

Australian Energy Market Commission

Financial report
for the year ended
30 June 2020



Level 9
State Administration Centre
200 Victoria Square
Adelaide SA 5000
Tel +618 8226 9640
Fax +618 8226 9688
ABN 53 327 061 410
audgensa@audit.sa.gov.au
www.audit.sa.gov.au

To the Acting Chairperson Australian Energy Market Commission

Opinion

I have audited the financial report of Australian Energy Market Commission for the financial year ended 30 June 2020.

In my opinion, the accompanying financial report gives a true and fair view of the financial position of the Australian Energy Market Commission as at 30 June 2020, its financial performance and its cash flows for the year then ended in accordance with relevant Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards.

The financial report comprises:

- a Statement of Comprehensive Income for the year ended 30 June 2020
- a Statement of Financial Position as at 30 June 2020
- a Statement of Changes in Equity for the year ended 30 June 2020
- a Statement of Cash Flows for the year ended 30 June 2020
- notes, comprising significant accounting policies and other explanatory information
- a Certificate from the Acting Chairperson, the Chief Executive and the Financial Controller.

Basis for opinion

I conducted the audit in accordance with the *Public Finance and Audit Act 1987* and Australian Auditing Standards. My responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial report' section of my report. I am independent of the Australian Energy Market Commission. The *Public Finance and Audit Act 1987* establishes the independence of the Auditor-General. In conducting the audit, the relevant ethical requirements of APES 110 Code of Ethics for Professional Accountants (including Independence Standards) have been met.

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

Responsibilities of the Chief Executive and the Commissioners for the financial report

The Chief Executive is responsible for the preparation of the financial report that gives a true and fair view in accordance with relevant Treasurer's Instructions issued under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of the financial report that gives a true and fair view and that is free from material misstatement, whether due to fraud or error.

The Commissioners are responsible for overseeing the entity's financial reporting process.

Auditor's responsibilities for the audit of the financial report

As required by section 31(1)(b) of the *Public Finance and Audit Act 1987* and section 26(2) of the *Australian Energy Market Commission Establishment Act 2004*, I have audited the financial report of Australian Energy Market Commission for the financial year ended 30 June 2020.

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

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

- identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the {the entity's} internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Chief Executive
- evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

My report refers only to the financial report described above and does not provide assurance over the integrity of electronic publication by the entity on any website nor does it provide an opinion on other information which may have been hyperlinked to/from the report.

I communicate with the Chief Executive and the Commission about, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during the audit.

A handwritten signature in black ink, appearing to read 'A. Richardson', with a long horizontal stroke extending to the right.

Andrew Richardson
Auditor-General
24 September 2020

Australian Energy Market Commission
ABN 49 236 270 144

Annual Financial Statements
for the year ended
30 June 2020

Australian Energy Market Commission
Financial Statements for the year ended 30 June 2020

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Australian Energy Market Commission

Report of the Auditor-General

Independent Auditor's Report

To the Chief Executive

(Audit Opinion to be inserted by Auditor-General)

A Richardson

AUDITOR-GENERAL

September 2020

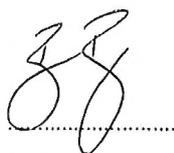
Australian Energy Market Commission

Certification of the Financial Statements

We certify that the attached general purpose financial statements of the Australian Energy Market Commission ("the Commission"):

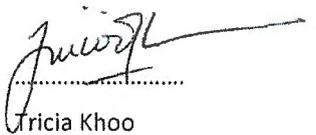
- comply with relevant Treasurer's Instructions issued under section 41 of the *Public Finance and Audit Act 1987*, and relevant Australian Accounting Standards;
- are in accordance with the accounts and records of the Commission; and
- present a true and fair view of the financial position of the Commission as at 30 June 2020 and the result of its operations and cash flows for the financial year.

We certify that the internal controls employed by the Commission for the financial year over its financial reporting and its preparation of the general purpose financial statements have been effective throughout the reporting period.



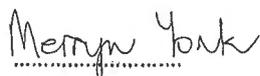
Benn Barr

Chief Executive



Tricia Khoo

Financial Controller



Merryn York

Acting Chairperson

Date: 22 September 2020

Australian Energy Market Commission

Statement of Comprehensive Income

for the year ended 30 June 2020

| | Note | 2020 \$'000 | 2019 \$'000 |
|--|------|----------------|----------------|
| Income | | | |
| Contributions from participating jurisdictions | 4.1 | 30,862 | 28,889 |
| Sales of goods and services | 4.2 | 802 | 904 |
| Interest | 4.3 | 143 | 216 |
| Other revenue | 4.4 | 1,020 | - |
| Total income | | 32,827 | 30,009 |
| Expenses | | | |
| Employee benefits expenses | 2.4 | 19,437 | 18,036 |
| Supplies and services | 3.1 | 8,745 | 8,419 |
| Depreciation and amortisation | 3.2 | 1,714 | 414 |
| Interest expense | 3.3 | 142 | - |
| Net loss on disposal of non-current assets | 3.4 | 187 | 14 |
| Total expenses | | 30,225 | 26,883 |
| Net result | | 2,602 | 3,126 |
| Total comprehensive result | | 2,602 | 3,126 |

The accompanying notes form part of these financial statements. The net result and total comprehensive result are attributable to the participating jurisdictions as owners.

Australian Energy Market Commission

Statement of Financial Position

as at 30 June 2020

| | Note | 2020 \$'000 | 2019 \$'000 |
|--------------------------------------|------|----------------|----------------|
| Current assets | | | |
| Cash and cash equivalents | 6.1 | 15,432 | 17,127 |
| Receivables | 6.2 | 2,671 | 1,136 |
| Total current assets | | 18,103 | 18,263 |
| Non-current assets | | | |
| Property, plant and equipment | 5.1 | 27,825 | 851 |
| Intangible assets | 5.4 | 1,084 | 1,302 |
| Total non-current assets | | 28,909 | 2,153 |
| Total assets | | 47,012 | 20,416 |
| Current liabilities | | | |
| Payables | 7.1 | 1,225 | 1,084 |
| Lease liabilities | 7.2 | 2,408 | - |
| Employee benefits | 2.5 | 1,697 | 1,166 |
| Other liabilities | 7.3 | 548 | 3,256 |
| Total current liabilities | | 5,878 | 5,506 |
| Non-current liabilities | | | |
| Payables | 7.1 | 79 | 104 |
| Employee benefits | 2.5 | 725 | 999 |
| Lease liabilities | 7.2 | 23,339 | - |
| Provisions | 7.4 | 700 | 339 |
| Total non-current liabilities | | 24,843 | 1,442 |
| Total liabilities | | 30,721 | 6,948 |
| Net Assets | | 16,291 | 13,468 |
| Equity | | | |
| Retained earnings | | 14,274 | 11,451 |
| Contributed capital | | 2,017 | 2,017 |
| Total Equity | 8.1 | 16,291 | 13,468 |

The accompanying notes form part of these financial statements. The total equity is attributable to the participating jurisdictions as owners.

Australian Energy Market Commission

Statement of Changes in Equity

for the year ended 30 June 2020

| | Note | Contributed capital \$'000 | Retained earnings \$'000 | Total Equity \$'000 |
|--|------|----------------------------------|--------------------------------|---------------------------|
| Balance at 1 July 2018 | | 2,017 | 8,325 | 10,342 |
| Net result for 2018-19 | | - | 3,126 | 3,126 |
| Total comprehensive result for 2018-19 | | - | 3,126 | 3,126 |
| Balance at 30 June 2019 | | 2,017 | 11,451 | 13,468 |
| Changes in accounting policy on adoption of AASB 16 | | - | 221 | 221 |
| Adjusted balance at 1 July 2019 | | 2,017 | 11,672 | 13,689 |
| Net result for 2019-20 | | - | 2,602 | 2,602 |
| Total comprehensive result for 2019-20 | | - | 2,602 | 2,602 |
| Balance at 30 June 2020 | 8.1 | 2,017 | 14,274 | 16,291 |

The accompanying notes form part of these financial statements. All changes in equity are attributable to the participating jurisdiction as owners.

Australian Energy Market Commission

Statement of Cash Flows

for the year ended 30 June 2020

| | Note | 2020 \$'000 | 2019 \$'000 |
|---|------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| <i>Cash inflows</i> | | | |
| Receipts from participating jurisdictions | | 27,882 | 29,812 |
| Sales of goods and services | | 661 | 1,099 |
| Other receipts | | 4,279 | - |
| Interest received | | 173 | 190 |
| GST recovered from the ATO | | 1,060 | 411 |
| Receipts for paid parental leave scheme | | 27 | - |
| Cash generated from operations | | 34,082 | 31,512 |
| <i>Cash outflows</i> | | | |
| Employee benefits payments | | (19,053) | (17,608) |
| Payments for supplies and services | | (10,281) | (9,814) |
| Payments for paid parental leave scheme | | (25) | - |
| Interest paid | | (186) | - |
| Cash used in operations | | (29,545) | (27,422) |
| Net cash provided by operating activities | | 4,537 | 4,090 |
| Cash flows from investing activities | | | |
| <i>Cash outflows</i> | | | |
| Purchase of property, plant and equipment | | (5,431) | (124) |
| Purchase of intangibles | | (149) | (462) |
| Cash used in investing activities | | (5,580) | (586) |
| Net cash used in investing activities | | (5,580) | (586) |
| Cash flows from financing activities | | | |
| Repayment of leases | | (652) | - |
| Cash used in financing activities | | (652) | - |
| Net cash used in financing activities | | (652) | - |
| Net (decrease)/increase in cash and cash equivalents | | (1,695) | 3,504 |
| Cash and cash equivalents at the beginning of the period | | 17,127 | 13,623 |
| Cash and cash equivalents at the end of the period | 6.1 | 15,432 | 17,127 |

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

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1. About the Australian Energy Market Commission

The Commission is a body corporate established under South Australian law.

The Commission does not control any other entity and has no interests in unconsolidated structured entities. The Commission has not entered into any contractual arrangements which involve the sharing of control or significant influence over another entity.

The objectives and activities of the Commission are detailed in note 1.2.

Additionally, since March 2018, the Commission continues to administer resources on behalf of the Energy Security Board ("ESB"). The ESB was established by the COAG Energy Council to coordinate the implementation of the reform blueprint produced by Australia's Chief Scientist, Dr Alan Finkel AO. The ESB will also provide whole-of-system oversight for energy security and reliability to drive better outcomes for consumers. The ESB Board comprises the independent Chair and Deputy Chair, together with the Chairs of the Australian Energy Market Commission, the Australian Energy Regulator, and the Chief Executive Officer and Managing Director of the Australian Energy Market Operator.

Transactions and balances relating to these administered resources are not recognised as the Commission's income, expenses, cash inflows or cash outflows, assets or liabilities. They are recognised as administered income, expenses, cash inflows, cash outflows, assets or liabilities under note 12.

1.1. Basis of preparation

The financial statements are general purpose financial statements prepared in compliance with:

- section 23 of the *Public Finance and Audit Act 1987*;
- South Australian Treasurer's Instructions and Accounting Policy Statements issued by the Treasurer under the provisions of the *Public Finance and Audit Act 1987*; and
- relevant Australian Accounting Standards (with reduced Disclosure Requirements).

For the 2019-20 financial statements the Commission adopted *AASB 15- Revenue from Contracts with Customers*, *AASB 16 – Leases* and *AASB 1058 – Income of Not-for-Profit Entities*. Further information is provided in note 9.

The Commission has applied Australian Accounting Standards that are applicable to not-for-profit entities, as the Commission is a not-for-profit entity. The Commission applies Tier 2 Australian Accounting Standards reporting requirements.

The financial statements are prepared on a 12 month reporting period and presented in Australian currency. The historical cost convention is used unless a different measurement basis is specifically disclosed in the note associated with the item measured.

Income, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods or services is not recoverable from the Australian Taxation Office (ATO), in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable; and
- receivables and payables, which are stated with the amount of GST included.

Assets and liabilities that are to be sold, consumed or realised as part of the normal operating cycle have been classified as current assets or current liabilities. All other assets and liabilities are classified as non-current.

The Commission is not subject to income tax. The Commission is liable for payroll tax, fringe benefits tax and goods and services tax (GST).

The presentation and classification of items in the financial statements are consistent with prior periods except where specific accounting standards and/or accounting policy statements have required a change.

All amounts in the financial statements and accompanying notes have been rounded to the nearest thousand dollars (\$'000).

1.2. Objectives and activities

Objectives

The Australian Energy Market Commission (“the Commission”) was established on 22 July 2004 pursuant to the Australian Energy Market Commission Establishment Act 2004 (South Australia). The Commission operates in Australia from a single office in Sydney, NSW.

The Commission’s key functions under the AEMC Establishment Act, the National Electricity Law, National Gas Law, and the National Energy Retail Law, are to:

- a) consider rule change requests and make rule determinations;
- b) conduct market reviews on request of the Ministerial Council on Energy (“MCE”), or on the AEMC’s own initiative; and
- c) provide advice on request from the MCE.

Activities

The Commission undertakes the following activities:

- a) make and revise the energy rules;
- b) undertake reviews and provides advice to governments and others on improvements to regulatory and energy market arrangements;
- c) responsible for developing electricity guidelines and standards together with the Reliability Panel; and
- d) undertake major projects which may involve a combination of reviews and rule changes conducted over an extended period of time.

1.3. Economic dependency

The continued existence of the Commission in its present form is dependent on Government policy in each of the jurisdictions who fund the Commission, and the Commonwealth Government. The Commission is unable to borrow funds and retains capital and cash reserves sufficient to meet the majority of its liabilities and unrecognised contractual commitments.

To assist with revenue certainty, in December 2019 the Council of Australian Governments’ Energy Council advised the approval of funding of \$31.633m for 2020-21.

2. Commissioners, committees and employees

2.1. Key management personnel

Key management personnel of the authority include the Commissioners, the Chief Executive and six members of the Executive Leadership Team who have responsibility for the strategic direction and management of the Commission.

Total compensation for the Commission’s key management personnel is \$5,079,000 (2019: \$4,281,000) paid during the financial year.

Transactions with key management personnel and other related parties

The Commission is a statutory authority established pursuant to the *Australian Energy Market Commission Establishment Act 2004*.

The Commission is not owned or controlled by the South Australian Government. Related parties of the Commission include all key management personnel, their close family members and any entities controlled by those persons.

There were no other transactions with key management personnel or other related parties during the financial year.

2.2. Commissioners

The following persons held the position of Commissioner during the financial year:

John Pierce (Chair)

Allison Warburton

Charles Pople

Merryn York (appointed 25 August 2019)

Michelle Shepherd

Remuneration of Commissioners

| The number of Commissioners whose remuneration received or receivable falls within the following bands: | 2020 No | 2019 No |
|---|------------|------------|
| \$240,000 - \$259,999 | 1 | - |
| \$260,000 - \$279,000 | - | 2 |
| \$300,000 - \$319,999 | - | 1 |
| \$320,000 - \$339,999 | 3 | 1 |
| \$600,000 - \$619,999 | - | 1 |
| \$619,999 - \$639,999 | 1 | - |
| Total number of Commissioners | 5 | 5 |

Remuneration of Commissioners reflects all costs of performing Commission member duties including sitting fees, salaries and wages, superannuation contributions, salary sacrifice benefits and fringe benefits and any net fringe benefits tax paid or payable in respect of those benefits. The total remuneration received or receivable by Commissioners for the year was \$1,881,000 (2019: \$1,806,000).

2.3. Committee members

Remuneration of committee members

Committee Members during the 2019-20 financial year were:

Reliability Panel

Charles Pople (*Chair*)

Audit and Risk Management Committee (ARMC)

Jane Byrne (Chair, appointed 31 December 2019)

Jim Mitchell (Chair, retired 31 December 2019)

Allison Warburton

David Pendleton (appointed 1 January 2020)

| The number of ARMC members whose remuneration received or receivable falls within the following bands: | 2020 No | 2019 No |
|--|------------|------------|
| \$0 – \$19,999 | 3 | 2 |
| Total number of members | 3 | 2 |

Remuneration of ARMC members reflects all costs of performing ARMC member duties including sitting fees, salaries and wages, superannuation contributions, salary sacrifice benefits and fringe benefits and any net fringe benefits tax paid or payable in respect of those benefits. The total remuneration received or receivable by ARMC members for the year was \$43,000 (2019: \$21,000).

2.4. Employee benefits expense

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Salaries and wages | 15,720 | 14,282 |
| Long service leave | (31) | 291 |
| Annual leave | 1,080 | 1,200 |
| Employment on-costs - superannuation | 1,540 | 1,324 |
| Payroll and Fringe Benefits Tax | 1,119 | 932 |
| Relocation expenses | 9 | 7 |
| Total employee benefit expenses | 19,437 | 18,036 |

Employees are appointed under common law contracts and are not employees under the South Australian *Public Sector Act 2009*. Commissioners are appointed by the Governor of South Australia on the recommendation of the Minister following nomination by the Ministerial Council on Energy or the Commonwealth as appropriate in accordance with the *Australian Energy Market Establishment Act 2004*.

Employee benefits expenses include all costs related to employment including wages and salaries, non-monetary benefits and leave entitlements. These are recognised when incurred.

Employment on-costs superannuation

The superannuation employment on-cost represents the contributions made by the Commission to the superannuation plan in respect of current services of current Commission staff.

Employee remuneration

| | 2020 No | 2019 No |
|---|------------|------------|
| The number of employees whose remuneration received or receivable falls within the following bands: | | |
| \$151,000 – \$154,000* | N/A | 2 |
| \$154,001 – \$174,000 | 5 | 5 |
| \$174,001 – \$194,000 | 6 | 3 |
| \$194,001 – \$214,000 | 4 | 12 |
| \$214,001 – \$234,000 | 15 | 10 |
| \$234,001 – \$254,000 | 3 | 1 |
| \$254,001 – \$274,000 | 1 | - |
| \$274,001 – \$294,000 | 3 | 2 |
| \$294,001 – \$314,000 | 1 | 1 |
| \$314,001 – \$334,000 | 2 | 1 |
| \$334,001 – \$354,000 | 1 | 1 |
| \$354,001 – \$374,000 | - | 1 |
| \$414,001 – \$434,000 | 1 | - |
| \$474,001 – \$494,000 | - | 1 |
| \$574,001 – \$594,000 | 1 | - |
| Total number of employees | 43 | 40 |

*This band has been included for the purposes of reporting comparative figures based on the executive base level remuneration rate for 2018-19.

The total remuneration received by those employees for the year was \$10,153,000 (2019: \$8,969,000).

The table includes all employees who received remuneration equal to or greater than the base executive remuneration level during the year, as established by the South Australia Department of Treasury and Finance. Remuneration of employees reflects all costs of employment including salaries and wages, payments in lieu of leave, superannuation contributions, salary sacrifice benefits and fringe benefits and any net fringe benefits tax paid or payable in respect of those benefits.

2.5. Employee benefits liability

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Current | | |
| Accrued salaries and wages | 445 | 313 |
| Annual leave | 1,096 | 831 |
| Long service leave | 156 | 22 |
| Total current employee benefits | 1,697 | 1,166 |
| Non-current | | |
| Long service leave | 725 | 999 |
| Total non-current employee benefits | 725 | 999 |
| Total employee benefits | 2,422 | 2,165 |

Employee benefits accrue as a result of services provided up to the reporting date that remain unpaid. Long-term employee benefits are measured at present value and short-term employee benefits are measured at nominal amounts.

Salaries and wages, annual leave and personal/carer's leave

The liability for salary and wages are measured as the amount unpaid at the reporting date at remuneration rates current at reporting date.

The annual leave liability is expected to be payable within 12 months and is measured at the undiscounted amount expected to be paid.

No provision has been made for personal/carer's leave as all personal/carer's leave is non-vesting and the average personal/carer's leave taken in future years by employees is estimated to be less than the annual entitlement for personal/carer's leave.

Long service leave

The liability for long service leave is measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Details about the measurement of long service leave liability is provided as note 11.1.

3. Expenses

Employee benefits expenses are disclosed in note 2.4.

Expenses are recognised to the extent that it is probable that the flow of economic benefits from the Commission will occur and can be reliably measured. Expenses have been aggregated according to their nature and have not been offset unless required or permitted by another accounting standard, or where offsetting reflects the substance of the transaction or other event.

3.1. Supplies and services

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Property expenses [^] | 1,066 | 1,685 |
| Information technology expenses | 1,421 | 1,345 |
| Accounting, legal and audit expenses | 353 | 307 |
| Project contractor and consultancy expenses # | 3,010 | 2,157 |
| Other contractor and consultancy expenses | 100 | 317 |
| Project support expenses * | 848 | 705 |
| General office administration expenses | 203 | 217 |
| Low-value leases | 10 | - |
| Variable lease payments | 205 | - |
| Travel and accommodation expenses | 648 | 845 |
| Recruitment expenses | 393 | 282 |
| Staff training expenses | 284 | 390 |
| Other staff related expenses | 204 | 169 |
| Total supplies and services | 8,745 | 8,419 |

[^] Includes \$1,356,000 of short-term lease payments for the current financial year. These leases relate to the Commission's former office accommodation and car parking spaces and the hire of art work. The difference between \$1,356,000 and \$1,066,000 primarily relates to other miscellaneous office overheads and the write off of the provision for make good for the Commission's former office accommodation.

Prior year includes operating lease payments (less any lease incentives) for the Commission's former office accommodation, which terminated on 31 March 2020. The lease payments are recognised as an expense on a straight-line basis over the lease term, as it is representative of the pattern of benefits derived from the leased assets. These payments totalled \$1,188,000 for 2019 financial year. The lease payments are recognised as short-term leases for the current financial year under AASB16.

Includes professional services such as economic advice, modelling, and legal advice directly related to project work on rule changes, market reviews and expert panels.

* Includes stakeholder communication, venue hire, research data and statutory advertising directly related to project work on rule changes, market reviews and expert panels.

Consultants

The number and dollar amount paid/payable in total to each consultant that fell within the following bands:

| | 2020 | | 2019 | |
|--|-----------|--------------|-----------|--------------|
| | No. | \$'000 | No. | \$'000 |
| Below \$10,000 | 8 | 43 | 3 | 3 |
| \$10,000 or above | 30 | 3,012 | 19 | 2,084 |
| Total paid/payable to the consultants engaged | 38 | 3,055 | 22 | 2,087 |

3.2. Depreciation and amortisation

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Plant and equipment | 129 | 121 |
| Right-of-use property, plant and equipment | 995 | - |
| Leasehold improvements | 37 | - |
| IT Infrastructure | 189 | 131 |
| Intangible assets | 364 | 162 |
| Total depreciation and amortisation | 1,714 | 414 |

All non-current assets with a limited useful life are systematically depreciated/amortised over their useful lives in a manner that reflects the consumption of their service potential. Amortisation is used in relation

to intangible assets such as software, while depreciation is applied to tangible assets such as property, plant and equipment.

Useful life

Depreciation and amortisation are calculated on a straight-line basis. Property, plant and equipment and intangible assets depreciation and amortisation are calculated over the estimated useful life as follows:

| Class of Assets | Useful Life (years) |
|--|----------------------------|
| Plant and Equipment | 3-20 |
| Leasehold improvements | 10 |
| Right-of use property, plant and equipment | Lease term |
| Intangibles | 4-5 |
| IT Infrastructure | 3-5 |

Review of accounting estimates

Assets' residual values, useful lives and amortisation methods are reviewed and adjusted, if appropriate, on an annual basis. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the time period or method, as appropriate.

3.3. Interest expense

| | 2020 | 2019 |
|---------------------------------------|---------------|---------------|
| | \$'000 | \$'000 |
| Interest expense on lease liabilities | 142 | - |
| Total interest expense | 142 | - |

The Commission does not capitalise interest expense.

3.4. Net loss on disposal/write-off of non-current assets

| | 2020 | 2019 |
|--|---------------|---------------|
| | \$'000 | \$'000 |
| Plant and equipment | | |
| Proceeds from disposal | - | - |
| Less net book value of assets disposed | 104 | 5 |
| Net loss from write-off of plant and equipment | 104 | 5 |
| IT infrastructure | | |
| Proceeds from disposal | - | - |
| Less net book value of assets disposed | 80 | 9 |
| Net loss from write-off of IT infrastructure assets | 80 | 9 |
| Intangible assets | | |
| Proceeds from disposal | - | - |
| Less net book value of assets disposed | 3 | - |
| Net loss from write-off of Intangible assets | 3 | - |
| Total assets | | |
| Total proceeds from disposal | - | - |
| Less total value of assets disposed | 187 | 14 |
| Total net loss from disposal of assets | 187 | 14 |

Any loss on disposal of assets are recognised at the date control of the asset is passed to the buyer and are determined after deducting the written down value from the proceeds of the asset sale at the time.

4. Income

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

Income has been aggregated according to its nature and has not been offset unless required or permitted by a specific accounting standard, or where offsetting reflects the substance of the transaction or other event.

4.1. Contributions from participating jurisdictions

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Operational funding | 30,862 | 28,889 |
| Total contributions from participating jurisdictions | 30,862 | 28,889 |

The Commission's funding is provided through contributions by the participating jurisdictions within the meaning of the National Electricity Law and the National Gas Law and the National Energy Retail Law. All jurisdictions' contributions to the Commission are expenses of the respective State and Territory Governments and are not inter-agency transactions.

Contributions are recognised as an asset and income when the Commission obtains control of the contributions or obtains the right to receive the contributions and the income recognition criteria are met (i.e. the amount can be reliably measured and the flow of resources is probable).

Generally, the Commission has obtained control or the right to receive for:

- Contributions with unconditional stipulations - this will be when the agreement becomes enforceable i.e. the earlier of when the receiving entity has formally been advised that the contribution has been approved; agreement/contract is executed; and/or the contribution is received.
- Contributions with conditional stipulations – this will be when the enforceable stipulations specified in the agreement occur or are satisfied; that is income would be recognised for contributions received or receivable under the agreement.

All contributions received by the Commission have been contributions with unconditional stipulations attached and have been recognised as an asset and income in the period in which they are earned.

4.2. Sales of goods and services

All revenue from the sale of goods and services is revenue recognised from contracts with customers.

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Consulting services | - | 106 |
| Recovery for staff secondment costs | 802 | 798 |
| Total sales of goods and services | 802 | 904 |

The Commission provides consulting services in respect of advice to the Commonwealth, as required, under fixed price contracts. Revenue is recognised upon completion of the contract when services have been rendered.

Provision of staff secondment to customers requires ongoing provision of services over the term of the agreement, for which recovery revenue is recognised over the time services are provided. This is because the employees' obligations are satisfied over time.

Payments are generally due on completion of the deliverable of consulting services, or monthly in arrears for ongoing provision of staff secondment services. Revenue has been allocated to the deliverable based on the agreed contract price, or recovery for the employment costs incurred and estimated on-costs if applicable in respect of the staff secondment services.

Contract balances

| | 30 June 2020 \$'000 | 1 July 2019 \$'000 |
|--|------------------------|-----------------------|
| Receivables from contracts with customers, included in 'Receivables' | 61 | 50 |

Receivables from contracts relate to the Commission's rights to consideration for work completed in respect of the secondment contracts with the Energy Security Board, the NSW Department of Premier and Cabinet and the Australian Energy Market Operator.

4.3. Interest revenues

| | 2020 \$'000 | 2019 \$'000 |
|-------------------------------|----------------|----------------|
| Cash and cash equivalents | 143 | 216 |
| Total interest revenue | 143 | 216 |

4.4. Other revenue

| | 2020 \$'000 | 2019 \$'000 |
|----------------------------|----------------|----------------|
| Vacation Fee | 1,020 | - |
| Total other revenue | 1,020 | - |

On 5 July 2019, a Deed of Variation of Lease ("Variation Deed") was executed between the Landlords of the previous tenancy at 201 Elizabeth Street and the Commission to allow for an early termination (due to the Landlords' intention at that time of converting the office building into residential apartments). The Variation Deed provided the Commission with various alternative dates for early termination in exchange for an incentive payment (or otherwise known as a Vacation Fee). The Commission elected to early terminate the lease on 31 March and accordingly, was entitled to receive the above Vacation Fee. This was invoiced in March, but was only received on 2 July 2020.

5. Non-financial assets

5.1. Property, Plant and equipment by asset class

Property, plant and equipment comprises owned and right-of-use (leased) tangible assets that do not meet the definition of investment property.

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| <u>Right-of-use property</u> | | |
| Right-of-use property at cost | 23,129 | - |
| Accumulated depreciation at the end of the period | (964) | - |
| Total right-of-use property | 22,165 | - |
| <u>Leasehold improvements</u> | | |
| Leasehold improvements at fair value | 4,390 | - |
| Accumulated depreciation at the end of the period | (37) | - |
| Total leasehold improvements | 4,353 | - |
| Work in progress | 10 | - |
| Total leasehold improvements | 4,363 | - |
| <u>Plant and equipment</u> | | |
| Plant and Equipment, at cost (deemed fair value) | 546 | 759 |
| Accumulated depreciation at the end of the period | (235) | (215) |
| Total plant and equipment | 311 | 544 |
| Work in progress | 30 | - |
| Total plant and equipment and work in progress | 341 | 544 |
| <u>Right -of-use plant and equipment</u> | | |
| Right-of-use plant and equipment at cost | 125 | - |
| Accumulated depreciation at the end of the period | (32) | - |
| Total right-of-use plant and equipment | 93 | - |
| <u>IT Infrastructure</u> | | |
| IT Infrastructure, at cost (deemed fair value) | 1,258 | 916 |
| Accumulated depreciation at the end of the period | (395) | (643) |
| Total IT infrastructure | 863 | 273 |
| Work in progress | - | 34 |
| Total IT infrastructure and work in progress | 863 | 307 |
| Total property, plant and equipment | 27,825 | 851 |

5.2. Property, Plant and equipment owned by the Commission

Property, plant and equipment owned by the Commission with a value equal to or in excess of \$2,000 is capitalised, otherwise it is expensed. Property, plant and equipment owned by the Commission is recorded at fair value. Detail about the Commission's approach to fair value is set out in note 11.2.

All property, plant and equipment assets are classified as a level 2 asset for the purposes of the fair value hierarchy.

Impairment

Plant and equipment have not been assessed for impairment as they are non-cash generating assets, that are specialised in nature and held for continual use of their service capacity and are subject to regular revaluation.

Reconciliation 2019-20

| | Leasehold improvements \$'000 | Plant and equipment \$'000 | IT Infrastructure \$'000 | Total \$'000 |
|--|-------------------------------------|----------------------------------|--------------------------------|-----------------|
| Carrying amount at 1 July 2018 | - | 104 | 307 | 411 |
| Acquisitions | - | 566 | 106 | 672 |
| Disposals/write-offs | - | (12) | (207) | (219) |
| Depreciation adjustment for write-offs | - | 7 | 198 | 205 |
| Depreciation | - | (121) | (131) | (252) |
| Carrying amount at 30 June 2019 | - | 544 | 273 | 817 |
| Work in Progress | - | - | 34 | 34 |
| Closing balance at 30 June 2019 | - | 544 | 307 | 851 |
| Acquisitions | 4,390 | - | 859 | 5,249 |
| Transferred from work in progress | - | - | (34) | (34) |
| Disposals/write-offs | - | (213) | (517) | (730) |
| Depreciation adjustment for write-offs | - | 109 | 437 | 546 |
| Depreciation | (37) | (129) | (189) | (355) |
| Carrying amount at 30 June 2020 | 4,353 | 311 | 863 | 5,527 |
| Work in Progress | 10 | 30 | - | 40 |
| Closing balance at 30 June 2020 | 4,363 | 341 | 863 | 5,567 |

5.3. Property, plant and equipment leased by the Commission

Property, plant and equipment leased by the Commission is recorded at cost. Additions to leased property, plant and equipment during 2019-20 were \$23,253,000.

Short term leases of 12 months or less and low value leases where the underlying asset value is less than \$15,000 are not recognised as right-of-use assets. The associated lease payments are recognised as an expense and are disclosed in note 3.1.

The Commission's lease, for the former main office, with Perpetual Trustee Company Limited and Perron Investments Pty Limited was early terminated on 31 March 2020. The lease was recognised as a short-term lease as the remaining term of the lease was less than 12 months from 1 July 2019, on adoption of AASB16.

The Commission has a limited number of leases:

- a lease of 2,105.2 square metres for the current office premises with Dexus CPA Pty Ltd in Sydney CBD. The lease commenced from 1 February 2020 for a term of 10 years with an option to renew for another 5 years.
- 3 car parking spaces with a 10-year lease term, with Dexus CPA Pty Ltd, commenced from 1 February 2020.
- 8 HP printers with a 5 year lease term, with Data#3, installed in the office premise from 1 March 2020.
- Office telephone handsets with a 3 year lease term (expiring on 11 March 2021), with Aurilo Communications.

The lease liabilities relating to the right-of-use assets are disclosed in note 7.2. The Commission's maturity analysis of its lease liabilities is disclosed in note 11.3. Expenses relating to leases, including depreciation and interest expenses, are disclosed in note 3. Cashflows relating to leases are disclosed in note 8.2.

Impairment

Property, plant and equipment leased by the Commission has been assessed for impairment. There was no indication of impairment. No impairment loss or reversal of impairment loss was recognised.

5.4. Intangible assets

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Computer software, at cost (deemed fair value) | 2,972 | 4,056 |
| Accumulated amortisation | (1,888) | (2,754) |
| Total intangible assets | 1,084 | 1,302 |

Intangible assets are initially measured at cost and are tested for indications of impairment at each reporting date. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The acquisition of, or internal development of software is capitalised when the expenditure meets the definition criteria and recognition criteria and when the amount of the expenditure is greater than or equal to \$2,000.

The useful lives of intangible assets are assessed to be either finite or indefinite. The Commission only has intangible assets with finite lives. The amortisation period and the amortisation method for intangible assets are reviewed on an annual basis.

All intangible assets are classified as a level 2 asset for the purposes of the fair value hierarchy.

Impairment

There were no indications of impairment on intangible assets at 30 June 2020.

Reconciliation 2019-20

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Reconciliation of computer software | | |
| Carrying amount at 1 July | 1,302 | 349 |
| Acquisitions | 149 | 1,115 |
| Disposals/write-offs | (1,233) | (129) |
| Amortisation adjustment for write-offs | 1,230 | 129 |
| Amortisation | (364) | (162) |
| Carrying amount at 30 June | 1,084 | 1,302 |

6. Financial assets

6.1. Cash and cash equivalents

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Cash at bank and on hand | 8,272 | 10,296 |
| Short-term deposits | 7,160 | 6,831 |
| Total cash and cash equivalents | 15,432 | 17,127 |

Cash and cash equivalents include cash at bank and cash on hand and in other short-term, highly liquid investments with maturities of six months or less that are readily converted to cash and which are subject to insignificant risk in changes in value.

Cash is measured at nominal value.

Short – term deposits

Short-term deposits are made for varying periods of three months and six months. The deposits are lodged with the ANZ bank and earn interest at the respective short-term deposit rates.

6.2. Receivables

| Current | 2020 \$'000 | 2019 \$'000 |
|---------------------------|------------------------|------------------------|
| Interest receivable | 36 | 67 |
| Prepayments | 642 | 641 |
| GST input tax recoverable | 265 | 378 |
| Other receivables | 1,728 | 50 |
| Total receivables | 2,671 | 1,136 |

Receivables are generally settled within 30 days after issue of an invoice or the goods and services have been provided under a contractual arrangement. Collectability of receivables is reviewed on an on-going basis.

Other than as recognised in the allowance for doubtful debts, it is not anticipated that counterparties will fail to discharge their obligations. The carrying amount of receivables approximates net fair value due to being receivable on demand. There is no concentration of credit risk.

Receivables, prepayments and accrued revenues are non-interest bearing. Receivables are held with the objective of collecting the contractual cash flows and they are measured at amortised cost.

The net amount of GST payable to the ATO is included as part of receivables.

Refer to note 11.3 for further information on risk management.

7. Liabilities

Employee benefits liabilities are disclosed in note 2.5.

Liabilities have been classified according to their nature and have not been offset unless required or permitted by a specific accounting standard, or where offsetting reflects the substance of the transaction or other event.

7.1. Payables

| Current | 2020 \$'000 | 2019 \$'000 |
|------------------------------------|------------------------|------------------------|
| Creditors | 9 | 119 |
| Accrued expenses | 964 | 794 |
| Employment on-costs | 251 | 171 |
| Paid Parental Leave Scheme payable | 1 | - |
| Total current payables | 1,225 | 1,084 |
| Non-Current | | |
| Employment on-costs | 79 | 104 |
| Total non-current payables | 79 | 104 |
| Total payables | 1,304 | 1,188 |

Payables and accruals are raised for all amounts owing but unpaid. Creditors represent the amounts owing for goods and services received prior to the end of the reporting period that are unpaid at the end of the reporting period. Creditors include all unpaid invoices received relating to the normal operations of the Commission.

Accrued expenses represent goods and services provided by other parties during the period that are unpaid at the end of the reporting period and where an invoice has not been received at the end of the reporting period.

All payables are non-interest bearing. All payables are measured at their nominal amount, are unsecured and are normally settled within 30 days from the date of the invoice or date the invoice is first received. The carrying amount of payables represents fair value due to their short-term nature.

Employment on-costs

Employee benefit on-costs include payroll tax, workers compensation levies and superannuation contributions and are settled when the respective employee benefits that they relate to is discharged.

The Commission contributes to several externally managed superannuation schemes on behalf of employees. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes. The only liability outstanding at reporting date relates to any contributions due but not yet paid.

As a result of an actuarial assessment performed by the SA Department of Treasury and Finance, the proportion of long service leave taken as leave has changed from the 2019 rate (41%) to 2020 rate (42%) and the average factor for the calculation of employer superannuation cost on-costs has remain unchanged from the 2019 rate (9.8%). These rates are used in the employment on-cost calculation. The net financial effect of the changes in the current financial year is an increase in the employment on-cost of and employee benefits expense of \$1,000. The estimated impact on 2020 and 2019 is \$330,000 and \$275,000 respectively.

Paid parental leave scheme

The Paid Parental Leave Scheme payable represents amounts which the Commission has received from the Commonwealth Government to forward onto eligible employees via the Commission's standard payroll processes. That is, the Commission is acting as a conduit through which the payment to eligible employees is made on behalf of the Department of Human Services.

7.2. Lease liabilities

| | Note | 2020 \$'000 | 2019 \$'000 |
|--------------------------------|------|----------------|----------------|
| Current lease liabilities | | 2,408 | - |
| Non-current lease liabilities | | 23,339 | - |
| Total lease liabilities | 5.3 | 25,747 | - |

The Commission measures lease liabilities at amortised cost.

All material cash outflows are reflected in the lease liabilities disclosed above.

7.3. Other liabilities

| | 2020 \$'000 | 2019 \$'000 |
|--------------------------------|----------------|----------------|
| Current | | |
| Unearned revenue | 53 | 3,033 |
| Deferred lease incentive | - | 223 |
| Lease incentive liability | 495 | - |
| Total other liabilities | 548 | 3,256 |

Deferred lease incentive on the previous tenancy has been written off against retained earnings on transition of AASB 16.

7.4. Provisions

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Non-current | | |
| Provision for make good | 700 | 339 |
| Total non-current provisions | 700 | 339 |
| Reconciliation of provision for make good | | |
| Carrying amount at the beginning of the period | 339 | 338 |
| Provision to make good leasehold premises | 700 | 1 |
| Provision written off | (339) | - |
| Carrying amount at end of the period | 700 | 339 |

Provisions are recognised when the Commission has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. If the effect of the time value of money is material, provisions are discounted for the time value of money and the risks specific to the liability. The Commission has no requirement to recognise a workers compensation provision as workplace injuries are insured through iCare insurance (NSW), Zurich (ACT), WorkCover (QLD), EML (VIC), Allianz West (WA) and ReturntoWorkSA (SA).

Provision for make good

The Commission has recognised a provision for make good as a result of its obligation to return refurbished leasehold improvements to their original condition at the end of its operating lease for the current office premises. In accordance with AASB 16 *Leases*, the provision for make good on the current office premises has been recognised as part of the right-of-use property, whilst the provision for makegood on the previous tenancy has been written off.

8. Other disclosures

8.1. Equity

| | 2020 \$'000 | 2019 \$'000 |
|----------------------------------|----------------|----------------|
| Contributed Capital | | |
| New South Wales | 750 | 750 |
| Victoria | 556 | 556 |
| Queensland | 432 | 432 |
| South Australia | 173 | 173 |
| Tasmania | 54 | 54 |
| Australian Capital Territory | 36 | 36 |
| Western Australia | 14 | 14 |
| Northern Territory | 2 | 2 |
| Total contributed capital | 2,017 | 2,017 |
| Retained earnings | 14,274 | 11,451 |
| Total Equity | 16,291 | 13,468 |

The Ministerial Council on Energy Standing Committee of Officials meeting of 7th December 2006 approved the maintenance of a Capital reserve to meet any adverse funding situation or unexpected cash flows. Each State and Territory provided their portion of the funds for the Capital reserve which is intended to be retained by the Commission for its lifetime or until such time as sufficient reserves have been created through annual surpluses.

8.2. Cash flow

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the ATO is classified as part of operating cash flows.

Leases

| | 2020 \$'000 | 2019 \$'000 |
|--------------------------------------|----------------|----------------|
| Property, plant and equipment | 903 | - |
| Total cash outflow for leases | 903 | - |

9. Changes in accounting policy

9.1. AASB 16 Leases

AASB 16 sets out a comprehensive model for lease accounting that addresses recognition, measurement, presentation and disclosure of leases. Lessor accounting is largely unchanged. AASB 16 *Leases* replaces AASB 117 *Leases* and related interpretations.

The adoption of AASB 16 *Leases* from 1 July 2019 resulted in adjustments to the amounts recognised in the financial statements:

- AASB 117 *Leases* only require the recognition of an asset and liability in relation to finance leases. AASB 16 *Leases* applies a comprehensive model to all leases. Applying AASB 16 will result in leases previously

classified as operating leases having right-of-use assets and related lease liabilities being recognised in the Statement of Financial Position.

- AASB 117 *Leases* resulted in operating lease payments being recognised as an expense under Supplies and Services. AASB 16 *Leases* replaces this with a depreciation expense that represents the use of the right-of-use asset and an interest expense that represent the cost associated with financing the right-of-use asset.

Impact on retained earnings

The total impact on the Commission's retained earnings as at 1 July 2019 is as follows:

| | \$'000 |
|---|---------------|
| Closing retained earnings 30 June 2019 – AASB 117 | 11,451 |
| <u>Assets</u> | |
| Property, plant and equipment | 44 |
| <u>Liabilities</u> | |
| Lease liabilities | (46) |
| Other liabilities – reversal of deferred rent at previous tenancy | 223 |
| Opening retained earnings 1 July 2019 – AASB 16 | 11,672 |

Accounting policies on transition

AASB 16 sets out accounting policies on transition in its transitional provisions. The *Treasurer's Instructions (Accounting Policy Statements)* requires certain choices in those transitional provisions to be taken. The Commission has adopted the following accounting policies:

- to apply AASB 16 retrospectively. The cumulative effect of initially applying the Standard was recognised at 1 July 2019. Comparatives have not been restated.
- at 1 July 2019 AASB 16 was applied only to contracts that were previously identified as containing a lease under AASB 117 and related interpretations.
- the initial measurement of lease liabilities and right-of-use assets excludes all leases that ended by 30 June 2020.
- leases with terms ended by 30 June 2020 are expensed and disclosed as short-term leases.

Ongoing accounting policies

The *Treasurer's Instructions (Accounting Policy Statements)* specify requirements for public authorities in applying AASB 16. These requirements are reflected in the Commission's accounting policies as follows:

- Right-of-use assets and lease liabilities are not recognised for leases of low value assets, being assets which have a value of \$15,000 or less, nor for short-term leases, being those with a lease term of 12 months or less.
- The Commission, in the capacity of a lessee, does not include non-lease components in lease amounts.
- Right-of-use assets are subsequently measured applying a cost model.

Significant accounting policies relate to the application of AASB 16 are disclosed under relevant notes and are referenced at note 5.3.

9.2. AASB 15 Revenue from Contracts with Customers

AASB 15 *Revenue from Contracts with Customers* establishes a revenue recognition model for revenue arising from contracts with customers. It requires that revenue be recognised as an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

AASB 15 supersedes AASB 111 *Construction contracts*, AASB 118 *Revenue* and related Interpretations and applies to all revenue arising from contracts with customers.

The Commission has adopted AASB 15 on 1 July 2019 with no effect on the financial statements for the year ended 30 June 2020.

Accounting policies on transition

The Commission has adopted AASB 15 on 1 July 2019. The *Treasurer's Instructions (Accounting Policy Statements)* require certain choices in those transitional provisions to be taken. The Commission has on transition:

- not adopted the completed contract expedient, and therefore has not excluded revenue which was fully recognised in previous years in accordance with the former revenue and income accounting standards
- elected not to restate retrospectively contracts for modifications that occurred before 1 July 2019. Such contract modifications were minor so this is expected to have little impact on the financial statements.

Ongoing accounting policies

The *Treasurer's Instructions (Accounting Policy Statements)* specify requirements for public authorities in applying AASB 15. These requirements are reflected in the Commission's accounting policies as follows:

- AASB 15 is applied to a portfolio of contracts with similar characteristics.
- there is no adjustment to the promised amount of consideration for the effects of a significant financing component if the period between the transfer of goods/services and the payment date is one year or less.
- the incremental costs of obtaining a contract are expensed when incurred when the amortisation period of the asset that the department would have recognised is one year or less.
- for measuring progress towards satisfaction of performance obligations when the output method is applied, revenue is recognised in the amount to which there is a right to invoice corresponding directly to the value to the customers of the Commission's performance completed to date.

Significant accounting policies relate to the application of AASB 15 are disclosed under relevant notes.

9.3. AASB 1058 Income of Not-for-Profit Entities

AASB 1058 *Income of Not-for Profit Entities* establishes new income recognition requirements for not-for-profit entities. Its requirements apply where the consideration to acquire an asset, including cash, is significantly less than fair value principally to entity for the entity to further its objectives. AASB 1058 also contains requirements for the receipt of volunteer services. AASB 1058 supersedes income recognition requirements in AASB 1004 *Contributions*, AASB 118 *Revenue* and AASB 111 *Construction Contracts*. However, elements of AASB 1004 remain in place, primarily in relation to restructures of administrative arrangements and other contributions and distributions by owners.

The Commission has adopted AASB 1058 on 1 July 2019 with no effect on the financial statements for the year ended 30 June 2020.

Accounting policies on transition

On transition, there was no impact on retained earnings.

9.4. Presentation of Financial Statements

Treasurer's Instructions (Accounting Policy Statements) issued on 1 June 2020 removed the previous requirement for financial statements to be prepared using the net cost of services format. The net cost of services is the total cost of services less any revenue retained by public authorities involved in the provision of services but does not include items classified as revenues from various participating jurisdictions.

Presentation of the Statement of Comprehensive Income on an 'income and expense' basis allows information to be presented in such a way that eliminates potential confusion as to the source of funding for the Commission. As well as changes to the format of the Statement of Comprehensive Income, there are presentational changes to remove the net cost of services format from the Statement of Cash Flows. These statements now show income before expenses, and cash receipts before cash payments. Related disclosures also reflect this changed format.

10. Outlook

10.1. Unrecognised contractual commitments

Commitments include operating, capital and outsourcing arrangements arising from contractual or statutory sources are disclosed at their nominal value.

Unrecognised contractual commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the Australian Taxation Office. If GST is not payable to, or recoverable from, the Australian Taxation Office, the commitments and contingencies are disclosed on a gross basis.

Capital commitments

| | 2020 \$'000 | 2019 \$'000 |
|---|----------------|----------------|
| Capital expenditure contracted for at the reporting date but are not recognised as liabilities in the financial report, are payable as follows: | | |
| Within one year | 12 | 64 |
| Total capital commitments | 12 | 64 |

Expenditure commitments

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| Within one year | 2,655 | 2,080 |
| Later than one year but not longer than five years | 70 | 229 |
| Total commitments - other | 2,725 | 2,309 |

The Commission's other commitments are for agreements for provision of services.

Operating lease commitments

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| <u>Commitments in relation to operating leases contracted for at the reporting date but not recognised as liabilities are payable as follows:</u> | | |
| Within one year | - | 1,239 |
| More than one year but not later than five years | - | 322 |
| Later than five years | - | - |
| Total operating lease commitments | - | 1,561 |
| Representing: | | |
| Non-cancellable operating leases | - | 1,561 |
| Total operating lease commitments | - | 1,561 |

Operating lease commitment is provided for the comparative year only as AASB 16 *Leases* does not distinguish between operating and finance leases for the lessee. The comparative year relates to the Commission's lease of its former office accommodation.

10.2. Contingent assets and liabilities

Contingent assets and contingent liabilities are not recognised in the Statement of Financial Position, but are disclosed by way of a note and, if quantifiable, are measured at nominal value.

The Commission is not aware of any contingent assets and liabilities.

10.3. Events after reporting period

There are no events occurring after 30 June that have a material financial implication on the financial statements.

11. Measurement and risk

11.1. Long service leave liability – measurement

AASB 119 *Employee Benefits* contains the calculation methodology for long service leave liability.

The actuarial assessment is performed by the SA Department of Treasury has provided a basis for the measurement of long service leave and is based on actuarial assumptions on expected future salary and wage levels, experience of employee departures and periods of service. These assumptions are based on employee data across South Australian Government entities.

AASB 119 *Employee Benefits* requires the use of the yield on long-term Commonwealth Government bonds as the discount rate in the measurement of the long service leave liability. The yield on long-term Commonwealth Government bonds has decreased from 2019 (1.25%) to 2020 (0.75%).

Expected future payments are discounted using market yields at the end of the reporting period on government bonds with durations that match, as closely as possible, the estimated future cash outflows

Current long service leave reflects the portion of leave expected to be settled within the next 12 months, based on previous experience, known applications for leave and notification from employees of their intention to take leave.

The actuarial assessment performed by the South Australia Department of Treasury and Finance have reduced the salary inflation rate to 2.5% from 30 June 2019 (which was 4%) for long service leave liability.

The net financial effect of the changes to actuarial assumptions in the current financial year is a decrease in the long service leave liability of \$85,000 and a decrease in the employee benefits expense of \$99,000. The impact on future periods is impracticable to estimate as the long service leave liability is calculated using a number of demographical and financial assumptions – including the long-term discount rate.

11.2. Fair value

AASB 13 *Fair Value Measurement* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, in the principal or most advantageous market, at the measurement date.

Initial recognition

Non-current tangible assets are initially recorded at cost plus any incidental cost involved with the acquisition. Non-current assets are subsequently measured at fair value less accumulated depreciation. All non-current tangible assets with a value equal to or in excess of \$2,000 are capitalised.

Revaluation of non-current assets

All non-current assets are valued at written down current cost (a proxy for fair value); and revaluation of non-current tangible assets or group of assets is only performed when its fair value at the time of acquisition is greater than \$1.5 million and estimated useful life is greater than three years. No revaluation was performed for the year ended 30 June 2020 as the Commission did not have non-current assets which met the revaluation criteria.

Impairment

All non-current tangible and intangible assets are tested for indication of impairment at each reporting date. Where there is an indication of impairment, the recoverable amount is estimated. The recoverable amount is determined as the higher of the asset's fair value less costs of disposal and depreciated replacement cost. An amount by which the asset's carrying amount exceeds the recoverable amount is recorded as an impairment loss.

Plant and equipment have not been assessed for impairment as they are non-cash generating assets, that are specialised in nature and held for continual use of their service capacity and are subject to regular revaluation.

11.3. Financial instruments

Financial risk management

Risk management is managed by the Commission's corporate services and legal sections and risk management policies are in accordance with ISO 31000 - International Standard for Risk Management – Principles and guidelines.

Liquidity risk

The Commission is funded principally from contributions by the Jurisdictions. On an annual basis, the Commission submits its annual budget together with a 3 year forward estimate to the COAG Energy Council for approval.

Categorisation of financial instruments

Details of 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 and financial liability, are disclosed in the respective financial asset / financial liability note.

Classification of financial instruments

The Commission measures all financial instruments at amortised cost.

Categorisation analysis of financial assets and liabilities

| Category of financial asset and financial liability | Notes | 2020 Carrying amount/ Fair value (\$'000) | 2019 Carrying amount/ Fair value (\$'000) |
|---|-------|---|---|
| Financial assets | | | |
| Cash and cash equivalents | 6.1 | 15,432 | 17,127 |
| Financial assets at amortised cost | | | |
| Receivables (1), (2) | 6.2 | 1,764 | 117 |
| Total financial assets | | 17,195 | 17,244 |
| Financial liabilities | | | |
| Financial liabilities at amortised cost | | | |
| Payables (1) | 7.1 | 641 | 626 |
| Lease liabilities | 7.2 | 25,747 | - |
| Total financial liabilities | | 26,388 | 626 |

- (1) Receivable and payable amounts disclosed here exclude amounts relating to statutory receivables and payables. In government, certain rights to receive or pay cash may not be contractual and therefore in these situations, the requirements will not apply. Where rights or obligations have their source in legislation such as levy receivables/payables, tax equivalents, Commonwealth tax etc. they would be excluded from the disclosure. The standard defines 'contract' as enforceable by law. All amounts recorded are carried at cost.
- (2) Receivables amount disclosed here excludes prepayments as they are not financial assets. Prepayments are presented in note 6.2.

12. Disclosure of administered items

Since March 2018, the Commission continues to administer resources on behalf of the ESB. Refer to note 1 for further details.

Transactions and balances relating to these administered resources are not recognised as the Commission's income, expenses, cash inflows or cash outflows, assets or liabilities. They are recognised as administered income, expenses, cash inflows, cash outflows, assets or liabilities.

As at the time of reporting, there were sufficient funds administered on behalf of the ESB to meet its commitments/obligations in respect of the administered resources as and when they fall due.

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| <u>Administered income</u> | | |
| Contributions from the Commonwealth | 1,146 | 4,608 |
| Interest revenue | 14 | 34 |
| Total administered income | 1,160 | 4,642 |
| <u>Administered expenses</u> | | |
| Secondment fees | 880 | 1,199 |
| Supplies and services | 3,355 | 2,529 |
| Depreciation | 1 | - |
| Total administered expenses | 4,236 | 3,728 |
| Net result | (3,076) | 914 |
| <u>Administered current assets</u> | | |
| Cash | 1,380 | 4,441 |
| Plant and equipment | 2 | 3 |
| Total administered assets | 1,382 | 4,444 |
| <u>Administered current liabilities</u> | | |
| Accrued expenses – due to the AEMC | 47 | 33 |
| Total administered liabilities | 47 | 33 |
| Net administered assets | 1,335 | 4,411 |
| <u>Administered equity</u> | | |
| Retained earnings | 1,335 | 914 |
| Total administered equity | 1,335 | 914 |
| <u>Changes in equity</u> | | |
| Balance at 1 July | 4,411 | 3,497 |
| Net result | (3,076) | 914 |
| Balance at 30 June | 1,335 | 4,411 |

| | 2020 \$'000 | 2019 \$'000 |
|--|----------------|----------------|
| <u>Cash flows from operating activities</u> | | |
| <i>Cash inflows</i> | | |
| Contributions from the Commonwealth | 1,146 | 4,608 |
| Interest received | 14 | 34 |
| Total administered income | 1,160 | 4,642 |
| <i>Cash outflows</i> | | |
| Secondment fees | (841) | (1,101) |
| Payments for supplies and services | (3,380) | (2,769) |
| Total administered expenses | (4,221) | (3,870) |
| Net cash (outflows)/inflows from operating activities | (3,061) | 772 |
| Net (decrease)/increase in cash | (3,061) | 772 |
| Cash at 1 July | 4,441 | 3,669 |
| Cash at 30 June | 1,380 | 4,441 |