it will continue to be monitored and assessed.

AASB 10 *Consolidated Financial Statements*. This Standard forms the basis for determining which entities should be consolidated into an entity's financial statements. AASB 10 defines 'control' as requiring exposure or rights to variable returns and the ability to affect those returns through power over an investee, which may broaden the concept of control for public sector entities. The AASB has issued an *Australian Implementation Guidance for Not-for-Profit Entities – Control and Structured Entities* that explains and illustrates how the principles in the Standard apply from the perspective of not-for-profit entities in the private and public sectors. Applicable for annual reporting periods beginning on 1 January 2014 (not-for-profit entities). For the public sector, AASB 10 builds on the control guidance that existed in AASB 127 and Interpretation 112 and is not expected to change which entities need to be consolidated. Ongoing work is being done to monitor and assess the impact of this standard.

AASB 11 *Joint Arrangements*. This Standard deals with the concept of joint control, and sets out a new principles-based approach for determining the type of joint arrangement that exists and the corresponding accounting treatment. The new categories of joint arrangements under AASB 11 are more aligned to the actual rights and obligations of the parties to the arrangement. Applicable for annual reporting periods beginning on 1 January 2014 (not-for-profit entities). Based on current assessment, entities already apply the equity method when accounting for joint ventures. It is anticipated that there would be no material impact. Ongoing work is being done to monitor and assess the impact of this standard.

AASB 12 *Disclosure of Interests in Other Entities*. This Standard requires disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on the financial statements. This Standard replaces the disclosure requirements in AASB 127 *Separate Financial Statements* and AASB 131 *Interests in Joint Ventures*. Applicable for annual reporting periods beginning on 1 January 2014 (not-for-profit entities). The new standard is likely to require additional disclosures and ongoing work is being done to determine the extent of additional disclosure required.

AASB 127 *Separate Financial Statements*. This revised Standard prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. Applicable for annual reporting periods beginning on 1 January 2014 (not-for-profit entities). Current assessment indicates that there is limited impact on Victorian public sector entities. Ongoing work is being done to monitor and assess the impact of this standard.

AASB 128 *Investments in Associates and Joint Ventures*. This revised Standard sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Applicable for annual reporting periods beginning on 1 January 2014 (not-for-profit entities). Current assessment indicates that there is limited impact on Victorian public sector entities. Ongoing work is being done to monitor and assess the impact of this standard.

Note 2. Income from transactions

Income from transactions includes:

	2014 $	2013 $
Grants		
Grants from Department of Treasury and Finance (note 1(c))	**15,878,000**	17,023,361
Total grants	**15,878,000**	17,023,361

Note 3. Expenses from transactions

Expenses from transactions includes:

	2014 $	2013 $
Employee benefits		
Salaries and wages	**7,436,595**	7,878,590
Superannuation (see note 15)		
- Defined contribution plans	**598,591**	590,049
- Defined benefit plans	**15,671**	17,038
Annual and long service leave expense	**854,300**	712,634
On-costs	**411,954**	432,332
Total employee benefits	**9,317,111**	9,630,643
Depreciation		
Leasehold improvements	**111,361**	44,528
Office and computer equipment	**50,293**	75,410
Motor vehicles under finance lease	**24,084**	23,781
Intangible assets	**148,884**	240,257
Total depreciation	**334,622**	383,976
Supplies and Services		
Rentals and outgoings	**844,377**	1,152,797
Purchase of Services	**3,610,669**	4,806,005
Other	**1,247,900**	1,123,102
Total supplies and services	**5,702,946**	7,081,904

Note 4. Receivables

	2014 $	2013 $
Statutory		
Current		
Amounts receivable from government departments	**10,131,035**	9,247,020
GST recoverable	**91,582**	100,024
Total current receivables	**10,222,617**	9,347,044
Non-current		
Amounts receivable from government departments	**204,630**	222,664
Total non-current receivables	**204,630**	222,664
Total receivables	**10,427,247**	9,569,708

Note 5. Property, plant and equipment

	2014 $	2013 $
Leasehold improvements – at fair value	**462,762**	462,762
Less: accumulated depreciation	**(153,530)**	(42,169)
	309,232	420,593
Office and computer equipment – at fair value	**314,957**	299,188
Less: accumulated depreciation	**(273,874)**	(223,581)
	41,083	75,607
Motor vehicles under finance lease – at cost	**112,538**	108,132
Less: accumulated depreciation	**(24,080)**	(22,663)
	88,458	85,469
Total property, plant and equipment	**438,773**	581,669

Reconciliation of carrying amounts

	2014	2013
Leasehold improvements		
Carrying amount at start of the year	**420,593**	2,358
Additions	**-**	462,763
Depreciation expense (note 3)	**(111,361)**	(44,528)
Carrying amount at end of the year	**309,232**	420,593
Office and computer equipment		
Carrying amount at start of the year	**75,607**	160,462
Additions	**15,769**	-
Disposals	**-**	(9,445)
Depreciation expense (note 3)	**(50,293)**	(75,410)
Carrying amount at end of the year	**41,083**	75,607
Motor vehicles under finance lease		
Carrying amount at start of the year	**85,469**	59,740
Additions	**36,744**	75,792
Disposals	**(9,672)**	(26,282)
Depreciation expense (note 3)	**(24,084)**	(23,781)
Carrying amount at end of the year	**88,458**	85,469

Fair value measurement hierarchy* at 30 June 2014	Carrying amount	Fair value measurement using:		
		Level 1	Level 2	Level 3
	$	$	$	$
Leasehold improvements	309,232			309,232
Office and computer equipment	41,083			41,083

*See fair value hierarchy in note 1(b)

There have been no transfers between levels during the period.

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

There were no changes in valuation techniques throughout the period to 30 June 2014. For all assets measured at fair value, the current use is considered the highest and best use.

Reconciliation of Level 3 fair value

2014	Leasehold improvements	Office and computer equipment
	$	$
Opening balance	420,593	75,607
Purchases/(sales)	-	15,769
Depreciation	(111,361)	(50,293)
Closing balance	309,232	41,083
Unrealised gains/(losses) on non-financial assets	-	-

Description of significant unobservable inputs to Level 3 valuations

	Valuation technique	Significant Unobservable Inputs	Range	Sensitivity of fair value measurement to changes in significant unobservable inputs
Leasehold improvements at fair value				
Leasehold improvements	Depreciated replacement cost	Cost per unit	$41,000-$422,000	A significant increase or decrease in cost per unit would result in a significantly higher or lower fair value.
		Useful life of building component	4 - 10 years	A significant increase or decrease in the estimated useful life of the asset would result in a significantly higher or lower valuation.
Office and computer equipment at fair value				
Office and computer equipment	Depreciated replacement cost	Cost per unit	$5,000 - $73,000	A significant increase or decrease in cost per unit would result in a significantly higher or lower fair value.
		Useful life	3 - 10 years	A significant increase or decrease in the estimated useful life of the asset would result in a significantly higher or lower valuation.

Note 6. Intangible assets

	2014 $	2013 $
Capitalised software development	**1,383,037**	1,383,037
Less: accumulated depreciation	**(649,463)**	(500,580)
Total intangible assets	**733,574**	882,457
Reconciliation of carrying amounts		
Carrying amount at the start of the year	**882,457**	1,122,714
Depreciation expense (note 3)	**(148,883)**	(240,257)
Carrying amount at the end of the year	**733,574**	882,457

Note 7. Provisions

	2014 $	2013 $
Current:		
Employee benefits		
- Annual leave		
Expected to be paid within 12 months	**450,205**	506,434
Expected to be paid after 12 months	**162,649**	89,633
- Long service leave		
Expected to be paid within 12 months	**86,716**	81,709
Expected to be paid after 12 months	**1,258,042**	1,172,538
- Performance bonus	**93,817**	95,409
	2,051,429	1,945,723
Non-current:		
Employee benefits		
- Long service leave	**204,630**	222,664
Total provisions	**2,256,059**	2,168,387

Note 8. Borrowings

	2014 $	2013 $
Secured		
Current:		
Finance lease liabilities	**23,765**	31,310
Non-current:		
Finance lease liabilities	**65,893**	54,921
Total borrowings	**89,658**	86,231

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

	2014 $	2013 $
The carrying amounts of non-current assets pledged as security are:		
Motor vehicles under finance lease	**88,458**	85,469

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

Note 9. Financial instruments

(a) Significant accounting policies

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

(b) Categorisation of financial instruments

			Carrying amount	
			2014	2013
Financial assets	**Note**	**Category**	**$**	**$**
Cash on hand		Cash	**500**	500
Receivables *	4	Loans and receivables	**-**	-
			500	500
Financial liabilities				
Creditors and accruals		Financial liabilities at amortised cost	**1,150,598**	1,179,797
Borrowings	8	Financial liabilities at amortised cost	**89,658**	86,231
			1,240,256	1,266,028

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

Financial assets	**Category**		
Cash on hand	Cash	-	-
Receivables *	Loans and receivables	-	-
		-	-
Financial liabilities			
Creditors and accruals	Financial liabilities at amortised cost	-	-
Borrowings	Financial liabilities at amortised cost	**(3,872)**	(2,222)
		(3,872)	(2,222)

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

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

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

(c) Credit risk

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

Credit risk associated with the Commission's financial assets is insignificant because the main debtor is the Victorian Government. For debtors other than government, it is the Commission's policy to only deal with entities with high credit ratings and to obtain sufficient collateral or credit enhancements where appropriate. The Commission does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Commission's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Financial assets that are either past due or impaired
There are no material financial assets which are individually determined to be impaired. Currently the Commission does not hold any collateral as security nor credit enhancements relating to any of its financial assets.

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

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

(d) Liquidity risk

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

The Commission's exposure to liquidity risk is deemed insignificant based on prior periods' data and current assessment of risk. Maximum exposure to liquidity risk is the carrying amounts of financial liabilities. The Commission manages its liquidity risk by maintaining an adequate level of uncommitted funds that can be drawn at short notice to meet its short term obligations.

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

			Maturity*			
	Carrying amount $	Nominal amount $	Less than 1 month $	1-3 months $	3 months - 1 year $	1-5 years $
2014						
Creditors and accruals	**1,150,598**	**1,150,598**	**1,150,598**			
Borrowings	**89,658**	**96,661**	**2,361**	**4,721**	**21,248**	**68,331**
	1,240,256	**1,247,259**	**1,152,959**	**4,721**	**21,248**	**68,331**
2013						
Creditors and accruals	**1,179,797**	**1,179,797**	**1,179,797**			
Borrowings	**86,231**	**95,206**	**2,433**	**4,866**	**28,586**	**59,321**
	1,266,028	**1,275,003**	**1,182,230**	**4,866**	**28,586**	**59,321**

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

(e) Market risk

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

(f) Fair value

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

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

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

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

Note 10. Commitments for expenditure

	2014 $	2013 $
Outsourcing commitments		
Information technology services, payable:		
Within one year	**460,000**	699,051
Later than one year but not later than five years	**-**	407,780
	460,000	1,106,831
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	**832,116**	832,435
Later than one year but not later than five years	**1,450,543**	2,391,185
	2,282,658	3,223,620
Finance lease liabilities		
Liabilities in relation to finance leases are payable as follows:		
Within one year	**28,330**	35,884
Later than one year but not later than five years	**68,331**	59,322
Minimum lease payments	**96,661**	95,206
Less: Future finance charges	**(7,003)**	(8,975)
Total lease liabilities	**89,658**	86,231
Shown in the financial statements (note 8) as:		
Current	**23,765**	31,310
Non-current	**65,893**	54,921
	89,658	86,231

Note 11. Contingent liabilities and contingent assets

The Commission had no contingent liabilities or contingent assets at 30 June 2014 or 30 June 2013.

Note 12. Responsible persons

Names

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

Responsible Minister	The Hon. Robert Clark, MP, Minister for Finance
Accountable Officer	Dr Ron Ben-David, Chairperson

Remuneration

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

$330,000 - $339,999 (2013: $320,000 - $329,999)

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

Other transactions

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

Note 13. Remuneration of executives

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

	Total remuneration		**Base remuneration**	
Income band	**2014 No.**	**2013 No.**	**2014 No.**	**2013 No.**
$160,000 - $169,999			**1**	-
$180,000 - $189,999	**1**	-		
$190,000 - $199,999			**-**	3
$200,000 - $209,999	**1**	1	**2**	-
$210,000 - $219,999	**1**	2		
$250,000 - $259,999			**-**	1
$260,000 - $269,999	**1**	1	**1**	-
Total numbers	**4**	4	**4**	4
Total amount ($)	**871,812**	905,372	**832,146**	847,061
Total annualised employee equivalent	**3.9**	4.0	**3.9**	4.0

Note 14. Remuneration of auditors

	2014 $	**2013 $**
Audit fees paid or payable to the Victorian Auditor-General's Office		
Audit of the annual financial statements	**15,400**	15,000

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

Note 15. Superannuation

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

The Commission does not recognise any defined benefit liability in respect of the plans because the Commission has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay superannuation contributions as they fall due. The Department of Treasury and Finance recognises and discloses the State's defined benefit liabilities as an administered item in its financial statements.

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

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

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

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

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

	2014	2013
	$	$
Net result for the period	**503,677**	328,629
Depreciation	**334,622**	383,976
Gain on disposal of property, plant and equipment	**(3,965)**	(545)
Reversal of restoration costs provision	**-**	(426,124)
Change in operating assets and liabilities		
(Increase)/decrease in receivables	**(857,540)**	212,982
(Increase)/decrease in prepayments	**183**	(329)
Increase/(decrease) in creditors and accruals	**(29,199)**	135,113
Increase/(decrease) in provisions	**87,672**	(157,099)
Net cash flows from operating activities	**35,450**	476,603

Note 17. Non-cash financing and investing activities

During the year motor vehicles with a fair value of $36,744 (2013 - $75,792) were acquired by means of finance leases.

Note 18. Administered items

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

	2014	2013
	$	$
Administered income from transactions		
Licence and other fees	**8,843,985**	14,430,331
Other income	-	25
	8,843,985	14,430,356
Administered expenses from transactions		
Payments to Consolidated Fund	**9,813,414**	13,341,671
	9,813,414	13,341,671
Administered net result	**(969,429)**	1,088,685
Administered assets		
Financial assets		
Debtors	**67,176**	219,331
Accrued income	**5,602,627**	6,365,356
	5,669,803	6,584,687
Administered liabilities		
Unearned income	**104,545**	50,000
	104,545	50,000
Administered net assets	**5,565,258**	6,534,687

Note 19. Glossary of terms

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

Comprehensive result
The net result of all items of income and expense recognised for the period. It is the aggregate of operating result and other comprehensive income.
Capital asset charge
The capital asset charge represents the opportunity cost of capital invested in the non-current physical assets used in the provision of outputs.

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

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

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

Financial asset

A financial asset is any asset that is:

(a) cash;

(b) an equity instrument of another entity;

(c) a contractual right:
to receive cash or another financial asset from another entity; or
to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or

(d) a contract that will or may be settled in the entity's own equity instruments and is:
a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

Financial instrument

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

Financial liability

A financial liability is any liability that is:

(a) a contractual obligation:
to deliver cash or another financial asset to another entity; or
to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or

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

Financial statements

A complete set of financial statements comprises:

a) a balance sheet as at the end of the period;

b) a comprehensive operating statement for the period;

c) a statement of changes in equity for the period;

d) a cash flow statement for the period;

e) notes, comprising a summary of significant accounting policies and other explanatory information;

f) comparative information in respect of the preceding period as specified in paragraph 38 of AASB 101 *Presentation of Financial Statements*; and

g) a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraph 41 of AASB 101.

Grants

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

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

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

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

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

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

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

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

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

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

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

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

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

ESSENTIAL SERVICES COMMISSION

Accountable Officer's and Chief Financial Officer's declaration

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

We further state that, in our opinion, the information set out in the comprehensive operating statement, balance sheet, statement of changes in equity, cash flow statement and notes to the financial statements, presents fairly the financial transactions during the year ended 30 June 2014 and financial position of the Commission as at 30 June 2014.

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

We authorise the attached financial statements for issue on 4 September 2014.

Joe Bonnici
Chief Financial Officer
Department of Treasury and Finance

Melbourne
4 September 2014

Ron Ben-David
Chairperson
Essential Services Commission

Melbourne
4 September 2014

VAGO

Victorian Auditor-General's Office

Level 24, 35 Collins Street
Melbourne VIC 3000
Telephone 61 3 8601 7000
Facsimile 61 3 8601 7010
Email comments@audit.vic.gov.au
Website www.audit.vic.gov.au

INDEPENDENT AUDITOR'S REPORT

To the Chairperson and Commissioners, Essential Services Commission

The Financial Report

The accompanying financial report for the year ended 30 June 2014 of the Essential Services Commission which comprises the comprehensive operating statement, balance sheet, statement of changes in equity, cash flow statement, notes comprising a summary of significant accounting policies and other explanatory information, and the accountable officer's and chief financial officer's declaration has been audited.

The Chairperson and Commissioners' Responsibility for the Financial Report

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The audit procedures selected depend on judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, consideration is given to the internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Chairperson and Commissioners, as well as evaluating the overall presentation of the financial report.

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

Independent Auditor's Report (continued)

Independence

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

Opinion

In my opinion, the financial report presents fairly, in all material respects, the financial position of the Essential Services Commission as at 30 June 2014 and of its financial performance and cash flows for the year then ended in accordance with applicable Australian Accounting Standards, and the financial reporting requirements of the *Financial Management Act 1994*.

Matters Relating to the Electronic Publication of the Audited Financial Report

This auditor's report relates to the financial report of the Essential Services Commission for the year ended 30 June 2014 included both in the Essential Services Commission's annual report and on the website. The Chairperson and Commissioners of the Essential Services Commission are responsible for the integrity of the Essential Services Commission's website. I have not been engaged to report on the integrity of the Essential Services Commission's website. The auditor's report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in the website version of the financial report.

MELBOURNE
5 September 2014

for John Doyle
Auditor-General

APPENDIX B

Regulatory Framework

Regulated Industries and Relevant Legislation

At 30 June 2014, the following industries were regulated industries within the ambit of the Commission by virtue of the relevant legislation specified below:

- The electricity industry – retailing and distribution (licensing and non-economic rule-making), under the *Electricity Industry Act 2000*
- The gas industry – retailing and distribution (licensing and non-economic rule-making), under the *Gas Industry Act 2001*
- The water industry – prices, service standards and conditions of service for the Victorian water industry including Melbourne Water and three metropolitan retailers under the *Water Industry Act 1994* and 15 regional and rural businesses under the *Water Act 1989*
- The port industry in the Port of Melbourne from 1 January 1996, under the *Port Management Act 1995*
- The rail (including trams) 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
- Administration of the Victorian Energy Efficiency Target (VEET) scheme through The *Victorian Energy Efficiency Target Act 2007*

APPENDIX C

Essential Services Commission Publications 2013–14

Corporate

- Work Program 2013–14 (July 2013)
- Annual Report 2012–13 (Sept 2013)

Energy Industry

Energy Industry Codes

- Gas Distribution System Code – Version 10
- Energy Retail Code – Version 10a
- Energy Retail Code – Version 11

Energy Industry Guidelines

- Guideline 13 – Greenhouse Gas Disclosure on Electricity Customers' Bills
- Guidelines 19 – Energy Price and Product Disclosure (Amendment)
- Guideline 21 – Energy Retailers Financial Hardship Policies
- Guideline 22 – Final decision re Regulatory Audits of Energy Businesses

Energy Industry Performance Reports

- Energy Retailers Comparative Performance Report – Pricing 2012–13
- Energy Retailers Comparative Performance Report – Customers Service 2012–13
- Energy Retailers Comparative Performance Report – Customer Service 2012–13 Revised

Victorian Energy Efficiency Target Scheme (VEET)

- Victorian Energy Efficiency Target Scheme Expansion Guidelines Amendment 2013 – Draft Decision
- Victorian Energy Efficiency Target Scheme (VEET) – Performance Report 2012

Other Energy Industry Reports

- Harmonisation Project – Consequential Amendments to Victorian Energy Instruments – Consultation Paper
- Harmonisation of the Energy Retail Code & Guidelines with the National Energy Customer Framework – Draft Decision
- Minimum Electricity Feed-in Tariffs: Jan–Dec 2014 Draft Decision
- Minimum Electricity Feed-in Tariffs: Jan–Dec 2014 Final Decision
- Changes to Regulatory Instruments relating to Flexible Pricing of Electricity: Final Decision
- Victorian Residential Electricity Retail Market Research: Discussion Paper
- ESC Energy Audit Panel: Joining the Audit Panel Electricity and Gas Industries
- YourChoice Standing & Market Offers 2009–2013
- Electricity Charges for Victorian Caravan Park Residents 2014

Water Industry

Water Industry Codes

- Customer Service Code for Victorian Rural Water Businesses

Water Price Review

- Developing an approach to measure the effect of additional hardship allowances: Staff Paper
- Melbourne Water's Special Drainage Areas Price Review
- Coliban Water – New Tariff Application
- Water Price Review 2013-18: Coliban Water Amended Determination
- Melbourne Water's Special Drainage Areas Price Review 2014–16

Water Industry Performance Reports

- Metropolitan and Regional Water Businesses: Performance Report 2012–13
- Performance overview of Victorian Urban Water and Sewerage Businesses: 2008-09 to 2012–13
- Measuring the Effects of Additional Hardship Allowances – Water Performance Reports'
- Estimator Guidance – New Customer Contributions

Other Water Industry Reports

- Return of Unrequired Desalination Payments to Water Customers: 4th quarterly Progress Report
- Review of the Return of Unrequired Desalination Payments
- New Customer Contributions – Staff Framework & Approach Paper
- Essential Water News No.29 (newsletter)

Transport and Reviews & Research

Taxi Industry

- The ESC & its role in relation to Taxis – Information Paper
- Geelong Share Ride Taxi Review Final Report 2013
- Taxi Fare Review 2013-24: Call for Ideas Paper
- Taxi Fare Review 2013–14: Principles Paper
- Taxi Fare Review 2013–14: Summary of Initial Consultations
- Taxi Fare Review 2013–14: Taxi Driver Survey
- Taxi Fare Review 2013–14: Taxi Operator Survey
- Taxi Fare Review 2013–14: Industry Update
- Taxi Fare Review 2013–14: Final Report

Accident Towing & Storage

- Periodic Review of Accident Towing & Storage Fees 2013

Victorian Ports

- Notice of Inquiry - Review of Victorian Ports Regulation 2014
- Review of Victorian Ports Regulation 2014 – Draft Report

Domestic Building Insurance

- Performance of Victoria's Domestic Building Insurance Scheme 2011-12
- Domestic Building Insurance – Premium Validation Review (May 2013)

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

APPENDIX D

Legislation

The following is a list of legislation applying to the Commission's responsibilities in relation to regulated industries, as at 30 June 2014.

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

APPENDIX E

Price Determinations

Price determinations made under section 33 of the *Essential Services Commission Act 2001* in the 2013–14 financial year included the Water Price Review 2013-18: Coliban Water Amended Determination.

APPENDIX F

Notices Issued by the Commission

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

Notices issued under section 37 during 2012–13 – nil.

APPENDIX G

Disclosure by the Commission

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

Disclosure by the Commission under section 38 during 2011-12 – nil.

APPENDIX H

Office based Environmental Impacts

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

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

The Commission has developed action plans and targets for the period 2012–14, with a view to progressive improvement.

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

OVERVIEW OF PERFORMANCE 2013–14

Data	Quantity used	Quantity per employee	Greenhouse gas emissions (tonnes CO_2)	Quantity used compared to 2012–13
Energy consumption	300,030 MJ	4,762 MJ per FTE	98 tonnes	Reduction of 55%
Waste management	n/a	n/a	n/a	No previous data
Paper procurement	751 reams	11.9 reams per FTE	2.8 tonnes	Increase of 11%
Transport Utilisation: Car	9,105 km; 488 L fuel	145 km/FTE; 7.75 L/FTE	1.6 tonnes	Increase of 6%
Aeroplane	50,042 km	794 km/FTE	11.38 tonnes	Increase of 22%
Water Consumption	n/a	n/a	n/a	Data impractical to collect
Total greenhouse gas emissions			216 tonnes	Reduction of 8%

Energy

Data was established based on the energy retailer billing information available at the time of reporting and assumptions based on an energy audit undertaken in 2014. The Commission relocated from 35 Spring Street to a smaller office in Casselden Place, 2 Lonsdale Street in December 2012.

Overall energy consumption has reduced significantly as a result of smaller office space, a more efficient building and lighting and the change from on-site IT servers to cloud computing. However, the Commission consumed energy at both sites for the reporting period 2012–2013, so it is difficult to draw comparisons between the two years. The data from Spring Street site in 2011–12 indicates that the Commission currently uses approximately one-third less of energy per FTE than that used at the Spring Street site.

INDICATOR	2013–14			2012–13		
	Electricity	**Green power**	**Total**	**Electricity**	**Green power**	**Total**
Total energy usage segmented by primary source (MJ)	300,030		300,030	670,619		670,619
Greenhouse gas emissions associated with energy use, segmented by primary source and offsets (t CO_2-e)	98*		98*	218		218
Percentage of electricity purchased as Green Power				0		0
Units of energy used per FTE (MJ/FTE)	4,762*		4,762*	10 994		10,994
Units of energy used per unit of office area (MJ/m2)	214*		214*	243**		243**

* Estimated data.

** Figure reported in the 2012–13 annual report was incorrect.

Waste

The Commission set up a waste audit program in 2014 with the buildings waste contractor's however the building management changed service providers and the waste audits were not completed. The Commission is now in discussion with the new waste contractor to organise regular waste audits for the 2014–15 reporting period.

Paper

The data presented below is derived from paper supplier billing information and paper storage auditing.

The Commission's overall consumption of paper slightly increased in 2013–14, as did the consumption per full-time equivalent employee. However, 97.6% of the paper consumed had a 75-100% recycled paper content, a marginal increase on last year.

INDICATOR	2013–14	2012–13
Total units of copy paper used (reams)	751	674
Units of copy paper used per FTE (reams/FTE)	11.9	10.7*
Percentage of 75–100 recycled content copy paper purchased	97.6	97
Percentage of 50–75 recycled content copy paper purchased	0	0
Percentage of 0–50 recycled content copy paper purchased	2.4	3
OPTIONAL INDICATOR		
Greenhouse gas emissions associated with paper use, segmented by primary source and offsets (t CO_2e)	2.8	2.5*

* Figure reported in the 2012–13 annual report was incorrect.

Water

The Commission has not established a reliable method for calculating water consumption. The consumption is measured for the entire building, so it is impractical to calculate for individual tenants.

There is a sewerage recycling facility in the building and high efficiency water fixtures and fittings. The building has been awarded a 3.5 NABERS water certification.

Transport

The data presented below is derived from VicFleet logs, and Commission air travel records. The Commission uses the State Government Vehicle Pool for all its operational car travel, resulting in decreased net greenhouse gas emissions compared to operating its own smaller, less well utilised pool. Further reductions to greenhouse gas emissions will depend on the fuel efficiency of the future Vehicle Pool fleet.

INDICATOR	2013–14			2012–13		
	ULP	**LPG**	**Total**	**Electricity**	**Green power**	**Total**
Total energy consumption by vehicles (MJ)				670,619		670,619
Total vehicle travel associated with entity operations (km)	8,250	855	9,105	218		218
Total greenhouse gas emissions from vehicle fleet (t CO_2-e)	1.46	0.15	1.6	0		0
Greenhouse gas emission from vehicle fleet per 1000km travelled (t CO_2-e)	0.26	0.18	0.44	10,994		10,994
	2013–14			2012–13		
Total distance travelled by aeroplane (km)	50,042			40,815		

Summary of Greenhouse Gas Emissions

INDICATOR	2013–14	2012–13
Total greenhouse gas emissions associated with energy use (t CO_2e)	98	218
Total greenhouse gas emissions associated with vehicle fleet (t CO_2e)	1.6	1.4
Total greenhouse gas emissions associated with air travel (t CO_2e)	11.3	13.4
Total greenhouse gas emissions associated with waste production (t CO_2e)	N/A	N/A
Greenhouse gas emissions offsets purchased (t CO_2e)	0	0
OPTIONAL INDICATOR		
Any other known greenhouse gas emissions associated with other activities (t CO_2e)	2.8	2.5
Total greenhouse gas emissions(t CO_2e)	216	236

* emissions associated with paper production and use

APPENDIX I

DETAILS OF CONSULTANCIES OVER $10,000

Consultant	Purpose of consultancy	State date	End date	Total approved project fee (ex GST)	Expenditure 2013–14 (ex GST)	Future expenditure (ex GST)
Wallis Consulting Group	Electricity residential time-of-use analysis	11/07/14	31/05/14	43,400	43,400	Nil
Pricewaterhouse Coopers	Assessment of costs and benefits analysis for Energy Retail Code version 11	03/09/13	03/03/14	44,545	37,281	Nil
KPMG	Assessment of Independent report on costs and benefits analysis for Energy Retail Code version 11	28/10/13	31/03/14	45,000	36,500	Nil
Economic Insights	Options for the feed-in tariffs for small renewable electricity generators in Victoria for 2015	11/11/13	31/08/14	40,909	27,756	13,152
ACIL Allen Consulting	Forecast of the Vic Regional Reference Price in the NEM for calendar years 2014 and 2015	12/02/14	31/03/14	18,175	18,175	Nil
ACIL Allen Consulting	Provision of economic and technical advice in relation to the ESC Energy Licence Framework Review	06/06/14	01/09/14	66,112	52,890	Nil
Energy Consult	Updated normalisation process for SPCs	27/07/13	09/08/13	11,200	11,200	Nil
Predictive Analytics Group	Modelling services to amend the ESTA business model	20/12/13	25/02/14	74,090	70,000	4,090
Centre for International Economics	Survey on taxi operator costs and development of industry model for fare structure scenarios	25/10/13	30/06/14	109,090	109,090	Nil
Frontier Economics	Advice in relation to taxi fare modelling inputs and outputs and quality assurance of ESC models	11/11/13	30/06/14	45,454	38,640	Nil

DETAILS OF CONSULTANCIES OVER $10,000

Consultant	Purpose of consultancy	State date	End date	Total approved project fee (ex GST)	Expenditure 2013–14 (ex GST)	Future expenditure (ex GST)
Firecone	Advice and analysis on the Melbourne Airport taxi parking fee proposal and assessment of reasonable industry return required to keep the taxi industry viable	24/01/14	30/04/14	65,000	65,000	Nil
Indec Consulting	Advice in relation to Ports Regulation Review	05/03/14	30/06/14	31,818	16,118	15,700
Synergies Economic Consulting	Advice in relation to Ports Regulation Review	05/03/14	30/06/14	131,363	97,232	34,131
NERA	To provide advice and analysis on regulation of the Victorian accident towing industry	12/05/14	30/06/14	90,909	Nil	90,909
Customer Service Benchmarking Australia	Water businesses call centre performance benchmarking	01/08/13	31/07/14	20,940	20,696	Nil
NERA	Review of Commission's approach to assessing financial viability of water businesses	11/09/13	30/10/13	69,766	60,657	Nil
Deloitte Touche Tohmatsu	Accounting services for Regulatory accounts of water businesses	04/11/13	14/12/13	44,545	40,000	Nil
ARUP	Examination of expenditure and costs of Melbourne Water's Patterson Lakes Proposal	25/01/14	30/06/14	15,000	13,636	Nil
Deloitte Touche Tohmatsu	Advice for input into the review of the regulation of water	19/02/14	30/09/14	77,272	65,438	Nil
Farrier Swier Consulting	Review of Melbourne Water Developer Charge Framework	01/03/14	31/05/14	18,868	17,159	Nil
Farrier Swier Consulting	Review of pricing methodologies for ongoing drainage charges	01/04/14	31/05/14	20,762	18,875	Nil
Wallis Consulting Group	Survey on hardship for metropolitan water businesses	07/04/14	03/08/14	61,350	27,886	33,464

DETAILS OF CONSULTANCIES OVER $10,000

Consultant	Purpose of consultancy	State date	End date	Total approved project fee (ex GST)	Expenditure 2013–14 (ex GST)	Future expenditure (ex GST)
Farrier Swier Consulting	Responding to independent review of the Economic Framework for the Victorian Water Sector	02/06/14	30/07/14	34,318	34,318	34,318
Total				**$1,305,893**	**$1,093,846**	**$150,354**

APPENDIX J

Freedom of Information

DETAILS OF REQUESTS RECEIVED DURING 2013–14

	2012–13	2013–14
Requests received	1	1
Requests granted in full	0	2
Requests granted in part	0	0
Requests denied	0	0
Requests transferred	0	0
Requests withdrawn	0	0
No document in existence	0	0
Requests pending as at 30 June	1	0

Nominated Contact Person

Requests for access to documents should be addressed to:

Mr John Henry
Legal Counsel
Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne Vic 3000

Further information

Further information may be obtained from:

Freedom of Information Act 1982

Freedom of Information (Access Charges) Regulation 2004

Freedom of Information Regulations 1998

www.foi.vic.gov.au

Reports, Publications and Informal Requests

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

Essential Services Commission
Level 37, 2 Lonsdale Street

Melbourne, Vic 3000
Telephone: (03) 9032 1300
or 1300 664 969

publications@esc.vic.gov.au

APPENDIX K

Compliance Index 2011-12

Compliance Index Disclosure Requirements

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

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

Information available on request

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

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

FINANCIAL REPORTING DIRECTIONS – REPORT OF OPERATION

Legislation	Requirement	Page
CHARTER AND PURPOSE		
FRD 22C	Objectives, functions, powers and duties	7
FRD 22C	Nature and range of services provided	7
FRD 22C	Manner of establishment and relevant Ministers	9
MANAGEMENT AND STRUCTURE		
FRD 22C	Organisational structure	9
FINANCIAL AND OTHER INFORMATION		
FRD 22C, SD 4.2(k)	Operational and budgetary objectives and performance against objectives	37
FRD 22C	Employment and conduct principles	39
FRD 22C	Occupational health and safety policy	41
FRD 15B	Executive officer disclosures	41
FRD 22C	Summary of the financial results for the year	49
FRD 22B	Significant changes in financial position during the year	N/A
FRD 22C	Major changes or factors affecting performance	N/A
FRD 22C	Subsequent events	N/A
FRD 22C	Application and operation of *Freedom of Information Act 1982*	83
FRD 22C	Compliance with building and maintenance provisions of *Building Act 1993*	43
FRD 29	Workforce Data Disclosures	37
FRD 25A	Victorian Industry Participation Policy disclosures	N/A
FRD 22C	Statement on National Competition Policy	43
FRD 22C	Details of consultancies over $10,000	80
FRD 12A	Disclosure of major contracts	N/A
FRD 24C	Reporting of office-based environmental impacts	77
FRD 22C	Statement of availability of other information	77
FRD 10	Disclosure Index	76
FRD 8B	Budget portfolio outcomes	N/A
SD 4.5.5	Risk management compliance attestation	41
SD 4.2 (g)	Specific information requirements	9
SD 4.2 (j)	Sign-off requirements	3

FINANCIAL REPORTING DIRECTIONS – REPORT OF OPERATION

Legislation	Requirement	Page
FINANCIAL STATEMENTS		
Financial Statements required under Part 7 of the FMA		
SD 4.2 (b)	Operating Statement	48
SD 4.2 (b)	Balance Sheet	49
SD 4.2 (a)	Statement of changes in equity	50
SD 4.2 (b)	Cash Flow Statement	51
Other requirements under Standing Directions 4.2		
SD 4.2 (c)	Accountable officer's declaration	72
SD 4.2 (c)	Compliance with Ministerial Directions	52
SD 4.2 (d)	Rounding of amounts	N/A
SD 4.2 (c)	Compliance with Australian accounting standards and other authoritative pronouncements	52
Other Disclosures as required by FRDS in Notes to the Financial Statements		
FRD 13	Disclosure of parliamentary appropriations	N/A
FRD 9A	Departmental disclosure of administered assets and liabilities	55
FRD 11	Disclosure of ex-gratia payments	N/A
FRD 21B	Responsible persons and executive officer disclosures	67
FRD 23	Superannuation liabilities and disclosure	68

APPENDIX L

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

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

STATISTICS FOR 2013–14	
Number and types of disclosures notified to IBAC by the Commission under Section 21 (2) of the Protected Disclosure Act	0

APPENDIX M

Appeals

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

ESSENTIAL SERVICES COMMISSION

Level 37, 2 Lonsdale Street
Melbourne Victoria 3000
ABN: 71 165 498 668

Telephone: 61 3 9032 1300 or 1300 664 969
Facsimile: 61 3 9032 1301
Website: http://www.esc.vic.gov.au