

Essential Services Commission

Annual Report 2018–19

Responsible body's declaration

15 October 2019

The Hon. Robin Scott

Assistant Treasurer

Level 5, 1 Macarthur Street, East Melbourne VIC 3002

Dear Assistant Treasurer,

We are pleased to present the Essential Services Commission's annual report for the year ending 30 June 2019.

The annual report has been prepared in accordance with Part 7 of the Financial Management Act 1994 and as required by Section 31 of the Essential Services Commission Act 2001. It also satisfies the requirements of Regulation 10 of the Essential Services Commission Regulations.

I would like to record my appreciation of commission staff for their commitment to delivering our regulatory, administrative and advisory program in 2018–19.

Yours sincerely, Kate Symons, Chairperson

Contents

What we do.....	5
Who we are	5
Key highlights	5
From the Chairperson.....	6
Our performance	7
Meeting the demands of our regulatory environment	9
Our three-year strategy.....	10
Our mission	12
Our values	12
From the CEO	13
Energy – Ensuring customers receive appropriate support from retailers and distributors .	14
Our energy reform journey.....	16
Making water and energy services safer for family violence survivors	17
Empowering consumers for new energy reforms	19
Water – Promoting better outcomes for water customers.....	21
Keeping an eye on water business performance.....	26
Local government – Promoting sustainable outcomes for councils and their communities	27
Producing our first outcomes report.....	30
Transport – Administering regulatory regimes to promote outcomes in the interests of consumers	32
Fair prices for taxi users	35
Victorian Energy Upgrades – Regulating a larger and stronger energy efficiency program	36
Helping customers find energy efficient solutions.....	40
Making safety a priority in lighting upgrades.....	41
Communication and engagement – Promoting effective and efficient communication in a capability-building environment	41
Improving how we communicate to our audience	45
Our people.....	48
Our organisational structure	55
Corporate governance	57
Our finances	60
Performance against output measures.....	65

Licence fee revenue	67
Letter from the Victorian Auditor General's Office	68
Appendix A: Disclosures index	92
Appendix B: Disclosures.....	94
Appendix C: Appeals, notices and determinations in 2018–19.....	95
Appendix D: Our compliance with the Protected Disclosure Act 2012.....	96
Appendix E: Legislation and freedom of information	97
Appendix F: Office-based environmental impact	99
Appendix G: ICT expenditure	102
Appendix H: Ministerial statement of expectations	102
Glossary	103
Index.....	105

What we do

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

We promote consumer interests by regulating Victoria's energy, water and transport sectors, and administering the Fair Go Rates system. Our work also includes administering the Victorian Energy Upgrades program, which aims to reduce greenhouse gases by making energy efficiency improvements more affordable for consumers.

Our work helps Victorian customers have more power over things they use every day. We've succeeded in encouraging water, electricity and gas companies to provide better family violence support for vulnerable customers, and published information that gives ratepayers a clearer picture of how well their local council is performing.

We've also made price determinations that mean taxi users may end up paying less for their fare, and made it easier for Victorians to access energy efficient products that have a positive impact on their hip pocket and the environment.

In this annual report, look back with us on the year that's passed, read about how we've performed and learn about our objectives for next year.

Who we are

Our staff numbers, as at 30 June 2019.

- 3 commissioners
- 1 CEO
- 6 Executive Teams
- 119 Staff (excluding commissioners)

Key highlights

Our work affects 2.4 million Victorian households every day. Here are some of the ways our work had an impact in 2018–19.

22 electricity and gas

Anyone generating, supplying or selling electricity or gas in Victoria must hold a licence issued by us, unless exempt under the energy rules.

From 1 July 2018 to 30 June 2019, we issued 22 new energy licences. This included 12 electricity generation licences, four electricity retail licences, four electricity wholesale licences and two gas retail licences (page 14).

These additional licences mean in the future, Victorians will have access to an extra 1560 MW of electricity capacity, and increased choice of energy retailers.

5,800 water

In 2018–19, we surveyed 5,800 water customers across 16 state-owned urban and regional water corporations for their views on four key areas: value for money, reputation in the community, level of trust and overall satisfaction.

Overall, water businesses received a 'solid pass with room to improve', with businesses scoring between 5.8 and 6.4 out of 10 across the four areas.

By surveying customers directly, we are seeking to ensure water businesses consider customer views as a priority.

The survey results, released quarterly, complement our water pricing framework (pages 26 and 27) to ensure customer views are at the forefront of water business decisions.

79 Local Government

In May 2019, we released our first report on the impact of rate capping for all 79 local councils in Victoria. The report found the rate-capping system has kept a lid on rate rises without having a significant effect on services to ratepayers and asset renewal.

Our report (pages 30 and 31) provided information about how councils used the \$10 billion in revenue they receive from ratepayers each year to provide services, infrastructure and facilities.

In 2019, our report showed the percentage increase in rates has halved since the introduction of rate capping, meaning more sustainable rates for ratepayers.

53 Million Victorian Energy Upgrades

Since 2009, the Victorian Energy Upgrades program has avoided the emission of up to 53 million tonnes of greenhouse gases through the installation of energy efficient products in Victorian homes and businesses (page 36).

We also took enforcement action related to over 101,952 Victorian energy efficiency certificates during the 2018–19 financial year.

In September 2018, AGL paid \$2,991,621 after failing to surrender 64,033 certificates.

In March 2019, we ordered Wattly to surrender 37,919 certificates. Enforcement action is designed to protect the integrity of the upgrades program for the benefit of accredited providers and Victorian consumers.

\$40,000 Accident Towing

Our December 2018 final report on accidental towing services found that the estimated revenue per tow truck licence was \$40,000 in 2017.

We compared this with cost trends over a five year period to help us determine if any increases or decreases in regulated accident towing fees were justified.

In 2018–19, we recommended that accident towing fees remain unchanged, and that the ‘under cover’ vehicle storage fee be increased from \$17 to \$25 per day.

From the Chairperson

The commission’s work program spans a number of sectors and the scope and nature of our work program continues to grow.

I believe this reflects the trust and confidence that is placed in the commission. This is all made possible by the capability and dedication of the commission’s staff and directors, and their willingness to embrace new challenges, often within tight time frames. The staff of the commission are very ably led by our Chief Executive Officer, John Hamill. I feel very privileged to work alongside such a diverse and inspired group of people.

The commission has focused its efforts on empowering customers and restoring customer confidence and trust. In the retail energy market, we have implemented a range of new customer entitlements intended to encourage and support a culture of shared responsibility within the sector.

In May 2019, the Victorian Government accepted the commission’s advice on a fairer price for electricity customers, the Victorian Default Offer, and the commission is tasked with resetting the default offer each year.

Over the past year, following on from our work with the water sector, we worked closely with the energy sector to develop family violence protections for customers affected by family violence, in response to a recommendation of the Royal Commission into Family Violence. These provisions come into effect from 1 January 2020 and are part of our ongoing commitment to work with the water and energy sectors to support collaboration on better practice approaches to family violence responses.

The commission continued its strong focus on monitoring and enforcing the compliance of licensees in the Victorian energy sector. Since August 2018, we have issued a number of penalty notices to energy retailers and distributors resulting in payment of penalties in excess of \$600,000. Those penalties were imposed where there was harm, or potential for harm, to Victorian energy customers.

Our Victorian Energy Upgrades team successfully managed the introduction of a large set of regulatory changes that commenced in December 2018.

In August 2018, the team also enforced a \$3 million penalty on an energy retailer after a VEU audit found the business had not surrendered enough energy efficiency certificates to offset its liability under the program.

This year we released the results of our first water customer perception survey, which enables customers to see how their water business is performing against other businesses.

Collectively, all of these efforts are aimed at increasing customer awareness, encouraging customer engagement across the sectors, ensuring protections are in place for vulnerable customers and holding our regulated entities to account if they depart from their regulatory obligations.

It has been a year of change at a commissioner level. On 30 May 2019, the commission’s Chairperson, Ron Ben-David, finished his 10-year term with the commission. I pay tribute to Ron’s incredible contribution to the work and people of the commission, and his enduring dedication to promoting the long-term interests of Victorian consumers.

In March 2019, Commissioner Richard Clarke completed his five-year term with the commission. Richard’s contribution to the economic analysis of the commission was highly valued, as was his personable approach and willingness to engage with all team members of the commission.

In April 2019, we were pleased to welcome Simon Corden as a commissioner who brings economic and public policy expertise to our work program. In May 2019, the Victorian Government also announced an extra commissioner with an enforcement focus to support our work program.

I am confident that the commission is well-positioned to embrace future challenges and I look forward to being part of the team as the commission embarks on its next chapter as an independent regulator that promotes the long-term interests of Victorian consumers.

Kate Symons, Commissioner and Chairperson

Our performance

Our objectives help ensure we continuously measure and improve how we operate.

Here’s a summary of our achievements for 2018–19 and how they’ve helped promote the interests of Victorian consumers.

Objective 1 – We will ensure our regulatory regimes are designed to promote outcomes that are in the interests of consumers.

- Adopted sweeping new reforms to make electricity and gas companies responsible for helping customers get on to their best energy deals. The new rules came into effect from 1 July 2019.
- Changed the Energy Retail Code effective from 1 January 2020 to require energy retailers to have a family violence policy and improve account security and debt management practices.
- Finalised rules applying to embedded electricity networks in September 2018, ensuring affected customers are provided with clear information and appropriate support if they are experiencing payment difficulties.
- Explained our water pricing decisions to water businesses after releasing our final decisions in June 2018.
- Prepared our pricing guidance for three major water price reviews.
- Approved local council higher rate cap applications from Warrnambool City Council and Mansfield Shire Council (page 28).
- Expanded our risk-based approach to licensing and training for a new lighting activity within the Victorian Energy Upgrades program, while also streamlining certificate processing approvals.
- Published our commentary on the Port of Melbourne’s 2018 tariff compliance statement in October 2018. We found the port’s estimated rate of return appeared high and needed further justification, while the description of contract revenues required further elaboration.

Completed our maximum fare review for unbooked commercial passenger services (such as taxis).

Objective 2 – We will create effective and efficient incentives for businesses to perform consistent with regulatory objectives.

- Issued penalties totalling almost \$700,000 to energy retailers and electricity distributors for breaches of regulatory requirements.
- Released four reports on the Victorian energy market showing electricity disconnections have almost halved since reforms to protect consumers were introduced on 1 January 2019.
- Evaluated family violence assistance implemented by water businesses. Reviewed water business customer charters, family violence policies and interviewed frontline service providers about customer outcomes.
- Commenced a review of our water customer service codes and the payment difficulties framework (currently in the energy sector) as it may apply to the water sector.
- Achieved our Victorian Energy Upgrades target to approve 90 per cent of certificate batches on time.
- Issued a \$3 million penalty to AGL, who failed to surrender enough certificates to meet its liability under the Victorian Energy Upgrades program.
- Ordered Wattly Pty Ltd to surrender almost 38,000 Victorian energy efficiency certificates after finding they had breached the rules of the Victorian Energy Upgrades program (page 40).

Released our first local government outcomes report in May 2019, reporting average annual growth in council rates has halved since rate capping was introduced in 2016–17.

Objective 3 – We will deliver high quality advice to government on issues related to economic regulation.

Advised the Victorian Government on the Victorian Default Offer to apply from 1 July 2019.

Provided advice to the Minister for Local Government in December 2018 on the average rate cap for local councils in 2019–20.

Advised the Minister for Roads in December 2018 on recommended fee for accident towing and storage.

Delivered a performance report on the Victorian domestic building insurance scheme in December 2018, finding insurers may have incurred some losses while project certificate numbers have increased.

Objective 4 – We will be an organisation that promotes thought leadership, diversity and delivers great performance.

- Launched an information campaign to help Victorians learn about their new energy rights and navigate the energy market (pages 19).
- Commissioned an independent review of our water pricing framework (page 21). The expert report found strong evidence the framework contributed significantly to delivering better outcomes for customers.
- Released our first water customer survey report in April 2019, showing results from thousands of customers on their water business's performance. Our second report followed in June 2019.
- Organised eight plain English workshops for staff members, to ensure we maintain our culture of clear, concise writing. Open-ended responses in our reputation survey noted a significant and sustained improvement in our written communication.
- Refreshed the Economic and Technical Services Panel to increase the quality of suppliers with specialist knowledge relating to the industries we regulate.

Updated our risk management framework to ensure we have a risk-based approach to regulatory processes, enforcement, project management and achievement of our goals.

Objective 5 – We will be an organisation that creates and values effective and constructive relationships with stakeholders.

- Our 2019 reputation survey (pages 45 and 46) showed we improved in several areas including commission processes (up 5 per cent) and overall satisfaction (up 3 per cent).
- Held commission-wide training in International Association for Public Participation (IAP2) methodology and established an engagement champions group.
- Sent 11 Essential Update and 42 Essential Express newsletters, with unique open rates averaging around 35 to 40 per cent, well above the industry benchmark.
- Increased our LinkedIn followers by 44 per cent and our Twitter followers by 71 per cent.
- Developed comprehensive engagement plans for local government, energy and Victorian Energy Upgrades.
- Moved Victorian Energy Upgrades content to the commission's new website to increase accessibility for consumers.

Meeting the demands of our regulatory environment

Our priorities reflect the need to respond to key environmental challenges and opportunities.

Scepticism about the effectiveness of markets for essential services is driving more interventionist approaches to regulating these markets.

People are more sceptical about the effectiveness of some markets for essential services. This is particularly the case where there is:

- a high level of market concentration
- limited ability of customers to withdraw from the market

- a barrier to switching
- a lack of transparency about prices and/or service quality.

This has been demonstrated from findings issued by recent royal commissions and policy developments in the energy sector.

These changes have led to significant reforms (including intervention) in *these* markets.

Regulators are increasingly being challenged to take effective and proportionate enforcement action.

Recent royal commissions have criticised regulators for developing enforcement strategies that don't use enforcement as a deterrent often enough, and fail to consider market structure risks (such as the existence of significant market power, and the inability of customers to exit markets).

The Victorian Government provided the commission with additional resources for enforcement and committed to giving it additional enforcement and information gathering powers.

It's critical that we deliver on these expectations.

Technology and innovation will continue to disrupt markets and supply chains in ways that we do not anticipate.

We have seen significant disruption affect regulated sectors (such as ride-sharing and distributed electricity generation, for example).

Technical and business model innovation has the potential to disrupt markets. Developments such as blockchain may:

- disrupt markets
- transform organisational governance
- reshape supply chains.

While this can create benefits for consumers, it can also cause problems for them.

The Australian Government's 'consumer data right' will seek to deliver benefits for consumers through ownership of data.

The right aims to:

- give consumers the ability to safely access certain data
- promote a consumer-focused environment that encourages competition by allowing data to be shared with accredited, trusted recipients such as comparison websites
- support consumer choice and value for money.

Changing economic conditions are likely to put additional pressure on government budgets.

The Victorian economy has achieved sustained growth. However, affordability of essential services remains a critical issue for the community, particularly where incomes have been relatively flat.

The recent slowdown of the housing market in Victoria has put further pressure on state budgets and emphasises the need to deliver services efficiently and effectively

Our three-year strategy

In line with our reporting framework, we've set ourselves goals and targets from 2019 to 2022. Here's how we aim to improve customer outcomes in Victoria over the next three years.

Our goals

1. We will be a strong and fair regulator who is trusted to deliver what is in best interests of consumers.

We will ensure that we are meeting government and public expectations as a strong but fair regulator across all of our functions. We will hold regulated businesses to account, promote behaviours that are in the best interest of consumers, and deter behaviour that is not consistent with the rules we administer.

2. We will be an innovative regulator that solves real problems.

We will continue to respond effectively to the changing technological environment and ensure we are well placed to:

- assess what is happening
- think about how to advise on and redesign our regulatory processes and reform our codes.

3. Regulated businesses deliver value for customers.

We will continue to ensure that our regulatory systems and requirements are designed to create effective relationships between those who deliver essential services and their customers. This includes creating incentives for regulated businesses and markets to respond to and engage effectively with customers about the value that they provide.

4. We will deliver regulatory services effectively and efficiently.

Everything we do needs to deliver value to Victoria consumers. We will prioritise effectively to ensure that resources are delivered in the areas that deliver the most value. We are innovative in our delivery of projects and effectively use all of the skills we have. We have a clear understanding of the effectiveness of what we do and we will ensure that we have sufficient resources to deliver on our statutory obligations.

Our supporting goals and processes

Our supporting goals focus on improving our stakeholder relationships, data management, staff development and workplace systems. We will achieve these supporting goals by following these processes:

- Be a safe and skilled workforce.
- Measure our own performance.
- Manage financial resources.
- Design and improve processes.
- Capture and leverage knowledge.
- Govern and plan the organisation.
- Provide enabling information technology support.

Action plan

Here's how we will transform our core business processes to meet our goals.

This timeline table shows commission led reforms from 2014-15 to future reforms in 2019-20

Year	Transformational priorities	What will success look like?
------	-----------------------------	------------------------------

<p>2019–21 Years 1 & 2</p>	<p>Build and transform our enforcement capability The Victorian Government has committed to significantly increasing our enforcement powers. The public expects that, as a regulator, we continue to ensure businesses comply with regulatory requirements.</p>	<p>By the end of 2020 we will have a fully established enforcement capability that has significantly increased our ability to deliver appropriate enforcement action in a timely way. We will see a significant shift in perceptions by our stakeholders in our enforcement role over time.</p>
<p>2020–21 year 2</p>	<p>Modernise our advice and inquiry processes Work in an environment where technology is disrupting markets and supply chains, and customer segmentation is becoming more pronounced. We need to ensure that our analysis and advice is agile and fit for purpose.</p>	<p>We will have a clearer pipeline of new work and enhanced reputation for new work and advice. We will deliver innovative approaches to identifying and assessing regulatory problems and opportunities.</p>
	<p>Measure our performance We need to be clear about how we measure success. Our performance is critical to demonstrating that we deliver our services effectively and efficiently.</p>	<p>Performance measurement will drive planning within the commission and be core to our strategic thinking and operational improvement. Performance measures will also support our accountability to ministers, parliament and the Department of Treasury and Finance.</p>
<p>2021–22 year 3</p>	<p>Reform our market monitoring processes Reforming our market monitoring processes is critical to ensuring that we know whether we are achieving our goal of ensuring that regulated businesses and markets deliver value to customers.</p>	<p>By year three of this strategy, we aim to report on market and supplier performance in a more timely, innovative and influential way.</p>

Our mission

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

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

Our values

We achieve our mission by living our key values:

Integrity

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

- Acting openly and honestly.

Collaboration

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

Impartiality

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

Excellence

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

Respect

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

From the CEO

2018–19 has been a milestone year for the Essential Services Commission. We farewelled two commissioners – the Chairperson Ron Ben-David, and Commissioner Richard Clarke – and welcomed a new Commissioner, Simon Corden.

I would like to particularly pay tribute to the significant leadership that Dr Ron Ben-David has provided to the commission over the last 10 years, and on a personal note acknowledge the support he has provided me as CEO.

During the course of this year, we have continued to deliver on our commitments see positive improvement in our regulatory practice.

Effective stakeholder engagement continues to be a high priority for the commission. The results of our reputation survey (pages 45 and 46) show ongoing improvement in the feedback we receive on core elements of our regulatory practice – notwithstanding some of the very challenging timeframes for some projects.

We commissioned an independent review (page 21) on how the new water pricing framework went following the completion of the 2018 water price reviews. The review found there was significant evidence the design of the framework contributed significantly to promoting greater ambition for water businesses, improving focus on customer engagement and increased autonomy for water businesses.

We continued to deliver major reforms in the energy retail sector. We completed code reviews aimed at improving information that is available to customers, and our advice on the level of the Victorian Default Offer (page 14) was accepted by government. To support the implementation of these changes we have commenced a public information and education campaign (pages 19 and 20) to promote public awareness of these changes and will be very interested to track how this goes.

The commission has increased its focus on compliance and enforcement in the energy sector this financial year.

We will be focusing on how energy companies comply with new reforms designed to give customers access to a fairer price for electricity (the Victorian Default Offer) and greater transparency over their energy deals. We will also continue to closely monitor and take action where energy businesses breach energy rules including overcharging, wrongful disconnections and failing to notify about planned interruptions.

Our renewed focus on enforcement is critical to ensuring the public has confidence that the sector is being held to account when this is necessary.

We required an energy retailer to pay almost \$3 million for failing to comply with Victorian Energy Upgrades requirements, and issued over \$600,000 worth of penalty notices in the energy sector. The penalty notices (page 14) focused on events where energy businesses failed to manage their relationship with customers effectively. The notices highlighted two areas of concern we wanted to highlight relating to both trust and safety – failure to gain informed consent from customers when signing someone up, and failing to notify customers of planned outages.

We have continued to adapt as an organisation. I established a new group – the price monitoring and regulation division. This group brings together a range of our pricing and price monitoring regulatory activities and will support more flexible use of staff and resources across our pricing regulation.

The commission will continue to grow in 2019–20. The government has provided \$27.34m in additional funding over four years to deliver on its election commitment associated with the Energy Fairness Plan. This will enable us to continue to build our capability in enforcement, set the Victorian Default Offer on an annual basis, and continue to implement reforms in the energy sector. We are well placed to deliver on these commitments.

John Hamill, CEO

Energy – Ensuring customers receive appropriate support from retailers and distributors

We license Victorian gas and electricity businesses. We publish codes and guidelines that regulated businesses must follow, and conduct reviews and inquiries to promote the long-term interests of electricity and gas consumers. We also publish regular reports on the state of the energy market to keep the community informed.

Our year in review

We implemented a range of energy reforms

From 1 July 2019, households and small businesses have benefited from several game-changing reforms including:

- access to the Victorian Default Offer for electricity and gas
- ‘best offer’ information regularly appearing on their energy bill
- clear advice from energy retailers about their energy plan.

From 1 January 2020, new protections will be in place for customers experiencing family violence. We’ve also implemented a payment difficulties framework that enables customers to access standard and tailored assistance through their energy retailer.

We used our new enforcement powers to take action against energy businesses

From July 2018, we issued penalties totalling \$340,000 to three energy retailers for transferring customers without explicit informed consent.

We also issued penalties totalling \$350,000 to all five Victorian electricity distributors for failing to notify customers of planned interruptions.

We approved 22 new energy licences for retailers, distributors and generators of electricity and gas

Between 1 July 2018 and 30 June 2019, we have issued 12 electricity generation licences, four electricity retail licences, four electricity wholesale licences and two gas retail licences.

This year is the first time large scale battery systems have been licensed to generate electricity in Victoria, including:

- the GESS ProjectCo (25MW/50MWh battery storage system in Kerang)
- the Bulgana Green Power Hub (a wind farm connected with a battery energy storage system)
- generator Murra Warra ProjectCo (61 wind turbines with a total capacity of 226MW)
- generator Lal Lal Wind Farms. (total capacity of 228MW).

Progress report, 2018–19

Key focus: customer protections

Status: Complete

- Develop resources to help energy companies provide assistance to customers experiencing family violence.
- Establish consumer protections for customers living in exempt networks.
- Amend and modernise our codes to enhance the quality of information provided to customers.

Outputs

- Released resources for energy companies that promote support for customers experiencing family violence.
- Amended the Energy Retail Code identifying relevant obligations for exempt electricity sellers.
- Developed new requirements for retailers to provide clear, useful information on bills and marketing material.

Outcomes

- Energy companies can confidently help customers facing family violence.
- Exempt persons understand their obligations and customers receive their entitlements.
- Customers can more easily understand, compare and switch energy plans.

Key focus: compliance reporting

Status: On track

- Publish regular reports on the performance of energy companies.
- Develop compliance strategies and targeted audit programs to foster self-compliance.
- Use enforcement action to deter noncompliance.

Outputs

- Published our Victorian Energy Market Report and updates on the compliance and performance of energy companies.
- Reported on how each retailer and distributor performed in our audit program.
- Produced reports on our enforcement activities.

Outcomes

- Consumers have easy access to performance information about their retailer and distributor, empowering them to make more informed choices about their electricity and gas provider.

- The energy industry designs processes and programs to ensure they can comply with key regulatory focus areas.

Key focus: regulatory frameworks

Status: On hold

- Define a framework for reporting on competitiveness and efficiency in the market.
- Commence our review into the competitiveness and efficiency of the retail energy market.
- We will consult stakeholders and develop a review approach in late 2019. This follows our new ongoing function to monitor and report on competitiveness and efficiency in Victorian retail energy markets.

Outputs

Develop a fit for purpose competitiveness and efficiency assessment framework.

Outcomes

Stakeholders feel they have actively participated in the development of the framework.

Our framework relies on common sense and economic principles.

Key focus: stakeholder engagement

Status: Complete

- Regularly engage with our regulatory community through forums, newsletters and site visits.
- Improve the diversity of stakeholders we engage with on our work program.

Outputs

Established and maintain monthly newsletters for the sector.

Included a representative sample of Victorian consumers in our behavioural insights testing to inform our work on changes to bills and marketing materials.

Outcomes

Provide accessible engagement opportunities for a wide range of stakeholders.

Our energy reform journey

From 1 July 2019, new reforms we've implemented will give Victorians the power to make the most of their energy. Here's the regulatory achievements we've put in place to promote the long-term interests of Victorian energy consumers.

2013–14 – Annual rate of residential electricity and gas disconnections peaks at 58,503, or 64,451 including small business.

2015–16 – We conduct an inquiry (under terms of reference from the Victorian Government) into energy retailers' financial hardship programs.

2016 – The Victorian Government gives us new powers to protect customers, doubles the daily penalty rate for wrongful disconnections (we issue these penalties) and introduces penalties for breaches of the energy rules.

2016–17 – We develop a new payment difficulty framework requiring energy retailers to help customers avoid getting into debt. New customer protections apply from 1 January 2019.

1 Jul 18 – The debt threshold before an electricity or gas customer can be disconnected increases from \$132 to \$300.

2017–18 – Energy retailers update their hardship policies to comply with new payment difficulty rules. We implement new protections for embedded network customers, which can include people who live in an apartment complex, retirement home, or caravan park, and tenants in shopping centres.

From 1 Jan 19 – New customer protections under the payment difficulty framework come into effect.

From 1 Jul 19 – Energy retailers must put ‘best offer’ information on customer bills three to four times a year. Victorian Default Offer becomes available. New rules relating to fairer contracts will come into effect.

Environmental factors

There are several environmental factors influencing our energy work, including:

- The energy market (and the policy framework supporting its operation) continues to evolve.
- New energy technologies and service models are being introduced into the sector, while new policy developments at a state and national level aim to address energy market efficiency.
- Our regulatory reform work program continues to consider the evolving nature of the energy market and related policy and technological developments.

Cost of our energy industry activities

In 2018–19, the total cost of our energy regulatory activities was extra \$8.56 million. The cost includes the direct costs incurred by the team plus an allocation for overhead costs.

‘The new regulations around “best offer” and the Victorian Default Offer ... are excellent. The guidelines for [the] Victorian Default Offer are by far the best I have ever read – so congratulations to all involved on that.’ Anonymous stakeholder response in our reputation survey 2019

Making water and energy services safer for family violence survivors

We work to ensure that vulnerable customers retain power over key aspects of their own lives, including their electricity and water supply.

In 2018–19, we continued our three-year journey to help put safeguards in place for energy and water customers affected by family violence.

Our work in this area stems from the Royal Commission into Family Violence, which highlighted how perpetrators of family violence can use utility bills as a form of punishment and control.

Water sector forging a new path

Our pioneering work with the Victorian water sector required family violence policies and training to be fully implemented across Victorian water businesses from 1 July 2018.

We worked with family violence specialists to learn about the latest developments and partnered with water businesses to identify principles for effective family violence policies and processes for the sector.

A paper we released in October 2018, *Providing Family Violence Support*, looked at five strategies energy businesses could adopt to ensure they are providing the right kind of support at the point it is needed.

The family violence discussion paper looked at creating an open and constructive dialogue between energy retailers, family violence experts and the commission.

Cementing change in the energy sector

We worked extensively with the energy sector to develop family violence policies and processes that build on the experiences of the water sector.

From 1 January 2020, energy retailers will be required to provide family violence assistance to their customers. They will need to have a family violence policy, and meet minimum standards on training, account security, customer service, debt management practices, external support services and practices around documenting evidence of family violence.

From 1 January 2019, we also introduced the payment difficulties framework to better support electricity and gas customers (including those experiencing family violence) who are facing difficulties paying their bills.

Measuring our success in 2019–20

Goal	Objective	What outputs do we intend to produce?	What outcomes do we intend to achieve?
Goal 1	Improve the quality, timeliness and impact of our enforcement response.	<ul style="list-style-type: none"> Engage skilled staff to support enforcement capability by December 2019. Complete investigations training by August 2019. Review existing compliance processes by September 2019. Review the compliance and enforcement committee by February 2020. 	<ul style="list-style-type: none"> Complaints to Energy and Water Ombudsman of Victoria relating to priority areas reduce. Consumers feel protected and trust the regulator to enforce rules. Energy companies work in the best interests of consumer and uphold their rights.
Goal 2	Create new customer entitlements in our energy codes.	<ul style="list-style-type: none"> Implement recommendation 4 (fairer contracts) by publishing our draft decision, consulting with stakeholders on our proposal, and publishing our final decision. Implement life support entitlements by publishing our draft decision, consulting with stakeholders on our proposal, and publishing our final decision. 	<ul style="list-style-type: none"> Consumers engage more confidently in energy market to find the best deal. Protections for consumers are strengthened.

Goal 2	Update our Electricity Distribution Code.	<ul style="list-style-type: none"> • Publish an issues paper on our approach to the review of the Electricity Distribution Code by July 2019. • Update the code's technical standards by publishing our draft decision, consulting with stakeholders on our proposal, and publishing our final decision. • Update the code's customer entitlements elements by publishing our draft decision, consulting with stakeholders on our proposal, and publishing our final decision. 	<ul style="list-style-type: none"> • Customers have easier access to new energy technologies and innovative service models. • Customers have higher engagement with energy market. • Energy companies can operate more effectively with updated distribution code.
Goal 3	Regularly report on the performance of the energy market.	<ul style="list-style-type: none"> • Publish our Victorian energy market update: September 2019 and the Victorian Energy Market Report. • Update the Compliance and Performance Reporting Guideline. • Complete our competitiveness review by publishing our draft decision, consulting with stakeholders on our proposal, and publishing our final decision. 	<ul style="list-style-type: none"> • Improved industry performance, better customer decisions, and informed government policy. • Consumers have easy access to performance information about their retailer and distributor, empowering them to make more informed choices about their electricity and gas provider. • The energy industry designs processes and programs to ensure they can comply with key regulatory focus areas.

*View our goals on page 11.

Empowering consumers for new energy reforms

In 2019, we launched an information campaign to help Victorians navigate the energy market and understand new energy protections that came into effect on 1 July.

Our campaign centred on a simple, informative and concise online hub:

www.vic.gov.au/itsyourenergy

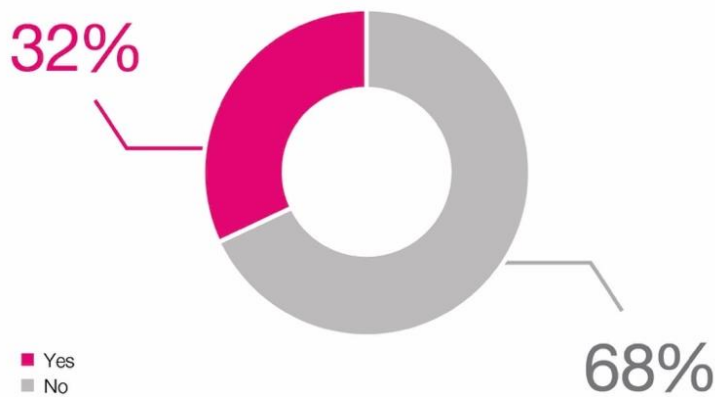
What our research found

Our campaign responded to survey data we collected from more than 800 respondents that illustrated many Victorians did not understand their energy rights.

We also developed information to ensure we reached vulnerable or hard-to-reach community members.

'It is important that people from culturally and linguistically diverse (CALD) communities are aware of their energy rights and feel empowered to exercise them.' Sarah McDowell, Director of Energy, Essential Services Commission

Do you know where to go to get more information about your rights related to your energy retailer?



Are you aware of whether energy companies tell you if you're on the best deal for you?

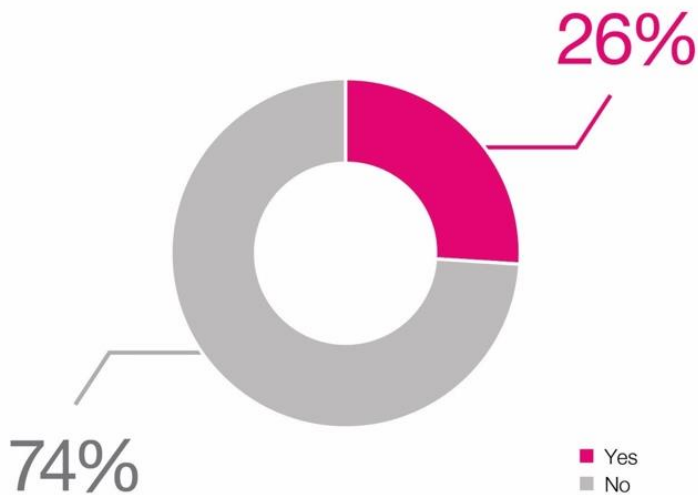


Chart source: Source: Essential Services Commission energy rights campaign audience pre-launch survey, June 2019

New reforms offer better protection for energy customers

New energy protections from 1 July 2019 included a 'best offer' on energy bills, a consumer fact sheet and the Victorian Default Offer. The new consumer protections were recommended by the 2017 independent and bipartisan review of electricity and gas retail markets.

Our strategy focused on energy reforms that came into effect on 1 July 2019:

- Customers currently on simple standing offers will automatically be transferred to the Victorian Default Offer. Other customers can ask to switch to the default offer (electricity only).
- Energy companies must tell customers whether they're on their best energy plan and how much the customer could save by switching to that plan (electricity and gas). Energy companies will also have to provide customers with a fact sheet showing key information about available energy offers (electricity and gas).

The campaign highlighted new protections for people having trouble paying their bills.

The new payment difficulties framework, which came into effect on 1 January 2019, requires retailers to help prevent people falling into debt to their energy companies.

How our campaign worked

We used eye-catching artwork to ensure consumers were more aware of their new rights and the obligations of energy companies.

Our campaign strategy helped us convey information about these energy reforms to a consumer audience in a way that was accessible, clear and empowering.

We reached out to the community through channels including:

- press (state and regional)
- social media (Facebook and Twitter)
- regional radio
- digital (website ads)
- consumer, regional and industry press.

At least 2.2 million Victorians over 18 heard, saw or read about their new energy rights between 24 June and 19 July in 2019. Overall awareness about the reforms increased by an average of 34 per cent (from 23 to 31 per cent).

We reached more than 200,000 people on Facebook, while 1.1 million shoppers and 662,000 commuters saw our advertisements in communal spaces like shopping centres. The project worked particularly well with older Victorians and regional communities, who registered the biggest increases in awareness.

Water – Promoting better outcomes for water customers

We conduct price reviews for all Victorian water businesses. We also monitor and report on the performance of the water sector, and specify standards and conditions of service that water businesses must meet.

Our year in review

Our water pricing framework delivered on its objectives

In June 2018, we released our final pricing decisions for 17 water businesses under our new water pricing framework. These decisions led to most Victorian water customers benefiting from flat or falling water prices and improved services.

We engaged FarrierSwier in late 2018 to undertake an independent review of the framework and how well it delivered on its objectives. The final report was published and delivered to the commission in April 2019.

The report highlighted that the framework:

- contributed significantly to delivering better outcomes for customers
- provided incentives for water businesses to deliver better value for money to customers, either through lower prices or better services
- emphasised customer engagement, leading to price submissions that better reflected customer views.

We helped water customers experiencing family violence

In 2016–17, we updated our customer service codes and required water businesses to implement family violence policies by 30 June 2018.

In 2018–19, we checked that water businesses were implementing family violence assistance for customers.

We started by checking their customer charters reflected their family violence initiatives and that water businesses had family violence policies in place. We're also evaluating the effectiveness of the work program overall by interviewing front line service providers about the outcomes for their family violence clients.

We are continuing to work with the water sector to identify emerging better practice and plan to publish an update of our better practice guide in early 2019–20.

We surveyed 5,800 water customers on their water businesses

Over 2018–19, we surveyed 5,800 Victorian water customers on their perceptions of their water business. The survey focused on four key themes and the scores customers gave them (the following ratings covered March 2018 to February 2019):

- Value for money: 5.8
- Reputation in the community: 6.3
- Level of trust: 6.2
- Overall satisfaction: 6.4

We published our first set of quarterly results in April 2019. On average, businesses scored between 5.8 and 6.4 out of 10 across the four key themes.

Progress report, 2018–19

Evaluate our new approach to water pricing and identify opportunities to improve it.

Status: Complete

Outputs

Engaged FarrierSwier to undertake an independent review of our water pricing framework, and how well it delivered on its outcomes.

Published and delivered FarrierSwier's final report to the commission in April 2019.

Presented the findings of the report to water businesses at a launch in April.

Outcomes

Confirmed our new water pricing approach has delivered better outcomes for water customers, provided strong incentives to deliver better value and promoted stronger emphasis on customer engagement.

Prepare for several water price reviews and complete annual tariff approvals for all water businesses.

Status: Ongoing

Outputs

- Issued our draft and final guidance to Western Water, South Gippsland Water and Goulburn-Murray Water in October and December 2018 respectively.
- Continue to prepare our draft guidance for Melbourne Water's 2021 price review.
- Approved 2019–20 prices for all regulated water businesses.

Outcomes

- Provided support for water businesses to prepare high quality price submissions by following the requirements set by our guidance.
- Ensured 2019–20 water prices were consistent with the requirements of our price determinations.

Conduct an audit on water business family violence policies.

Status: Ongoing

Outputs

- Approved changes to customer charters to include family violence provisions offered by water businesses and presented our findings directly to the sector.
- Continued to develop the better practice guide for the water and energy sectors. The release of this guide was deferred to 2019–20 to align with changes in the Energy Retail Code.

Outcomes

- Ensured all water businesses have implemented family violence policies consistent with our code.
- Victorian water customers who are experiencing family violence can access safe and secure services and referrals.

Introduce new approaches to our performance reporting for the water sector.

Status: On track

Outputs

- Developed and implemented a new outcomes framework with water businesses to report their performance against their own commitments to their customers.
- Continued to simplify our performance indicators to ensure we capture relevant data for sector comparisons.

Outcomes

- Ensured water businesses are directly accountable to their customers for the services they provide and their performance against their own targets.

Review the payment difficulties framework as it applies to the water sector.

Status: On track

Outputs

- Continued to review the payment difficulty framework currently used in the energy sector. We may update our customer service codes to reflect our findings on the review in 2019–20.

Outcomes

- Continued to provide appropriate protection for customers experiencing payment difficulty.

Start reporting on survey of customer perceptions of water businesses.

Status: Complete

Outputs

- Completed a 12-month trial to confirm that our survey questions would produce results that could be tracked over a long period of time.
- Published our first quarterly customer survey results for March 2018 to February 2019 in April.

Outcomes

- Published results provides greater incentive for regulated water businesses to deliver better value to customers and ensure customers' views are always front and centre in decision making.

Measuring our success in 2019–20

Goal	Objective	What outputs do we intend to produce?	What outcomes do we intend to achieve?
Goal 1	Approve new prices for Western Water, South Gippsland Water and Goulburn-Murray Water, to take effect from 1 July 2020.	<ul style="list-style-type: none"> • Produce the following documents for the three businesses: <ul style="list-style-type: none"> • draft decisions • final decisions • price determinations • customer fact sheets. • These documents form the 2020 price review for each water business. 	Prices that reflect customer engagement and outcomes, and reflect prudent and efficient costs.
Goal 1	Complete annual tariff approvals and review regulatory accounts submitted by water businesses.	<ul style="list-style-type: none"> • Approve 2020–21 prices for 17 regulated water businesses. • Review and approve all water businesses' regulatory accounts. 	Businesses are: <ul style="list-style-type: none"> • transparent and accountable for future price submissions • operating within the requirements of our regulatory codes • consistent with our requirements of our price determinations.
Goal 1	Release family violence better practice guideline.	Publish the second iteration of the commission's better practice guide on family violence initiatives adopted in the water and energy sectors.	Water businesses are improving their practices on family violence over time.
Goal 3	Prepare price reviews for Melbourne Water.	Issue draft and final guidance for Melbourne Water's 2021 price review under our new water pricing approach.	Melbourne Water prepare a high quality price submission by following the requirements set by our guidance.

Goal 3	Monitor and report on how customers rate their water business.	We will publish quarterly reports on how customers rate their water business on four key areas: value for money, reputation in the community, level of trust and overall satisfaction.	Water businesses continue to ensure customers' views are always front and centre in decision making.
Goal 3	Release the 2018–19 urban water performance results.	Produce an annual report, water business profiles and performance data.	Customers and stakeholders are informed on water business performance, covering customer bills, customer service, network reliability, water quality and environment.
Goal 3	Release the first outcomes report.	We will publish water businesses' self-report on their performance against their own outcomes along with our perspective on how businesses are performing.	Water businesses are directly accountable to their customers for the services they provide and their actual performance against their own targets.
Goal 2	Evaluate the effectiveness of our family violence work program.	Report on outcomes from customers of the family violence work program in the water sector.	Victorian water customers and staff of water businesses are benefiting from the family violence assistance provided by their water business.
Goal 2	Release family violence better practice guideline.	Publish the second iteration of the commission's better practice guide on family violence initiatives adopted in the water and energy sectors.	Water businesses are improving their practices on family violence over time.

*View our goals on page [11](#).

Environmental factors

There are several environmental factors influencing our work, including:

- a community focus on affordability and cost of living
- government policy in relation to responding to family violence, and government expectations for Victorian water businesses
- the expectation we will continue to improve our approach to engagement through social media and communicating with remote water businesses
- technological change and disruption.

Cost of our water industry activities

In 2018–19, the total cost of our water regulatory activities was \$2.53 million. The cost includes the direct costs incurred by the team plus an allocation for overhead costs.

'The new [water pricing] framework was highly innovative and really pushed the water corporations to change the way they thought about regulation and ... the way they engage with their customers.' Anonymous stakeholder response in our reputation survey 2019

Keeping an eye on water business performance

The way we regulate water pricing encourages better results for Victorian water customers.

In the water sector, we monitor business performance to ensure Victorians are getting high-quality water services at reasonable costs. We do this through a variety of channels, including customers surveys, a new water pricing framework that focuses on customer benefits, and a performance report that assesses how well water businesses are doing.

Victorians have their say about water service

In 2018–19, Victoria's 16 state-owned water businesses have been given a 'solid pass with room to improve' based on a survey of nearly 6,000 customers.

The quarterly surveys, conducted on behalf of the commission over the past year, tested customer views on whether water businesses are delivering value for money, their reputation, levels of community trust and overall satisfaction with their performance.

On average, the businesses scored between 5.8 and 6.4 out of 10 across the four areas.

Victorians receive good service from their water businesses

Our monitoring work involves producing our annual water performance report. In our latest report (which looks back on performance in 2017–18), we found that the typical Victorian residential water customer:

- received high quality drinking water
- used slightly more water than in 2016–17
- received slightly higher bills (a typical bill for owner occupiers increased by 2 per cent, reflecting inflation and the higher average water usage)
- received consistent service levels
- received support if experiencing payment difficulties.

Overall, we consider Victoria's 2.7 million customers continue to receive good service from their water businesses, as they have across the last five years.

Our water pricing framework puts customers first

Our water pricing framework has led water businesses to rein in prices and focus on service improvements.

Under this framework, the majority of Victorian households benefited from flat or falling water prices after we set rates over the next five years for four of the state's water businesses: East Gippsland Water, South East Water, Westernport Water and Yarra Valley Water. The estimated impact on average bills for customers of these businesses ranged from a \$73 cut to an increase of \$13 in 2018–19, not including inflation.

From 1 July 2018, we began using a new water pricing framework to review prices submitted to us by Victorian water businesses. The framework gives water businesses strong incentives to deliver better value for customers through built-in incentive mechanisms.

In late 2018, we engaged FarrierSwier to undertake an independent review of the framework and how well it delivered on its objectives. The review found:

- There is strong evidence the framework contributed significantly to delivering better outcomes for customers.
- The framework provided incentives for water businesses to deliver better value for money to customers, either through higher cost efficiency targets and lower prices, or better services.

The framework was successful in giving stronger emphasis to customer engagement, leading to price submissions that better reflected customer views.

Local government – Promoting sustainable outcomes for councils and their communities

We approve higher rate caps for councils, produce reports on council compliance and on outcomes in the sector, provide advice to the Minister for Local Government, and conduct inquiries and reviews.

Our year in review

We assessed higher cap applications from Mansfield and Warrnambool

We assess and approve higher rate caps proposed by councils. In 2018–19, we received two applications for a higher cap.

We approved Mansfield Shire Council's proposed higher cap for 2019–20 of 13.94 per cent (including the minister's rate cap) to transfer \$1.2 million from waste charges into general rates.

We partially approved Warrnambool City Council's proposed higher cap of 4.5 per cent (including the minister's rate cap), approving the higher cap for two years, instead of the three years sought by the council. The higher cap will raise an extra \$3.4 million for spending on assets including bridges, footpaths, cycleways and parks.

We published our annual council compliance report

We monitor and report on whether councils comply with their rate cap based on data provided by the councils.

One council (Yarriambiack Shire Council) did not comply with their rate cap, however we were satisfied with their explanation that it was due to late property valuations. The council will rectify this mistake in 2019–20.

All other councils substantially complied with their rate cap.

We published our first outcomes report

Every two years, we report on the outcomes of rate capping in Victoria and identify any impacts or trends that might be emerging across the local government sector. In 2018–19, we released the first of these reports (covering the years 2016–17 and 2017–18), which provides information about councils' service, infrastructure and financial outcomes following the introduction of rate capping.

The report also includes fact sheets on the impact of rate capping for each council and for each of the five council groupings.

Progress report, 2018–19

Key focus: monitoring council compliance

Status: Complete

- **Undertake random audit activities and assess annual compliance with caps to minimise the incentive for councils to circumvent the cap.**
- **Ensure the higher cap application process is clear and does not impose unnecessary burdens.**

Outputs

Published our annual compliance report. Random audits are currently in the planning stage.

Outcomes

Annual compliance checks found only one council materially non-compliant.

Councils did not report that our processes are an unreasonable barrier to submitting higher cap applications, but did tell us how to continue to improve our processes.

Key focus: monitoring the outcomes of our rate cap regulatory framework

Status: Complete

- **Highlight the potential impact of rate capping in our outcomes report.**

Outputs

- Published our first outcomes report, including analysis of trends in financial position, services, and infrastructure asset renewal and maintenance in the first two years of rate capping.

Outcomes

- Communities, councils and the Victorian Government were informed about early trends following the introduction of rate capping.

Key focus: higher cap applications

Status: Complete

- **Ensure our 2019–20 higher cap decisions are consistent with the long-term interests of ratepayers and the financial sustainability of councils.**
- **Provide guidance to councils on what is required in a higher cap application.**
- **Promote best practice community engagement in the local government sector.**

Outputs

- Published updated guidance for councils on our rate cap regulatory framework.
- Published decisions on higher cap applications received for 2019–20.

Outcomes

- Published special orders of approved higher caps.
- The applications we received covered all legislative matters and reflected the councils' consideration of the long-term interests of ratepayers and the community.
- Higher cap applications we received indicated councils are doing a good job at community engagement. We provided feedback on areas for improvement.

Key focus: advising Victorian Government stakeholders

Status: Complete

- **Provide timely and robust advice to the Minister for Local Government on rate caps and any other requested topic.**
- **Liaise with Local Government Victoria on any changes to the framework as a result of the proposed new Local Government Act.**

- **Identify emerging issues relating to the rate capping framework and engage with Local Government Victoria where appropriate.**

Outputs

- Provided advice to the minister, as requested, on setting the average rate cap for 2019–20.

Outcomes

- Provided the Minister for Local Government with relevant, timely and high quality advice.
- While amendments to the Local Government Act are pending, we continue to liaise with Local Government Victoria on any changes to the framework.

Measuring our success in 2019–20

Goal	Objective	What outputs do we intend to produce?	What outcomes do we intend to achieve?
Goal 1	<p>Key focus: monitoring council compliance</p> <ul style="list-style-type: none"> • Undertake random audit activities and assess annual compliance with caps to minimise incentives for councils to circumvent the cap. • Ensure the higher cap application process is clear and does not impose unnecessary burdens. 	<ul style="list-style-type: none"> • Publish our annual compliance report, including the results of any audit activities. 	<ul style="list-style-type: none"> • Annual compliance and random audits find no significant non-compliance with the appropriate rate cap. • Councils do not report our processes as an unreasonable barrier to submitting higher cap applications.
Goal 3	<p>Key focus: higher cap applications</p> <ul style="list-style-type: none"> • Ensure our 2020–21 higher cap decisions are consistent with the long-term interests of ratepayers and the financial sustainability of councils. • Provide relevant guidance to councils on what is required in a higher cap application. • Promote best practice community engagement in the local government sector. 	<ul style="list-style-type: none"> • Publish updated guidance for councils on our rate cap regulatory framework. • Publish decisions on higher cap applications received for 2020–21. • Publish special orders of approved higher caps. 	<ul style="list-style-type: none"> • Higher cap applications outline all legislative matters and reflect councils’ consideration of the long-term interests of ratepayers and the community. • Higher cap applications we receive from councils show they are improving their community engagement practices.

Goal 3	<p>Key focus: advising Victorian Government stakeholders</p> <ul style="list-style-type: none"> • Provide timely and robust advice to the Minister for Local Government on rate caps and any other requested topic. • Liaise with Local Government Victoria on any changes to the framework as a result of the proposed new Local Government Act. • Identify emerging issues relating to the rate capping framework and engage with Local Government Victoria where appropriate. 	<ul style="list-style-type: none"> • Provide advice to the minister, as requested, including advice on setting the average rate cap for 2020–21. 	<ul style="list-style-type: none"> • The Minister for Local Government receives relevant, timely and high quality advice. • Local Government Victoria understands how the new Local Government Act and associated guidance might affect our role in rate cap regulation.
--------	---	---	--

*View our goals on page 11.

Environmental factors

The main environmental factors influencing our work are:

- The Victorian Government is currently reviewing the Local Government Act 1989, which makes up part of our local government regulatory framework. The proposed updates to the legislation have implications for how councils operate, although they don't seem to affect the regulatory framework we use to assess higher cap applications.
- As part of its oversight of Local Government Victoria, the Environment and Planning Committee of the Parliament of Victoria is undertaking an Inquiry into Recycling and Waste Management. The committee's terms of reference were handed down on 6 March 2019 and it will produce a final report by November 2019, an interim report was released in August 2019.
- The government has commenced an inquiry into the local government rating system to identify changes designed to improve its fairness and equity. The Minister for Local Government has appointed a panel to lead the Victorian Local Government Rating System Review, which will provide recommendations to the minister in March 2020.

Cost of our local government activities

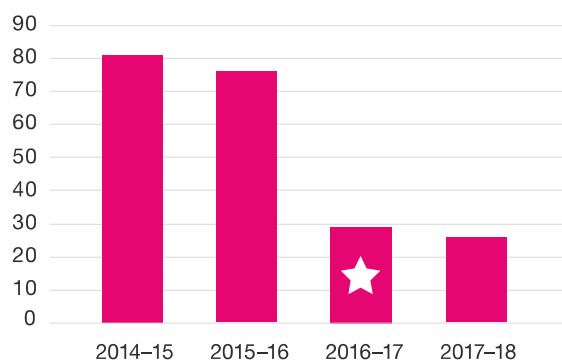
In 2018–19, the total cost of our local government regulatory activities was \$2.00 million. The cost includes the direct costs incurred by the team plus an allocation for overhead costs.

Producing our first outcomes report

Our local government outcomes report gives ratepayers the power to see more information about their council's services, infrastructure and financial outcomes following the introduction of rate capping.

Our first outcomes report looks at the impact of rate-capping in 2016–17 and 2017–18. It included detailed fact sheets showing key results for each council, including the impact on average rates and municipal charges.

Metropolitan council increase in average rates and municipal charges (\$), per ratepayer



What we found

Annual growth in council rates has slowed

We found Victoria's rate capping system has kept a lid on rate rises without having a significant impact on services to ratepayers and asset renewal.

Waste charges have not increased dramatically

After two years of rate capping, rate caps do not appear to have led to a notable increase in waste charges (which do not fall under the rate cap).

Spending on capital and services has increased

After two years of rate capping, council spending on capital and services has increased overall.

How we engaged with the community and councils

Ratepayers and other community members offered us a wide range of views about what was important to include in this report and how it should be presented.

Focus group participants were most interested in understanding councils' income sources, expenditure areas and average rates increases.

As well as showing the impact on rates, people told us it was important that the report included:

- the impact of rate capping on asset renewal and the asset renewal gap
- the long-term financial sustainability of councils
- any impact on the range of services councils provide.

Council staff asked us to use existing data sources to limit the reporting burden on councils, which we did, and to acknowledge the limitations of existing data.

View information on all councils at: www.esc.vic.gov.au/outcomes-reports

Transport – Administering regulatory regimes to promote outcomes in the interests of consumers

We monitor prices for prescribed services at the Port of Melbourne, advise the Minister for Roads on accident towing prices, and determine fares for unbooked taxis in the metropolitan and large regional zones and the maximum non-cash payment surcharge for taxis. We also report annually on the performance of Victoria’s domestic building insurance scheme.

Our year in review

We reviewed the taxi non-cash payment surcharge

In May 2019, we published a draft decision seeking submissions on whether the maximum taxi non-cash payment surcharge should be reduced from its current five per cent. Our draft decision intends to ensure taxi payment processors who facilitate the making of non-cash payment transactions can recover the reasonable cost of accepting and processing non-cash payment transactions.

We reviewed accident towing and storage fees in Melbourne

Our December 2018 report on fees for accident towing, storage and salvage services in Melbourne recommended to the Minister for Roads that current regulated accident towing fees should remain unchanged. However, we recommended regulated storage fees be increased by 47 per cent, which amounts to an additional \$2 per day for motorcycles and \$7 per day for vehicles.

We delivered our biennial domestic building insurance premiums report

Domestic building insurance is taken out by builders and covers homeowners for defects if their builder dies, disappears or goes out of business.

In April 2019 we reported that the Victorian Managed Insurance Authority’s domestic building insurance premiums are at sufficient levels to cover its expenses, risks and long-term claim costs.

Handling and administering expenses declined significantly between July 2016 and June 2018, with premium reductions for policy holders.

Progress report, 2018–19

Ensure our regulatory regimes are administered to promote outcomes that are in the interests of consumers.

Status: On track

Outputs

- Published our commentary on the Port of Melbourne’s 2018–19 tariff compliance statement.
- Published our annual monitoring report for domestic building insurance.
- Determined regulated maximum fares for unbooked commercial passenger vehicle services.
- Provided recommendations to the minister on appropriate fees for accident towing, storage and salvage services.

Outcomes

- Our observations on the Port of Melbourne’s 2018 tariff compliance statement and our domestic building insurance report improve market transparency for stakeholders including governments and regulated entities.
- The maximum fares we determine for unbooked commercial passenger vehicle (taxi) services, and recommend for accident towing and storage services, reflect each industry’s service delivery requirements.

Create effective and efficient incentives for businesses to perform consistent with regulatory objectives.

Status: Complete

Outputs

- Determined maximum fares for unbooked commercial passenger vehicles.
- Published annual interim commentary on the Port of Melbourne's 2018–19 tariff compliance statement.
- Published a draft decision on taxi non-cash payment surcharges.
- Completed our biennial review of the adequacy of Victorian Managed Insurance Authority's domestic building insurance premiums.

Outcomes

- Operators of commercial passenger vehicles charge users in accordance with our determinations, including offering discounts where appropriate, while maintaining or improving service quality and reliability.
- The Port of Melbourne displays an awareness of our compliance concerns by either modifying its behaviour or responding with evidence to justify its conduct. This promotes and encourages transparency and certainty, and minimises surprises for the Port of Melbourne shareholders and customers during the formal five-year compliance assessment in 2021.

Inform policy makers and consumers regarding market performance in relation to commercial passenger vehicles, accident towing and domestic building insurance.

Status: Complete

Outputs

- Analysed the dynamics of the commercial passenger vehicle industry in our review of maximum fares for unbooked services.
- Made recommendations to the minister on appropriate fees for accident towing, storage and salvage services.
- Published our annual monitoring report for domestic building insurance.

Outcomes

- The Victorian Government acknowledges and appropriately responds to our recommendations.
- Affected stakeholders contribute to our consultations by informing our decisions and influencing recommendations.

Administered the Victorian rail access regime until the new rail access regime took effect on 1 November 2018.

Status: Complete

Outputs

- Maintained oversight of rail access arrangements. Provided relevant material to the new body overseeing the regime, Transport for Victoria.

Outcomes

- Ensured rail access seekers (such as freight and passenger train companies) have a fair and reasonable opportunity to access rail transport services.
- Confirmed rail access providers have binding access arrangements in place when the new rail access regime commenced on 1 November 2018.

Measuring our success in 2019–20

Goal	Objective	What outputs do we intend to produce?	What outcomes do we intend to achieve?
Goal 2	Publish our annual commentary on the Port of Melbourne's 2019 tariff compliance statement and our annual monitoring report for domestic building insurance.	Publish our commentary on the Port of Melbourne's compliance with the Pricing Order. Advise the Assistant Treasurer on the performance of the domestic building insurance scheme.	Regulated entities provide services at a price and quality that improve over time, while also sustaining the long-term viability of their industry and reliability of services. These documents will enhance market transparency and better inform actions of affected stakeholders, including governments and regulated entities.
Goal 3	Commence our review of the process by which the Port of Melbourne sets rents, in order to assess whether the port has misused market power in setting or reviewing rents payable by tenants under lease agreements.	A decision containing well-reasoned analysis of the Port of Melbourne's process for setting land rental charges, including the size of any increases in those rents.	Minimise resource allocation distortions between the port and leaseholders, by ensuring that the Port of Melbourne has not misused its position to harm others, and therefore damaged the long-term interests of Victorians through the price of goods and services transported through the port.
Goal 4	Enhance effective and constructive stakeholder relationships.	Engage regularly with our stakeholders and continue to look for new ways to engage including through newsletters, social media and online (for example Engage Victoria).	<ul style="list-style-type: none"> • Deepen our relationships and understanding with industry through more frequent engagement. • Maintain accessible and plain English reports and exceed our targets in the annual reputation survey.

*View our goals on page 11.

Environmental factors

There are three main environmental factors affecting our work:

- The Port of Melbourne has stepped up its consultation on strategic plans relating to port access by customers and the associated costs of moving goods through the port. This engagement included with government on the merits of new port capital investments and related amendments to the pricing order.
- Regulation of commercial passenger vehicles has changed. The Commercial Passenger Vehicle Industry Act 2017 covers regulatory requirements for taxis, hire cars and ride share services (collectively known as commercial passenger vehicles). This required us, for the first time, to review the maximum surcharge for paying a taxi fare by means other than cash.

- Since 1 November 2018 we no longer have a role in setting standards and approving rail access arrangements. The Minister for Public Transport and Public Transport Victoria are now responsible for administering the new rail access regime. The Rail Management Act 1996 (Vic) has been amended to reflect these changes.

Cost of our transport activities

In 2018–19, the total cost of our transport regulatory activities was \$2.39 million. The cost includes the direct costs incurred by the team plus an allocation for overhead costs.

Fair prices for taxi users

In the face of an industry being transformed by a range of new services, including ride sharing, we worked to ensure taxi users paid reasonable fares that also considered the costs of service provision.

Our taxi decisions in 2018–19

Taxi fares

In 2018–19, we made no change to the maximum fare that can be charged for ‘unbooked’ commercial passenger vehicle services, which include hailing a vehicle from the street or taking a taxi from a rank.

Cleaning fee

From 1 October 2018, we introduced a new cleaning fee of up to \$120 for passengers who make a mess that takes a cab off the road for cleaning.

Non-cash payment surcharges

In May 2019 we proposed reducing the surcharge from five to 4.5 per cent. This will make taxi travel more affordable for Victorian consumers while keeping the industry financially viable.

Maximum fares remained unchanged in 2018–19

In 2018–19, we proposed no change for the maximum fare that can be charged for ‘unbooked’ commercial passenger vehicle services, which include hailing a vehicle from the street or taking a taxi from a rank. Booked services are arranged through an app, online or over the phone. This will keep taxi travel affordable for the many Victorians who depend on taxis for their transport needs.

Director of Price Monitoring and Regulation Marcus Crudden said keeping fares unchanged would provide some stability in a rapidly changing sector.

Mr Crudden added the commission determined that raising maximum fares in a rapidly changing sector could deter customers from using taxis.

Our decision covers fares in metropolitan Melbourne and urban and large regional zones including Geelong, Ballarat, Bendigo, Frankston, Dandenong and the Mornington Peninsula.

How we engaged with taxi users and drivers

As part of our taxi fare review, we used Engage Victoria, a consumer-friendly government feedback portal, to connect with taxi passengers and drivers for the first time. This made it easier for these stakeholders to have their voices heard.

Our decision also broke new ground by introducing an optional ‘time and distance’ tariff, which adjusts how fees are calculated for taxi fares.

Compensating drivers for passenger mess

In October 2018, we introduced a new cleaning charge of up to \$120 for passengers who make a mess that takes a cab off the road for cleaning.

Passengers who cause mess cost providers time and money, and we determined that it's only fair for providers to be compensated for that time.

We also considered that other commercial passenger services, including ridesharing services, already charge a cleaning fee. Allowing unbooked taxis to recover these costs will also put our taxis in line with those in other states.

Proposing to reduce the non-cash payment surcharge

In December 2018, we began our review of the taxi non-cash payment surcharge. This review is the first time taxi surcharging has been examined in this level of detail by an Australian regulator.

The draft decision also provides a resource to help Victorians understand the taxi payments system.

We regulate the maximum non-cash payment surcharge for all taxis in Victoria. Rideshare and hire car surcharges are regulated separately by the Reserve Bank of Australia under federal legislation.

'In the context of all the changes underway in the industry, and noting taxis can already lower their fares as a way of attracting more passengers, the commission decided to leave maximum fares unchanged for now.' Marcus Crudden, Director, Price Monitoring and Regulation, Essential Services Commission

Victorian Energy Upgrades – Regulating a larger and stronger energy efficiency program

The Victorian Energy Upgrades (VEU) program aims to reduce greenhouse gases by making energy efficiency improvements more affordable for consumers, and reducing their long-term energy consumption. We regulate the creation of Victorian energy efficiency certificates within the program. We do this under the Victorian Energy Efficiency Target (VEET) Act 2007.

Our year in review

We registered 4.9 million Victorian energy efficiency certificates

During the 2018–19 financial year, we accredited 7 businesses, expanded the accreditation of 16 businesses, re-approved 33 businesses as a result of new regulations, and approved 1,757 new products.

Accredited businesses created certificates after completing over 200,000 installations across residential and non-residential premises under the VEET regulations, as well as project-based activities (which allows businesses to undertake complex energy efficiency projects within the program).

This resulted in the creation of 5.9 million certificates during the financial year and a total of over 59 million certificates throughout the program's ten-year history.

We maintained our focus on consumers and compliance

As part of our focus on consumers, we resolved 90 per cent of consumer complaints.

We completed 348 field audits and 191 desktop audits, plus 13 audits of accredited providers responsible for the majority of certificates created during the financial year, and four investigations.

We checked over 17,000 activities and identified over 2,700 compliance issues that led to the withdrawal of 137,270 certificates (some of these may have been registered correctly at a later date).

Our compliance activities led to participants surrendering over 70,000 certificates.

We revised how we administer 30 activities

The government introduced new regulations in December 2018 during the program's 10-year review.

We reviewed and refined the regulatory and administrative framework for over 30 revised prescribed activities in the program (including water heating, space heating and lighting), and developed new frameworks for six new gas efficiency activities.

We also implemented the framework to introduce the benchmark rating method for project-based activities, using the National Australian Built Environment Rating System (NABERS) rating in buildings.

Progress report, 2018–19

Key focus: new regulations

Status: Complete

- **Deliver the framework to support the implementation of new regulations.**

Outputs

- Published revised guidance documents to ensure program participants understood their regulatory obligations under the new 2018 VEET Regulations and amended project-based activities regulations.
- Published updated website content when we migrated our guidance documents to the main commission website, www.esc.vic.gov.au.
- Delivered IT system changes to support the creation and registration of certificates under the regulations.

Outcomes

- An informed market and improved IT systems that support the new regulations and enhance the integrity of the program.

Key focus: stakeholder engagement

Status: Ongoing

- **Expand our engagement with stakeholders to help ensure we minimise administrative risks and meet program objectives.**

Outputs

- Organised two forums and 11 workshops with program participants to receive their feedback.
- Embedded engagement opportunities in the continuous review and improvement of our operational framework for a number of activities and regulatory requirements.

Outcomes

- Business, government partners and the community helped us safeguard the integrity of the program and their input was used to improve our operations.

Key focus: IT upgrades

Status: On track

- **Progress the upgrade of the VEU registry IT system to meet business and stakeholder needs for the next phase of the program.**

Outputs

- Established a team, undertook technology research, decided on platform technology and finalised a 'business requirements' document to support a targeted tender selection process. The new IT system will be fast, secure, intuitive, versatile and future-ready.

Outcomes

- Our Victorian Energy Upgrades team has an improved understanding of the technical capabilities of the future platform and integration with other work streams and packages to maximise synergies.

Key focus: risk management

Status: Ongoing

- **Use our data to more effectively inform, improve and expand our risk-based approach to all our regulatory activities.**

Outputs

- Expanded our risk rating approach across the program with the launch of a data analytics and business intelligence pilot to better inform audits and certificate validations.
- Created a project team to integrate the management of risks associated with the new activity 21A (the replacement of incandescent lightbulbs or compact fluorescent lamps).

Outcomes

- Resources are targeted more effectively and deliver superior compliance outcomes.
- Received positive feedback from participants due to performance and risk-based incentives and increased strengthening of the program's integrity.

Key focus: our regulatory framework

Status: Ongoing

- Review and update our regulatory framework, in consultation with stakeholders, to ensure a balanced, transparent and efficient program for participants.

Outputs

- Updated training and licensing requirements for new activities to ensure the safety of installers, consumers and building assets.

Outcomes

- Received positive feedback from stakeholders on our consultation and engagement practices to inform regulatory decisions and the implementation of the new framework.

Key focus: advising major stakeholders

Status: Ongoing

- **Continue to provide practical advice to government and industry about our experience in administering the VEU program.**

Outputs

- Provided advice to the department on opportunities to maximise regulatory outcomes that align with policy outcomes.
- Provided advice to the department on risks associated with regulatory settings and industry performance trends.
- Liaised with industry on performance trends.
- Provided advice to the department and industry on the regulatory approach and measures we adopted to safeguard the integrity of the VEU program.

Outcomes

- The government received the necessary information to have a good understanding of emerging regulatory risks and opportunities for improvement.
- An industry that understands we are monitoring their performance and is encouraged to improve their systems to better comply with our requirements.

Measuring our success in 2019–20

Goal	Objective	What outputs do we intend to produce?	What outcomes do we intend to achieve?
Goal 4	Improve stakeholder engagement processes.	<ul style="list-style-type: none"> • Develop a new stakeholder engagement plan. • Implement three new engagement initiatives in consultation with the sector. • Hold forums in May and November each year (indicative timing). 	<ul style="list-style-type: none"> • More engaged stakeholders that better understand their obligations under the program. • Increased understanding of energy efficiency issues for industry and business. • Increased understanding of accredited providers and their operational constraints.
Goal 1	Optimise integration of our compliance activities for our pre and post-registration processes.	<ul style="list-style-type: none"> • Alignment and integration of internal risk-based frameworks. 	<ul style="list-style-type: none"> • Increased efficacy of our validation checks pre-registration and audit and compliance functions post-registration.
Goal 2	Develop the division's data analytics and business intelligence capabilities.	<ul style="list-style-type: none"> • Implement data analytics capabilities to efficiently manage high risk activities. • Embed data analytics into the new IT system solution. 	<ul style="list-style-type: none"> • Improved effectiveness as a regulator through improved data analytics capability. • Reports that lead to actionable intelligence and better inform policy decision making.
Goal 4	Upgrade to a new IT system to improve processing times.	<ul style="list-style-type: none"> • Complete design and development by October 2020. • Deploy the upgrade by December 2020. 	<ul style="list-style-type: none"> • A modern VEU registry system that is fast, secure, intuitive, versatile and future-ready. • A system that creates efficiencies for stakeholders and our internal processes. • A system that enables the integration of stakeholder engagement and data analytics and intelligence.

**View our goals on page [11](#).

Environmental factors

The main environmental factors influencing our work are:

- increased expectations around enforcement and compliance, which places additional demands on the certificate-validation process
- additional resourcing demands around validation and auditing due to the popularity of residential lighting upgrades among participating businesses
- the speed of technological change and the increased technological complexity of the energy efficiency products installed under the project which requires us to have higher levels of expertise to ensure registration and compliance remains efficient
- challenges related to how we manage high-volume, low-cost activities (such as lighting) with more complex and low-volume activities (such as project-based activities).

We will review our operational and regulatory framework to reflect policy developments in Victoria. In doing this, we will seek to safeguard the integrity of the VEU program, ensuring energy consumers continue to benefit from energy efficiency upgrades through a balanced, transparent and efficient framework.

Cost of our VEU activities

In 2018–19, the total cost of our Victorian Energy Upgrades regulatory activities was \$8.21 million. The cost includes the direct costs incurred by the team plus an allocation for overhead costs.

Helping customers find energy efficient solutions

Thousands of Victorian households and small businesses have had new energy efficient LED lighting installed following changes to the state’s energy upgrades program in December 2018.

New regulations came into effect in late 2018, allowing energy efficient LED lamps to be used to replace compact fluorescent lamps as part of the Victorian Energy Upgrades program.

There have been over 100,000 installations for just this new activity since the beginning of the year.

While the new activity has been largely hailed a success, there have been some complaints about door-to-door sales tactics.

One flyer told householders that merely taking it inside constituted an ‘agreement to make an appointment’, and one resident said they were pressured to hand over their details.

The majority of providers have, however, been doing the right thing. Householders or businesses can check if the person at the door is genuine by calling our Victorian Energy Upgrades (VEU) team on (03) 9032 1310, or by looking up the name of the supplier at www.esc.vic.gov.au/accredited-providers-LED

Victorians value energy efficiency

Our 2018 VEU performance report highlights the value of our work in this area and the positive impact it has on the environment, consumers and businesses.

139,000 installations – In 2018, the VEU program led to more than 139,000 installations of energy efficient products in homes and businesses across Victoria.

6.4 million tonnes of greenhouse gas emissions abated (estimate) – The program oversaw the creation of 6.4 million Victorian energy efficiency certificates (exceeding our target of 6.1 million) in the 2018 calendar year, which means 6.4 million tonnes of greenhouse gases were abated (avoided) by energy saving products installed through the Victorian Energy Upgrades program.

51 million certificates registered since the program started – More than 51 million certificates were registered by accredited providers from the beginning of the program in 2009 to 31 December 2018.

Making safety a priority in lighting upgrades

In 2019, we worked to ensure we maintain strong safety standards in the nation's biggest energy efficiency program, Victorian Energy Upgrades.

We released new requirements for accredited providers who replace compact fluorescent lamps with energy efficient LED lamps as part of the program.

Installers have to adhere to additional safety supervision and training requirements.

Over the last year the program was expanded to allow high-efficiency LED lamps to be used to replace millions of less efficient compact fluorescent lamps in homes and businesses across Victoria.

The director of our Victorian Energy Upgrades program Jeff Cefai says the new requirements are part of a major expansion of the program, and will require licensed electricians to be involved at every stage of the installation.

'Feedback from the sector during consultation on the new requirements firmly supported the need for licensed electricians to manage any potential risks, especially given the anticipated volume and scale of this work.'

Installers must be trained on how to deal with mercury risks and spillages.

The use of a licensed electrician will also provide better warranty cover to consumers and their properties.

Communication and engagement – Promoting effective and efficient communication in a capability-building environment

The commission's strategic communication team provides expert advice on communication and engagement matters to support the delivery of the commission's work program.

Our year in review

We spearheaded an energy rights campaign

In 2019, 68 per cent of Victorians we surveyed didn't know where to get more information about their energy rights in relation to their retailer.

From 1 July 2019, new reforms gave Victorians the power to make the most of their energy. Our energy rights campaign (pages 20 and 21) spanned radio, social media, web, local newspapers and poster bills and featured information on:

- the Victorian Default Offer, a simple and trusted energy price
- information about how consumers can use the new 'best offer' reform to compare energy plans
- how consumers can get help if they're finding it difficult to pay energy bills on time.

We communicated more effectively through new media

In 2018–19 we continued our efforts to build a strong and engaging presence on LinkedIn and Twitter through work that included:

- establishing the energy rights campaign

- developing an engaging animated video on how the feed-in tariff affects consumers
- working with project teams to develop information-rich social media for projects such as the water customer survey results (page 22) and our first local government outcomes report (pages 32 and 33).

In 2018–19, we increased our LinkedIn followers by 44 per cent, and our Twitter followers by 71 per cent.

We used newsletters to provide timely updates to subscribers

We also use two types of newsletters to keep subscribers up to date: Essential News, an email summarising key project outcomes for the month; and Essential Express, a bulletin announcing important releases.

In 2018–19, we sent 11 Essential Updates and 42 Essential Expresses, with unique open rates averaging around 35 to 40 per cent, well above the industry benchmark.

Progress report, 2018–19

Further develop our media and social media strategies

Status: On track

Outputs

- Produced 250+ social media posts (LinkedIn and Twitter).

Outcomes

- Subscribers to our social media channels and newsletters receive more information-rich, expansive and current information via these channels.
- In 2018–19, we increased our LinkedIn followers by 44 per cent, and our Twitter followers by 71 per cent.
- Our tweets garnered more than 373,000 impressions, while our LinkedIn posts collected more than 205,000 impressions.

Establish a new newsletter platform

Status: Complete

- **The platform was used to help us communicate timely information and increase the accessibility of our digital content.**

Outputs

- In 2018–19, we sent 11 Essential Updates and 42 Essential Expresses, with unique open rates averaging around 35 to 40 per cent.

Outcomes

- Stakeholders have a better understanding of our work and important decisions.
- In our reputation survey, our 'information is accessible' measure increased 4 per cent (to 84 per cent) and 'tailored to meet your needs' increased 5 per cent (to 52 per cent).

Create exciting new content including staff articles, videos and podcasts

Status: On track

Outputs

- Built a much-wider 'asset' net for the 2017–18 annual report by adapting the report's iconography for use on social media.
- Almost all social media posts for 2018–19 used some kind of media asset, whether it was an image, video or infographic.

- Produced a small number of staff articles of high quality. We will work to produce more staff articles in 2019–20.

Outcomes

- Stakeholders engage with our content, sharing and responding positively, increasing reach and awareness of our activities.
- In our reputation survey, our ‘usefulness of social media’ measure improved 6 per cent from 2018.

Improve the organisation’s ability to communicate with its stakeholders through strategic advice and support

Status: On track

- **We focused on providing strategic advice and support services to build staff capacity in communicating clearly and engaging effectively with stakeholders.**

Outputs

Organised for commission staff to attend several workshops covering:

- stakeholder engagement
- International Association for Public Participation
- our new stakeholder engagement framework
- social media
- workshop facilitation skills.

Organised eight plain English workshops, and ran 11 staff induction workshops and two ‘writing for the web’ training sessions.

Outcomes

- Our reputation survey (pages 45 and 46) shows that communication, along with commission processes, have improved over two years (+12%).
- Open-ended responses in the survey noted a significant and sustained improvement in our written communication.
- Overall reputation measures for engagement slipped slightly in 2019 after a significant improvement in 2018. This may be due to a number of high profile projects where normal consultation was affected by short timeframes.

Measuring our success in 2019–20

Goal	Objective	What outputs do we intend to produce?	What outcomes do we intend to achieve?
Goal 1	Manage external communication (media, web and social) to promote trust in the regulator by ensuring it is accurate, relevant, audience-centred and current. Related to major projects 2 and 3.	<ul style="list-style-type: none"> • Digital audit (to identify current status of all content). • Conduct review and update key communication policies and procedures. 	Key reputation survey measures for website performance e.g. ‘up to date and correct’ and ‘easy to understand’ continue to improve.

Goal 1	Promote stakeholder engagement activities to a wider audience to promote transparency and the legitimacy of our outcomes. Related to major project 1.	<ul style="list-style-type: none"> • Develop and publish annual engagement calendar for stakeholders. • Develop response plan to address recommendations of the stakeholder engagement internal audit. 	There is an increase in key engagement measures including: <ul style="list-style-type: none"> • participation in engagement activities • variety and accessibility of engagement opportunities including online • clear reporting of how engagement has been considered in the commission's decision making.
Goal 1	Promote the work of the commission, building our reputation via earned and owned media channels. Related to major project 3.	<ul style="list-style-type: none"> • Develop annual media and content plan for social media channels 	<ul style="list-style-type: none"> • Our reputation indicators for overall perceptions of the commission continue to improve.
Goal 3	Support the divisions to communicate and engage effectively with industry/sector stakeholders. Related to major project 1.	<ul style="list-style-type: none"> • Annual communication and engagement plans developed. 	<ul style="list-style-type: none"> • Our reputation survey indicators for overall satisfaction (trusted and effective), communication and engagement continue to improve and exceed key external benchmarks.
GOAL 4	Develop a three-year digital strategy to achieve a coherent, efficient and effective approach to digital platforms and tools. Related to major project 2.	<ul style="list-style-type: none"> • Web and social audit of existing channels completed. • Use audit results to inform project scope and procure external service provider. • Develop digital strategy 2019–2022. • Identify key projects and priorities to inform team planning and major projects for 2020–21. 	<ul style="list-style-type: none"> • Stakeholder engagement via digital channels continues to grow. • Stakeholder perceptions relating to confidence in the accuracy of content, readability and relevance continue to exceed external benchmarks.

*View our goals on page 11.

Strategic communication's major projects for 2019–20:

1. Stakeholder engagement strategy, which aims to provide more engagement activity support for teams and support an effective engagement culture.
2. Digital strategy, which aims to transform our digital relationship with audiences to better meet their needs.

3. Reputation strategy, which is built on a stronger understanding of our operating environment and promotes the key themes of a strong and fair regulator that solves real problems and creates incentives for businesses to deliver value for money to customers.

Environmental factors

The main environmental factors influencing our work are:

- The scale and pace of reform of the energy regulatory framework means our work in this area has a higher profile and attracts more media attention than some of our other work. It is a challenge to show we are more than ‘just’ an energy regulator and our work in other sectors is just as important to the community. This means we need effective forward planning to ensure we don’t miss opportunities to inform and involve stakeholders in our other work.
- Rapid organisational growth and expanding responsibilities. Our immediate priorities include ensuring our digital efforts have a clear strategic focus, and increasing our ability to support the stakeholder engagement work of the organisation.
- Growing expectations of stakeholders and the community to engage with us in new and traditional ways. The community expects modern organisations to provide up to date information online along with opportunities to engage on issues. At the same time, many stakeholders continue to expect opportunities to engage in person as we develop our regulatory frameworks and make our decisions. There are also increasing expectations from the government to meet new engagement standards including using online methods.
- The banking royal commission highlighted many areas where regulation failed to protect consumers. This means we are expected to be both light-handed, low-red tape regulators yet quick to identify and respond to breaches that affect consumers.

List of all publications and submissions for 2018–19

You can view a complete list of all releases we published and all submissions we received during 2018–19 at www.esc.vic.gov.au/annual-reports

Communication and engagement activities

In 2018–19, we continued developing staff skills in stakeholder engagement through:

- an ongoing community of practice
- the release of a suite of internal tools and templates focused on ensuring we achieve key goals while meeting stakeholder needs
- organising two advanced facilitation training sessions and one train-the-trainer in advanced facilitation workshop.
- organising engagement principles workshops 28 staff members through the International Association for Public Participation (IAP2).

‘The commission’s communications and approach to engagement with stakeholders has, in my view, greatly improved in the last 18 months to 2 years. We feel the current commission and its staff employ an open, transparent approach and are willing to share preliminary thoughts and work through issues with stakeholders.’ Anonymous stakeholder response in our reputation survey 2019

Improving how we communicate to our audience

It’s important for us to identify areas where we’ve communicated well to our stakeholders, and areas where we need to improve.

How we responded to our 2018 survey results

In 2018–19, we worked on continuing to improve our reputation survey results by:

- holding internal workshops to develop response strategies to each team’s reputation survey results
- ran plain English workshops for staff
- developed a ‘publications release checklist’ to help teams prepare communications materials ahead of key releases
- implemented our revised stakeholder engagement framework and charter of consultation.

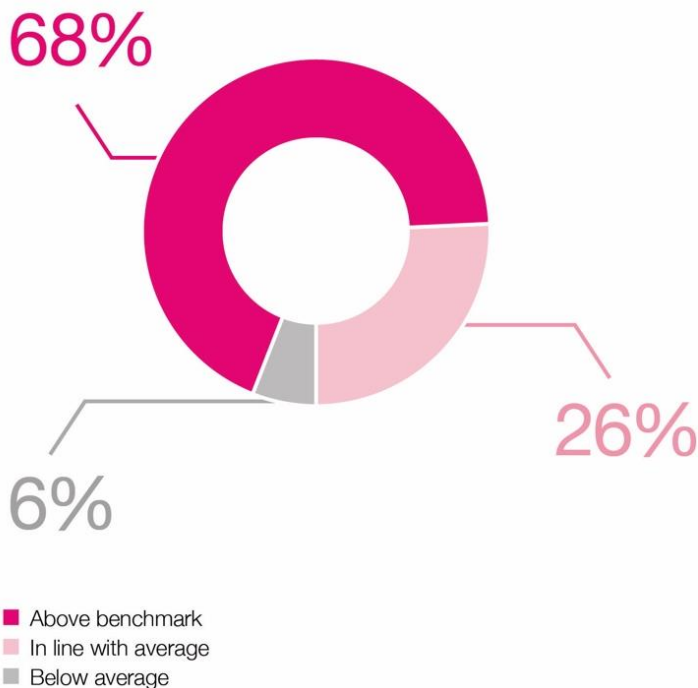
The Victorian Energy Upgrades team also developed a comprehensive stakeholder engagement strategy to strengthen their understanding of the sector’s needs.

Each year we run an annual survey and collect responses from more than 350 stakeholders on how we’ve kept them updated on key decisions, workshops and other useful information. Here’s what we found in 2018–19.

How we compared

We checked our performance on how we communicate to stakeholders against benchmarks for Australian regulators (rounded figures):

Our overall performance against communication benchmarks for Australian regulators, 2019



Our 2019 results show FURTHER improvement

Between 2017 and 2019, our results have improved across all measures, with ‘communication with stakeholders’ and ‘the commission’s processes’ improving the most (+12 per cent).

The biggest changes have happened in the energy and Victorian Energy Upgrades groups with significant improvements in consultation (+16%) and ‘providing information to the commission’ (+17%) respectively. Other teams have also had significant improvements in these areas.

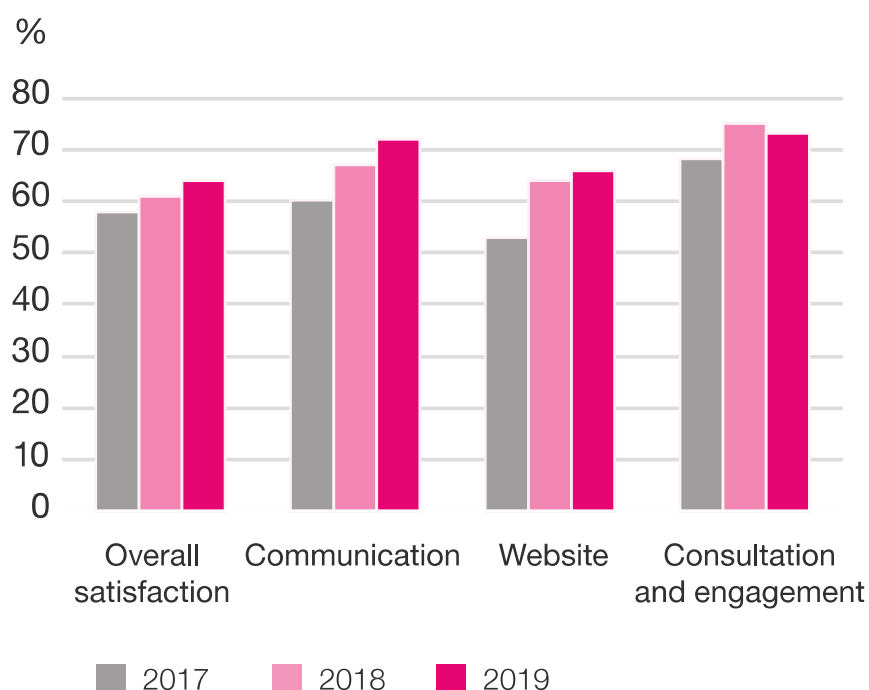
All groups worked with the strategic communication team to identify areas for improvement including setting targets in their annual work plans.

In 2018–19, we continued to embed our revised stakeholder engagement framework and consultation charter by:

- establishing new planning templates
- using the Engage Victoria platform to help increase online access to consultations
- communicating key dates and timeframes for projects through our revamped website, and our plain English newsletters.

Over the next year, we will be continuing to focus on improving stakeholder consultation and engagement, our website and communication with stakeholders.

Our reputation survey performance against four key indicators, 2017 to 2019



Dimension	2017	2018	2019	External benchmark(2019)
Overall satisfaction	58%	61%	64%	65%
Communication to stakeholders	60%	67%	72%	69%
Stakeholder consultation and engagement	68%	75%	73%	71%
Providing information to the commission	58%	65%	66%	63%
The commission’s processes	55%	62%	67%	65%
Interactions with commission staff	64%	73%	70%	71%
Outcomes and decisions	53%	59%	59%	56%

‘I’d like to acknowledge how much the commission’s communication with stakeholders has improved over the past four years. I have previously completed this survey and ... I have

seen a really significant change in this area, with a clear focus on improvement.'
Anonymous stakeholder response in our reputation survey 2019

Our people

Promoting flexible work opportunities, enhancing health and wellbeing, and developing our people.

Our people initiatives are structured around three areas: learning and development, capability and performance and workforce planning.

Learning and development

Mentoring program

For the past three years, we have participated in a combined mentoring program with the Department of Premier and Cabinet and the Department of Treasury and Finance. This combined program allows for a greater breadth of mentors and mentees, and encourages collaboration and knowledge sharing between the three organisations.

Participation in the program was strong again in 2019, with seven mentors and 12 mentees.

Leadership and management development

Our executive leadership team have been involved in essential leadership, a strengths based leadership program designed to strengthen and grow executive leadership within the commission. We implemented our first 'manager skills' sessions and have begun development of a whole-of-commission leadership program to support delivery of our three year strategy (page [10](#)).

Capability and performance

Performance and development system

We implemented a new performance and development system in 2018. This system supports managers and their team members to hold regular conversations and recognise achievements against goals.

Workforce planning

Recruitment

Our people and culture team supported 58 externally advertised recruitments in 2018–19. The team continually reviews our recruitment practices and policies and will continue developing knowledge and skills for recruiting within the Victorian Public Service via manager skills sessions.

Graduate program and internships

We recruited one graduate for 2019. We support internships through work-integrated learning in universities and in partnership with the Department of Treasury and Finance for summer interns. In 2018–19, we employed four interns through our various programs.

The people and culture team has formalised our graduate program by providing a structured induction process and ongoing support to graduates. This includes monthly catch-ups between the graduate coordinators and graduates, and a 'meet and greet' session with the CEO and Chairperson when graduates start.

Health and safety

Health and wellbeing committee

Our health and wellbeing committee is led by an executive sponsor and consists of divisional representatives and people and culture. The committee has rolled out a number of initiatives with the aim to keep our employees healthy and well. Some of the initiatives include organising teams and activities for Steptember, organising flu shots, and promotion of our 'employee assist' program, which offers counselling, career and skill development services.

Reducing sedentary risk

We are committed to reducing sedentary risk in our workplace. As part of this commitment, we installed standing desks for staff upon request and installed several electronic rising desks.

Occupational health and safety committee

Our occupational health and safety committee met four times during 2018–19. Attendees include health and safety and organisational representatives, members of our people and culture team, and a representative from the Action OHS organisation.

Our health and safety representative and deputy health and safety representative undertake a pivotal role in ensuring our workplace is safe and hazard free. They also help to ensure our committee considers new ideas and perspectives.

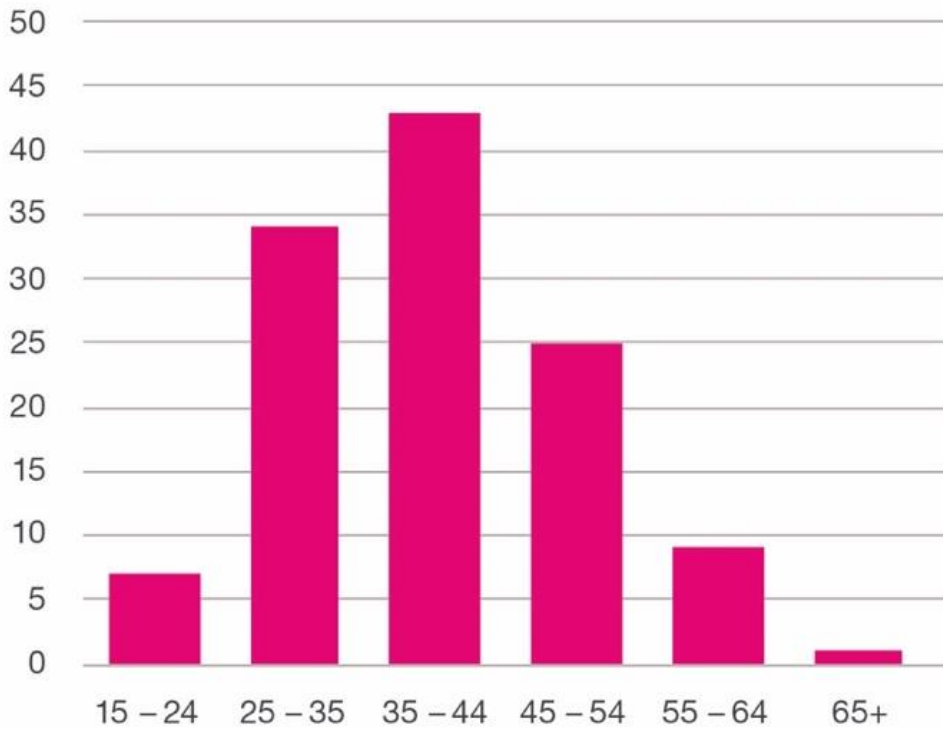
Our people as of 30 June 2019

50:50 gender split – There were 59 women and 60 men working at the commission.

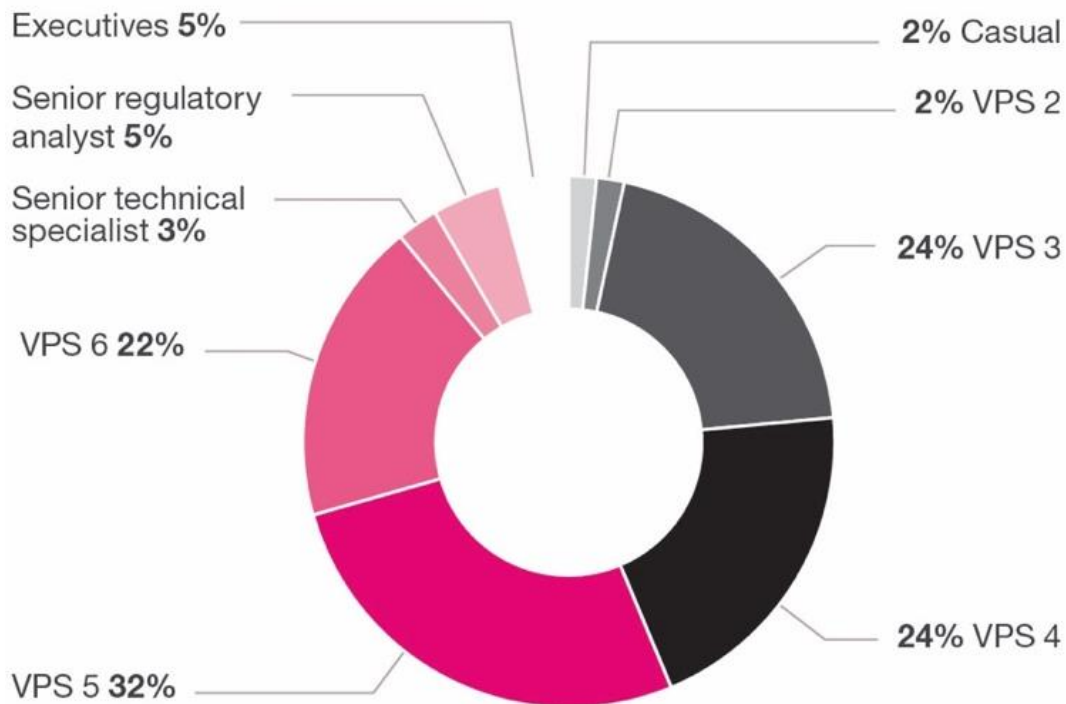
119 people – We had 119 people working at the commission.

40% in flexible work – Almost 40 per cent of our employees had formal flexible work agreements to suit their personal commitments.

Our employees, by age group



Our employees, by job level



Note: We did not employ any VPS 1 employees in 2018–19.

Chart source: *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.)

Diversity and inclusion

Flexible work

We support and promote flexible work practices to help employees balance work and life. We continue to promote flexible work through a toolkit we launched in April 2018. The toolkit is designed to provide guidance and knowledge on why working flexibly can be important. It also outlines flexible work options available to employees to ensure they apply for working arrangements tailored to their individual needs.

The commission currently has 47 (almost 40 per cent) of employees with formalised flexible work agreements. Of these employees, the type of flexible work requested varied and included working from home, flexible start and finish times, compressed hours, and part time.

Empowered Women's Network

The Empowered Women's Network formed in November 2017 after employees attended the 'Empowering Women for the Future' summit. The network aims to be an inclusive space made up of women and those who value and support women. The network aims to promote, empower and recognise the women who are part of the commission workplace.

This year the network again hosted an International Women's Day event at the commission, with the Energy and Water Ombudsman (Victoria), Cynthia Gebert, as the main speaker on the topic of 'balance for better'. To kick off the week leading up to International Women's Day, the network and social club hosted a joint quiz night at the commission, focusing on women and women's achievements.

Pride network

Our pride network was launched in 2017. The network aims to:

- promote workplace inclusion of LGBTIQ (lesbian, gay, bisexual, transgender, intersex, queer) employees
- provide a space for the commission's LGBTIQ people to come together, and raise issues of importance to them in the workplace
- provide a formal avenue to connect with the broader Victorian Public Service pride network.

In 2018–19 the pride network organised activities for 'wear it purple' day and the international day against homophobia, biphobia, intersexism and transphobia (IDAHOBIT). Our network promoted LGBTIQ events such as Midsumma and pride march, the ChillOut Festival and transgender day of visibility.

Developing our people and supporting great performance

Enhancing executive development – Our executive team are participating in our leadership essentials development program.

- **58 recruitments** – We advertised externally in 2018–19.
- **1 new performance & development system** – We launched the system in 2018.

Executive numbers

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

Income band (salary)	Executives	Senior Technical Specialist	Principal Scientist	Senior Medical Adviser	Senior Regulatory Analyst	Other
\$<160,000	-	-	-	-	-	-

160,000 – 179,000	1	3			3	
180,000 – 199,000	-	-	-	-	2	-
200,000 – 219,000	3	-	-	-	-	-
220,000 – 239,000	-	-	-	-	-	-
240,000 – 259,000	-	-	-	-	-	-
260,000 – 279,000	-	-	-	-	-	-
280,000 – 299,000	1					
300,000 – 319,000	-	-	-	-	-	-
320,000 – 339,000	-	-	-	-	-	-
340,000 – 359,000	-	-	-	-	-	-
360,000 – 379,000	-	-	-	-	-	-
380,000 – 399,000	-	-	-	-	-	-
400,000 – 419,000	-	-	-	-	-	-
420,000 – 439,000	-	-	-	-	-	-
440,000 – 459,000	-	-	-	-	-	-
460,000 – 479,000	-	-	-	-	-	-
480,000 – 499,000						
TOTAL	5	3	0	0	5	0

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

Workforce data

This workforce data table, covers gender, age, VPS grade and senior employees.

	June 2019							June 2018						
	All employees		Ongoing			Fixed Term and casual		All employees		Ongoing			Fixed Term and casual	
	Number (Headcount)	FTE*	Full-time (Headcount)	Part-time (Headcount)	FTE	Number (Headcount)	FTE	Number (Headcount)	FTE	Full-time (Headcount)	Part-time (Headcount)	FTE	Number (Headcount)	FTE
Gender														
Women	59	54.91	36	9	42.41	14	12.50	53	50.90	39	8	45.10	6	5.80
Men	60	58.96	50	4	53.36	6	5.60	63	61.02	51	2	52.76	10	8.26
Self-described	n	n	n	n	n	n	n	n	n	n	n	n	n	n
Age														
15-24	7	5.10	2	1	2.80	4	2.30	5	4.16	4	0	4.00	1	0.16
25-34	34	33.80	27	1	27.80	6	6.00	41	39.90	33	1	33.80	7	6.10
35-44	43	41.21	33	7	38.21	3	3.00	41	39.10	28	7	33.30	6	5.80
45-54	25	24.40	21	2	22.40	2	2.00	21	21.00	19	0	19.00	2	2.00
55-64	9	5.60	5	3	3.60	1	2.00	7	6.76	5	2	6.76	0	0.00
65+	1	1.00	1	0	1.00	0	0.00	1	1.00	1	0	1.00	0	0.00
VPS**1-6 Grade	104	100.17	76	14	85.57	14	14.60	98	95.66	75	10	82.86	13	12.80
VPS 1	0	0.00						0	0.00	0	0	0.00	0	0.00
VPS 2	2	1.60	1	0	1.00	1	0.60	2	2.00	2	0	2.00		
VPS 3	24	23.20	19	3	21.20	2	2.00	22	21.40	15	2	16.40	5	5.00
VPS 4	24	23.60	19	1	19.60	4	4.00	24	23.80	22	1	22.80	1	1.00
VPS 5	32	31.36	23	4	26.36	5	5.00	28	27.56	22	3	24.56	3	3.00
VPS 6	22	20.41	14	6	17.41	2	3.00	22	20.90	14	4	17.10	4	3.80

Senior employees	13	13.00	13	0	13.00	0	0.00	16	16.00	15		15.00	1	1.00
STS	3	3.00	3	0	3.00			3	3.00	3	0	3.00	0	0.00
VPS														
SMA														
SRA	5	5.00	5	0	5.00			5	5.00	4	0	4.00	1	1.00
Executives	5	5.00	5	0	5.00			8	8.00	8	0	8.00	0	0.00
Other	2	0.70	0	0	0.00	2	0.70	2	0.26				2	0.26
Total Employees	119	113.87	89	14	98.57	16	15.30	116	111.92	90	10	97.86	16	14.06

* FTE = full-time equivalent

** VPS = Victorian Public Service

This data excludes our commissioners and chair.

Our organisational structure

We are led by our commissioners, who are responsible for approving our determinations, reviews and other materials. Our chief executive officer helps ensure we have a secure, efficient operational framework to promote the commission's work.

Our commissioners changed in 2018–19

In 2018–19, we said goodbye to Dr Ron Ben-David, commissioner and Chairperson of the commission after 10 years in the role. We also farewelled Commissioner Richard Clarke, who contributed to new approaches in our work programs over his five-year term.

Commissioner Kate Symons filled the role of Acting Chairperson from May 2019, and was appointed Chairperson in September 2019. We also welcomed Simon Corden to the role of part-time commissioner in April 2019.

The information in this section reflects these changes.

Our leadership team

Kate Symons, Commissioner and Chairperson

Kate was appointed Chairperson and full-time Commissioner in September 2019 following Dr Ron Ben-David's departure in May 2019. Kate was originally appointed part-time Commissioner in October 2016. As a lawyer with qualifications in public administration and corporate governance, Kate has experience across a number of sectors.

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

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

Simon Corden, Commissioner

Simon was appointed part-time commissioner in April 2019. He is an expert in economics and social policy.

Simon's previous roles include senior executive roles within the Victorian Department of Premier and Cabinet, the Department of Treasury and Finance, and the Victorian Competition and Efficiency Commission Secretariat.

From 2011 to 2018 he was the Director, Policy, Programs and Evaluation, Management Consulting at KPMG Australia.

Richard Clarke, Commissioner (until March 2019)

Richard was appointed a part-time commissioner in March 2014. He ended his term in March 2019.

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

Dr Ron Ben-David, Commissioner and Chairperson (until May 2019)

Ron ended his term as Commissioner and Chairperson on 31 May 2019. Ron has a broad interest in all aspects of the commission's role, which is to promote the long-term interests of Victorian consumers.

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

He holds a Bachelor of Science (Optom), a Bachelor of Commerce (Hons) and a PhD (Economics). In 2005, Ron became a fellow of the Institute of Public Administration (Vic). He is also a member of numerous advisory councils.

Dr John Hamill, Chief Executive Officer

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

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

The executive team at 30 June 2019

Michelle Bryne

As Senior Manager, Strategic Communication, Michelle oversees external and internal communication, digital and social media, media and issues management, reputation and branding, and stakeholder engagement.

Michelle has a Master of Communications, Organisational Communication, and a Bachelor of Arts, both from Charles Sturt University.

Jeff Cefai

As Director, Victorian Energy Upgrades (VEU), Jeff oversees all aspects of the VEU program within the commission's remit. These include assessing and registering certificates, approving products and accrediting participants. He also oversees the management of project-based activities, monitoring and enforcement under the commission's audit and compliance functions, and mandatory safety training requirements.

Jeff has a Bachelor of Engineering (Chemical Engineering) from RMIT.

Marcus Crudden

As Director, Price Monitoring and Regulation, Marcus oversees projects including assessing and approving water prices, local government higher cap applications and taxi fares, and reporting on domestic building insurance and the Port of Melbourne's compliance with pricing requirements.

Marcus has a Master of Business Administration from the Australian Graduate School of Management at the University of New South Wales. He also has a Graduate Diploma of Water Engineering, Hydrology and Water Resources Science, and a Bachelor of Engineering, both from Monash University.

Sarah McDowell

As Director, Energy, Sarah oversees projects including the regulation of energy licences, exemptions, tariffs and benchmarks. She also oversees the development of energy codes and

guidelines, and the release of market performance reports such as the Victorian Energy Market Report.

Sarah has a Graduate Diploma in Law, a Bachelor of Commerce and a Bachelor of Arts, all from Monash University.

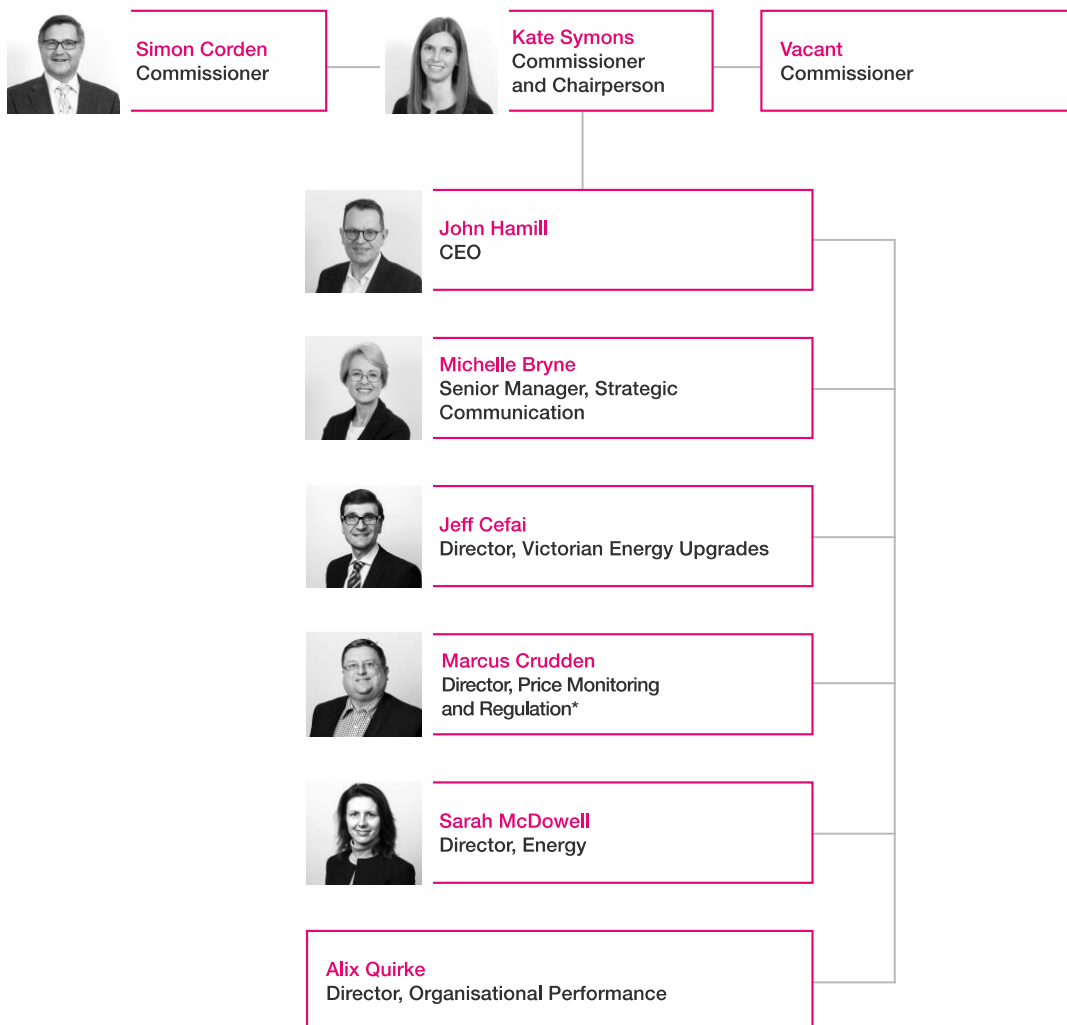
Alix Quirke

As Director, Organisational Performance, Alix oversees key internal functions including information technology, people and culture, finance, governance and risk. Alix also oversees the Secretariat function of the Audit and Risk Committee (page 62).

Alix has a Masters in Professional Accounting from Griffith University and a Bachelor of Commerce from Lincoln University. She is a graduate of the Australian Institute of Company Directors and a member of the Australian Human Resources Institute.

Organisational chart at 30 June 2019

*Our price monitoring and regulation team covers areas including water, local government and transport (pages 22 to 39), and the Victorian Default Offer (page 14).



Corporate governance

The commission was established by the Essential Services Commission Act 2001, which came into effect on 1 January 2002 in place of the Office of the Regulator-General.

We have been operating since 2001

The commission was established to perform its regulatory and advisory functions in ways that promote the long-term interests of consumers.

The Assistant Treasurer is responsible for the commission. We are required to perform functions under various industry legislation (appendix A, page [90](#)).

The Essential Services Commission Act 2001 requires us to:

- perform functions as required by legislation
- provide advice and recommendations to the Assistant Treasurer on matters relating to economic regulation and regulated industries
- conduct inquiries (at the request of the Assistant Treasurer) into any systemic reliability of supply issues related to a regulated industry or other essential service
- conduct inquiries and report on matters relating to regulated industries
- conduct public education programs for the purposes of promoting its objectives and in relation to significant changes in the regulation of a regulated industry.

As part of our role, we consider:

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

Key highlights:

45 number of times the commission met in 2018–19

7 number of times the board met in 2018–19

4 number of times our audit and risk committee met in 2018–19

We use a formal process to exercise our statutory responsibilities

This involves developing reports on how markets operate, delivering price determinations, compliance assessments and audits, and taking enforcement action when required. We also run the Victorian Energy Upgrades program and consider higher cap applications from councils.

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

Our board oversees organisational governance matters

Our commissioners meet as a board to formally deal with organisational governance matters.

Our audit and risk committee helps us identify and manage risks

Our audit and risk committee provides assurance to our board in accordance with the requirements of audit committees outlined in the Standing Directions under the Financial Management Act 1994.

The main responsibilities of the committee are to:

- oversee the effectiveness of the internal control environment, including operations, financial reporting and compliance with applicable laws and regulations

- determine the scope of the internal audit function, and maintain effective communication with external auditors
- consider findings and recommendations made by internal and external auditors and review the implementation of actions to resolve issues raised
- oversee the effective operation of the risk management framework
- review and monitor compliance with the Standing Directions and Financial Management Act 1994, including remedial actions to ensure compliance.

Our audit and risk committee had the following members at 30 June 2019:

- external member and acting chairperson of the committee, David Ashmore
- Commissioner Kate Symons
- Commissioner Simon Corden.

Our memorandums of understanding help improve outcomes

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

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

We held memorandums of understanding with 16 organisations

In 2018–19, we held memorandums of understanding with the following organisations:

1. Australian Competition and Consumer Commission*
2. Australian Energy Regulator*
3. The Clean Energy Regulator (Commonwealth)*
4. Commercial Passenger Vehicles Victoria*
5. Director of Consumer Affairs Victoria
6. Department of Health and Human Services
7. Energy Safe Victoria
8. Energy and Water Ombudsman (Victoria) Limited (EWOV)*
9. Environment Protection Authority (EPA Victoria)
10. Environment and Sustainable Development Directorate (ACT)*
11. Independent Pricing and Regulatory Tribunal New South Wales*
12. Marine Safety Victoria (Transport Safety Victoria)
13. Port of Melbourne Corporation*
14. Sustainability Victoria
15. Victorian Regional Channels Authority
16. Victorian Workcover Authority*.

View all memorandums of understanding at <https://www.esc.vic.gov.au/about-us/memorandums-understanding>

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

ESSENTIAL SERVICES COMMISSION FINANCIAL MANAGEMENT COMPLIANCE ATTESTATION STATEMENT

I, Kate Symons, on behalf of the Responsible Body, certify that the Essential Services Commission has complied with the applicable Standing Directions 2018 under the Financial Management Act 1994 and Instructions.

Kate Symons, Commissioner and Chairperson

Our finances

Current year financial review

Our primary fiscal objective is to minimise our costs to government and our fee-paying industries while maintaining our effectiveness and delivering a high quality of services.

In 2018–19, the commission achieved an operating surplus of \$1.660 million, \$1.370 million higher than in 2017–18. A summary of our financial performance is outlined below and shows the movements in actual income, expenses, balance sheet items and net cash flow.

Our finances in 2018–19

Our financial position remains strong with total assets of \$19.21 million, total liabilities of \$5.38 million and total net assets of \$13.83 million.

\$1.66 million surplus – We recorded an operating surplus of \$1.66 million in 2018–19 compared to \$0.29 million in 2017–18.

40% in flexible work – Over 40 per cent of our employees had formal flexible work agreements to suit their personal commitments.

Financial summary 2018–19 and previous 4 years

Comprehensive operating statement	2018–19	2017–18	2016–17	2015–16	2014–15
Total income from transactions	25,349,539	24,316,269	23,948,697	19,599,126	15,956,224
Total expenses from transactions	23,554,425	24,029,804	21,769,240	18,351,057	15,536,460
Net result from transactions	1,795,113	286,465	2,179,457	1,248,069	419,764
Comprehensive result	1,660,295	290,004	2,113,707	1,186,283	407,506
Balance sheet					
Total assets	19,211,562	17,546,737	16,689,963	13,815,973	12,879,451
Total liabilities	5,380,733	5,376,203	4,809,434	4,049,151	4,298,912
Net assets	13,830,829	12,170,534	11,880,529	9,766,822	8,580,539
Cash flow					

Net cash flow from operating activities	180,329	33,565	13,271	14,047	24,101
---	---------	--------	--------	--------	--------

Assets and liabilities

Our financial position remains strong with total assets of \$19.2 million, total liabilities of \$5.3 million and net assets of \$13.8 million. Significantly, our working capital is sufficient to fund our operations over the forward estimates period.

Net assets as a percentage of total assets

	2018–19	2017–18	2016–17	2015–16	2014–15
Net assets	71.99%	69.36%	71.60%	70.69%	66.62%

Our major asset is the receivable from the Victorian Government. This amount includes previously applied parliamentary appropriations that we have not yet drawn on. The balance represents the accumulated surplus (which can only be drawn down on after the approval of the Treasurer), accrued employee entitlements, payables and accumulated depreciation. The balance, net of the accumulated surplus, represent funding for commitments incurred through the appropriations and are drawn from the consolidated fund as the commitments fall due.

Total liabilities remained stable at \$5.4 million. Our major liabilities are accounts payable and employee provisions.

Surplus/deficit

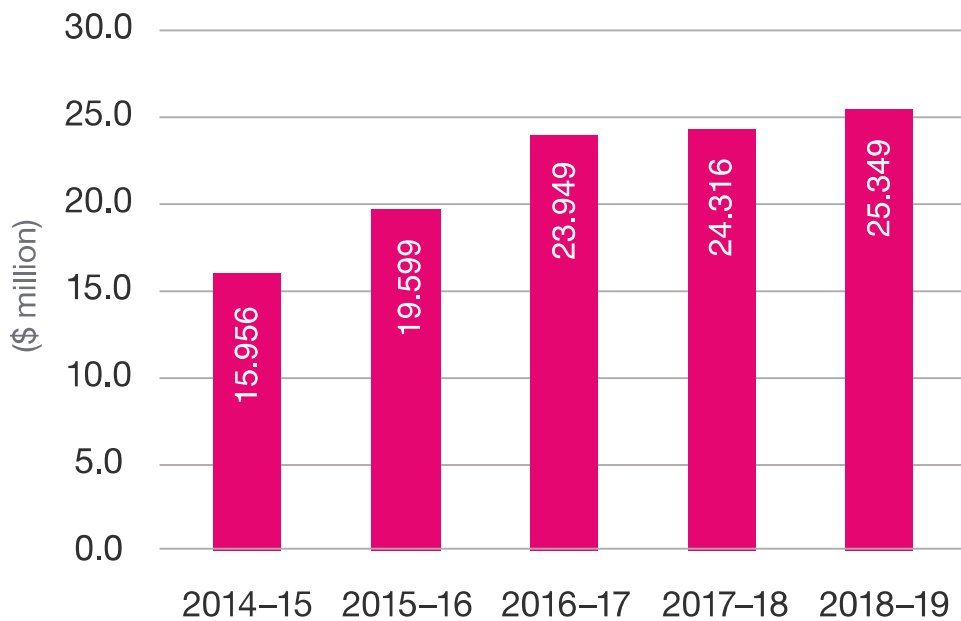
We operate in a fiscally responsible and sustainable manner, managing to the funding provided by government with a surplus each year, at an average of 5% per year, to increase reserves to fund future projects. Any application to prior years surpluses are subject to approval by the Treasurer.

Income

We are funded through parliamentary appropriations via the Department of Treasury and Finance.

Our total revenue has increased over the past five years (60 per cent since 2014–15) as a result of an increase in regulatory functions (for example, the introduction of the Fair Go Rates system, and expanded customer protection responsibilities in energy) and the expansion of the Victorian Energy Upgrades program.

Our income, 2014–15 to 2018–2019

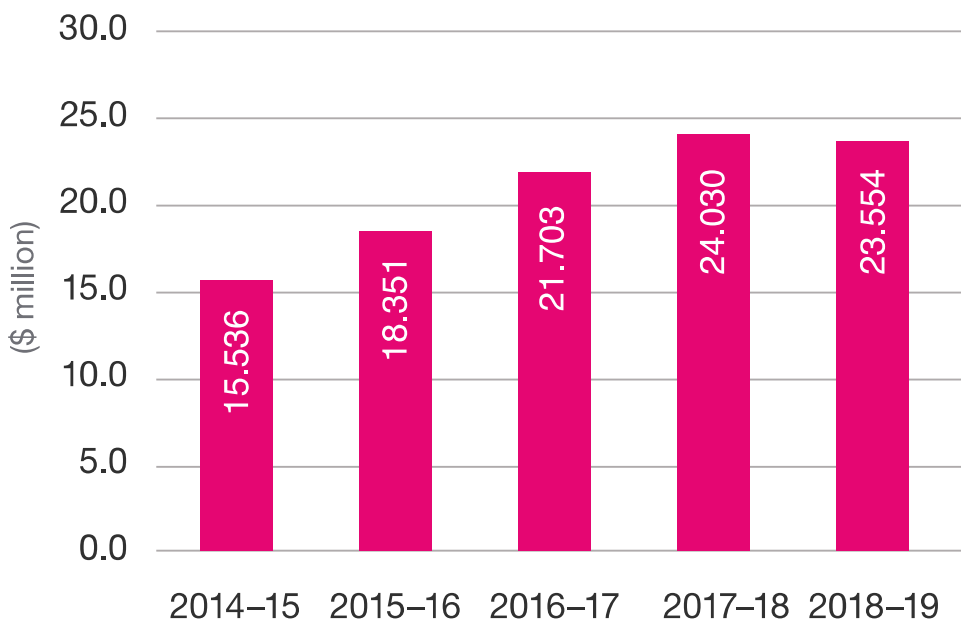


Expenses

We incurred \$23.6 million in expenses from transactions for the reported financial year. There was a small reduction in expenditure this year which was largely related to the one-off spike in expenditure in 2017–18 on the five-yearly water price review.

Our expenditure has increased over the last 5 years in line with our income as a direct result of additional initiatives and increased regulatory requirements imposed by government.

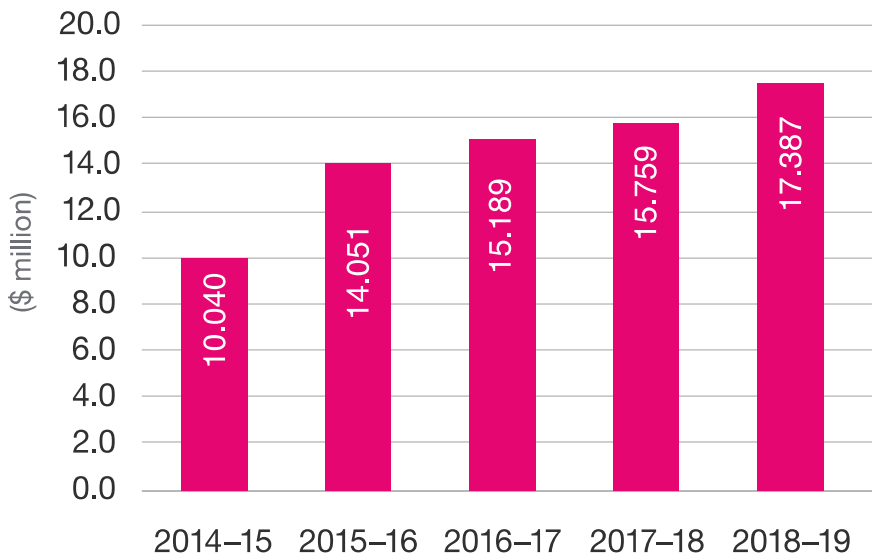
Our expenses, 2014–15 to 2018–2019



Administered revenue

We also collect administered revenue on behalf the State of Victoria. This revenue is paid into Department of Treasury and Finance’s consolidated fund. The revenue includes licence fees and penalties for the regulation of the energy and water industries. It also includes fees for the Victorian Energy Upgrade program as well as any penalties relating to that program. We collected \$17.4 million administered revenue in 2018–19 compared to \$15.8 million in 2017–18.

Administered revenue, 2014–15 to 2018–2019

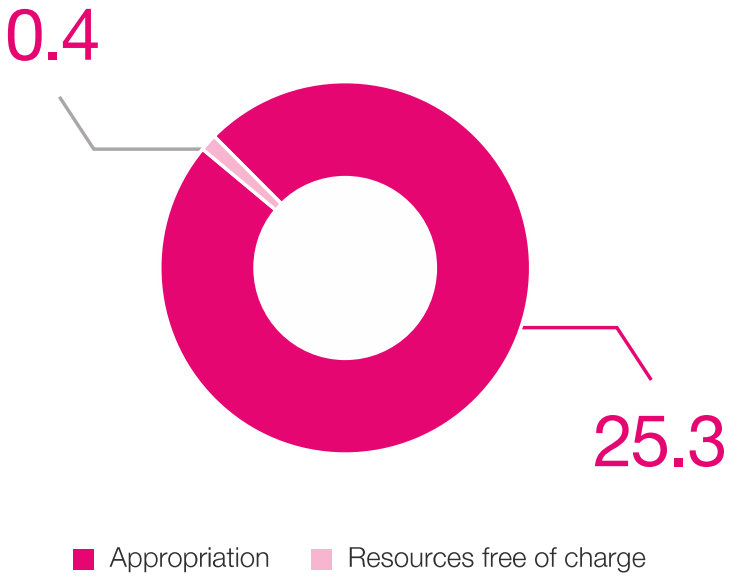


The year ahead

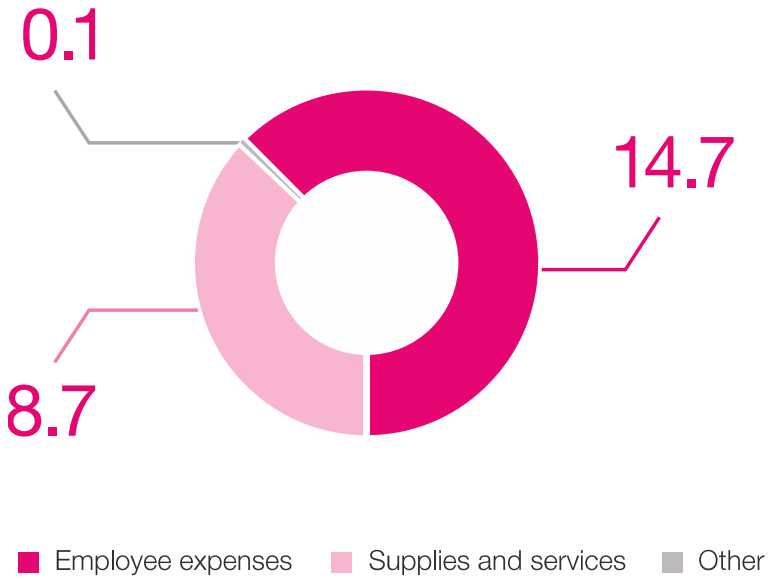
We were allocated additional funding totalling \$27.3 million over the next four years in the 2019–20 State Budget. This funding will allow us to deliver on the Government’s Energy Fairness Plan through reforms to pricing and marketing practices, and the strengthening of the commission’s enforcement powers. This will include the implementation of the Victorian Default Offer, and new requirements for energy retailers in billing, marketing and contract terms and conditions. In addition, our enforcement and investigative powers will be strengthened to improve the effectiveness in our monitoring of energy markets and retailers.

For 2019–20, this will mean an increase in appropriation funding from \$25.0 million to \$30.0 million and a proportionate increase in staff numbers as we position ourselves to deliver the Energy Fairness Plan.

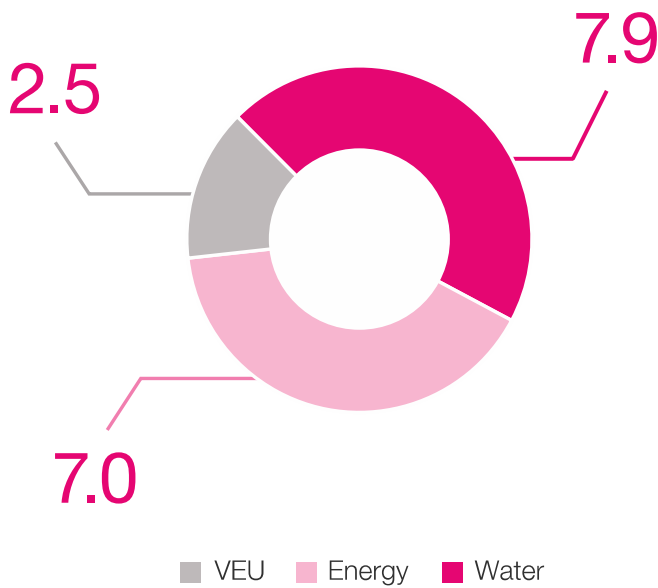
Income (\$ million)



Expenses (\$ million)



Administered revenue (\$ million)



Performance against output measures

Performance against output measures 2018–19: economic regulatory services

Each year, we report on our performance against several measures that relate to Budget Paper Number 3 Service Delivery (BP3), which is issued by the Department of Treasury and Finance. Our output measures and targets align with our objective to promote the long-term interests of Victoria consumers with regard to price, quality and reliability of essential services.

The table below summarises our performance for all output measures in 2018–19.

Performance measures	Unit of measure	2018–19 annual target (BP3)	Full-year 2018–19 actual	Performance variation (%)	2019–20 annual target
Quantity					
New or revised regulatory instruments issued	number	6	16	167%	7
<i>The 2018–19 actual result is higher than target due to a higher number of new or revised regulatory instruments being issued than originally anticipated.</i>					
Performance reports for regulated businesses or industries	number	7	10	43%	7
<i>The 2018–19 actual result is higher than expected because of the introduction of quarterly water performance reports.</i>					
Performance reviews and compliance audits of regulated businesses	number	144	143	-1%	144

Price approvals of regulated businesses	number	39	25	-36%	22
<i>The 2018–19 outcome is lower than target due to a lesser requirement to perform local government fee capping applications than anticipated. The 2019–20 target has been reduced to better reflect the number of businesses required to submit annual price or tariff proposals.</i>					
Registration and accreditation decisions/approvals in relation to the Victorian Energy Efficiency Target Scheme (now called the Victorian Energy Upgrades program)	number	6000	4076	-32%	5000
<i>The 2018–19 outcome is lower than target as activities in the year were at fewer, but larger and more complex, business sites than anticipated. The 2019–20 target has been adjusted to reflect this trend.</i>					
Reviews, investigations or advisory projects	number	1	5	400%	1
<i>The outcome is higher than target due to the requirement for the Essential Services Commission to develop a Victorian Default Offer (VDO). The VDO is a fair price for energy that all Victorian electricity retailers will be required to offer to all residential and small business customers. Reviews were also undertaken of domestic building insurance, towing and storage fees, local government rate capping and electricity connections.</i>					
Compliance and enforcement activities – energy	number	15	15	0%	30
Setting of regulated price and tariffs	number	new measure	n/a	n/a	1
<i>New performance measure for 2019–20 to reflect new funding for the Fairer Energy Regulation initiative.</i>					
Quality					
Decisions upheld where subject to review, appeal or disallowance	per cent	100%	100%	0%	100%
Timelines					
Delivery of major milestones within agreed timelines	per cent	100%	100%	0%	100%
Cost					
Total output cost	\$ million	26.5	23.9	-9.8%	30.7
<i>The 2018–19 outcome is less than expected due to movement of funding to redevelop Victorian Energy Upgrades systems into future years and timing of expenditure for the retail market review project.</i>					

The higher 2019–20 target reflects additional funding for the Fairer Energy Regulation initiative.

Licence fee revenue

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

Type of licence	Total revenue 2018–19	Total revenue 2017–18
	(\$)	(\$)
Electricity industry		
Electricity generation	254,141	214,500
Electricity transmission	50,159	49,500
Electricity distribution	1,128,923	673,215
Electricity trader	0	0
Retail electricity	2,817,020	1,571,316
Gas industry		
Distribution	464,850	396,009
Retail gas	1,925,627	1,055,550
Ports industry		
Port of Melbourne Corporation	0	0
Water industry		
Water and sewage	2,481,353	4,004,502

Declaration in the Financial Statements

The attached financial statements for the Essential Services Commission have been prepared in accordance with Direction 5.2 of the Standing Directions of the Assistant Treasurer under the *Financial Management Act 1994*, applicable Financial Reporting Directions, Australian Accounting Standards including interpretations, and other mandatory professional reporting requirements.

We further state that, in our opinion, the information set out in the comprehensive operating statement, balance sheet, statement of changes in equity, cash flow statement and accompanying notes, presents fairly the financial transactions during the year ended 30 June 2019 and the financial position of the commission as at 30 June 2019.

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

We authorise the attached financial statements for issue on 7 October 2019.

Anne Hodder, Chief Financial Officer, Melbourne, 7 October 2019

Dr John Hamill, Chief Executive Officer, Melbourne, 7 October 2019

Kate Symons, Chairperson and Commissioner, Melbourne, 7 October 2019

Independent Auditor's Report

To the Commissioner of the Essential Services Commission

Opinion	<p>I have audited the financial report of the Essential Services Commission (the Commission) which comprises the:</p> <ul style="list-style-type: none"><input type="checkbox"/> balance sheet as at 30 June 2019<input type="checkbox"/> comprehensive operating statement for the year then ended<input type="checkbox"/> statement of changes in equity for the year then ended<input type="checkbox"/> cash flow statement for the year then ended<input type="checkbox"/> notes to the financial statements, including significant accounting policies<input type="checkbox"/> declaration in the financial statements. <p>In my opinion the financial report presents fairly, in all material respects, the financial position of the Commission as at 30 June 2019 and its financial performance and cash flows for the year then ended in accordance with the financial reporting requirements of the <i>Financial Management Act 1994</i> and applicable Australian Accounting Standards.</p>
Basis for opinion	<p>I have conducted my audit in accordance with the <i>Audit Act 1994</i> which incorporates the Australian Auditing Standards. I further describe my responsibilities under that Act and those standards in the <i>Auditor's Responsibilities for the Audit of the Financial Report</i> section of my report.</p> <p>My independence is established by the <i>Constitution Act 1975</i>. My staff and I are independent of the Commission in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 <i>Code of Ethics for Professional Accountants</i> (the Code) that are relevant to my audit of the financial report in Victoria. My staff and I have also fulfilled our other ethical responsibilities in accordance with the Code.</p> <p>I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.</p>
Commissioner's responsibilities for the financial report	<p>The Commissioner is responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the <i>Financial Management Act 1994</i>, and for such internal control as the Commissioner determines is necessary to enable the preparation and fair presentation of a financial report that is free from material misstatement, whether due to fraud or error.</p> <p>In preparing the financial report, the Commissioner is responsible for assessing the Commission's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is inappropriate to do so.</p>

Auditor's responsibilities for the audit of the financial report

As required by the *Audit Act 1994*, my responsibility is to express an opinion on the financial report based on the audit. My objectives for the audit are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in 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 the Australian Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

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

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

MELBOURNE
8 October 2019



Timothy Maxfield
as delegate for the Auditor-General of Victoria

Comprehensive operating statement – For the year ended 30 June 2019

		2019	2018
	Notes	\$	\$
Income from transactions			
Grants	2	24,972,374	24,056,688
Resources received free of charge		377,165	259,581
Total income from transactions		25,349,539	24,316,269
Expenses from transactions			
Employee expenses	3.1.1	14,722,716	15,323,564
Depreciation and amortisation	5.1.1	35,374	187,836
Finance lease interest		439	2,421
Capital asset charge		84,067	2,053
Supplies and services	3.2	8,711,830	8,513,930
Total expenses from transactions		23,554,426	24,029,804
Net result from transactions		1,795,113	286,465
Other economic flows included in net result			
Net gain/(loss) on disposal of non-financial assets	9.1	(2,104)	-
Net gain/(loss) from revaluation of leave liabilities	9.1	(132,714)	3,539
Total other economic flows included in net result		(134,818)	3,539
Net result		1,660,295	290,004
Comprehensive result		1,660,295	290,004

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

Balance sheet – As at 30 June 2019

		2019	2018
	Notes	\$	\$
Assets			
Financial assets			
Receivables	6.1	18,484,210	16,868,993
Total financial assets		18,484,210	16,868,993
Non-financial assets			
Non-Current Assets held for sale		27,082	-
Prepayments		449,882	527,411

Property, plant and equipment	5.1	250,388	150,333
Total non-financial assets		727,352	677,744
Total assets		19,211,562	17,546,737
Liabilities			
Payables	6.2	1,864,051	1,440,255
Employee related provisions	3.1.2	3,367,217	3,770,767
Make Good provisions	6.3	106,470	106,470
Finance lease liabilities		42,995	58,711
Total liabilities		5,380,733	5,376,203
Net assets		13,830,829	12,170,534
Equity			
Contributed capital		873,921	873,921
Accumulated surplus(a)		12,956,908	11,296,613
Total equity		13,830,829	12,170,534
(a) The accumulated surplus can only be accessed upon approval of the Treasurer.			

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

Cash flow statement – For the year ended 30 June 2019

		2019	2018
	Notes	\$	\$
Cash flows from operating activities			
Receipts from Government		24,096,364	23,835,168
Receipts from other entities		36,260	-
Payments to suppliers and employees		(23,867,789)	(23,797,129)
Capital asset charge paid		(84,067)	(2,053)
Interest paid		(439)	(2,421)
Net cash flows from operating activities	7.1	180,329	33,565
Cash flows from investing activities			
Payments for property, plant and equipment		(164,559)	(13,059)
Proceeds from sale of property, plant and equipment		29,545	-
Net cash flows from/(used in) investing activities		(135,014)	(13,059)
Cash flows from financing activities			
Repayment of finance leases		(45,316)	(20,506)
Net cash flows (used in) financing activities		(45,316)	(20,506)

Net decrease in cash and cash equivalents		-	-
Cash and cash equivalents at the start of the year		-	-
Cash and cash equivalents at the end of the year		-	-

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

Statement of changes in equity – For the year ended 30 June 2019

	Contributed capital	Accumulated surplus	Total
	\$	\$	\$
Balance at 1 July 2017	873,921	11,006,609	11,880,530
Net result for the year		290,004	290,004
Balance at 30 June 2018	873,921	11,296,613	12,170,534
Net result for the year		1,660,295	1,660,295
Balance at 30 June 2019	873,921	12,956,908	13,830,829

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

Note 1. About this report

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

Its principal address is:

Essential Services Commission, Level 37, 2 Lonsdale Street, Melbourne VIC 3000

A description of the nature of its operations and its principal activities is included in the “*Report of operations*” which does not form part of these financial statements.

Basis of preparation

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

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

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

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

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

Compliance

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

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

Note 2. Funding delivery of our services

Introduction

<p>The objective of the commission is to promote the long term interests of Victorian consumers having regard to the price, quality and reliability of essential services. The commission operates under the <i>Essential Services Commission Act 2001</i> (“the Act”). The Act designates the commission as an economic regulator and lays a foundation for the commission to perform its functions and exercise its powers in respect of regulated entities providing an essential service operating under relevant legislation and as conferred by or under other specified legislation identified in the Act.</p>	<p>At 30 June 2019 the regulated industries included electricity, gas, water and sewerage, ports, taxis and rail freight. Functions conferred under other legislation related to energy industry compliance and enforcement, energy efficiency, accident towing and local government.</p> <p>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 onforwarded to the commission in the form of grants.</p>
---	--

	2019	2018
	\$	\$
Income from transactions		
Grants from Department of Treasury and Finance	24,972,374	24,056,688
Resources received free of charge	377,165	259,581
Total income from transactions	25,349,539	24,316,269

Income is recognised to the extent it is probable the economic benefits will flow to the commission and the income can be reliably measured. Where applicable, amounts disclosed as income are net of returns, allowances, duties and taxes. All amounts of income over which the commission does not have control are disclosed as administered income (see Note 4).

The Department of Treasury and Finance (DTF) provides certain administrative services to support the operations of the commission which is recognised as services provided as resources received free of charge. The corresponding expense is included as other expenses in note 3.2.

Note 3. The cost of delivering services

This section provides an account of the expenses incurred by the commission in delivering services.	<p>3.1. Employee expenses</p> <p style="padding-left: 20px;">3.1.1. Employee expenses in the comprehensive operating statement</p> <p style="padding-left: 20px;">3.1.2. Employee benefits in the balance sheet</p> <p>3.2. Supplies and services</p>
---	---

Expenses incurred in delivery of services

		2019	2018
	Notes	\$	\$
Employee expenses	3.1.1	14,722,716	15,323,564
Depreciation and amortisation	5.1.1	35,374	187,836
Finance lease interest		439	2,421
Capital asset charge		84,067	2,053
Supplies and services	3.2	8,711,830	8,513,930
Total expenses incurred in delivery of services		23,554,426	24,029,804

3.1 Employee expenses

3.1.1. Employee expenses in the comprehensive operating statement

Salaries and wages	11,298,880	11,942,828
Superannuation		
- Defined contribution plans	1,149,346	1,154,263
- Defined benefits expense	14,876	14,473
Annual and long service leave expense	1,519,204	1,514,443
On-costs	740,410	697,557
Total employee expenses	14,722,716	15,323,564

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

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

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

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

3.1.2. Employee benefits in the balance sheet

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

	2019	2018
	\$	\$
Provisions		
Current:		
Annual leave		
- Unconditional and expected to settle within 12 months	777,768	855,633
- Unconditional and expected to settle after 12 months	184,083	249,765
Long service leave		
- Unconditional and expected to settle within 12 months	279,644	300,165
- Unconditional and expected to settle after 12 months	1,758,885	1,756,203
Termination entitlements	-	303,893
Performance bonus	36,500	-
Total current provisions for employee benefits	3,036,880	3,465,659
Non-current:		
Long service leave	330,337	305,108
Total non-current provisions for employee benefits	330,337	305,108
Total provisions for employee benefits	3,367,217	3,770,767

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

Termination entitlements are payable when employment is terminated before normal retirement date, or when an employee accepts an offer of benefits in exchange for the termination of employment. Termination entitlements are recognised when the commission is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination entitlements as a result of an offer made to encourage voluntary redundancy.

3.2. Supplies and services

	2019	2018
	\$	\$
Supplies and services		
Rentals and outgoings	1,062,367	1,013,760

Purchases of services	5,303,006	5,779,097
Other	2,346,457	1,721,073
Total supplies and services	8,711,830	8,513,930

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

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

Other include mainly sundry expenses such as software maintenance and licences, advertising and promotions and other office related expenses.

Note 4. Administered items

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

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*, and the *Water Industry Act 1994*, and Victorian energy efficiency certificates issued under the *Victorian Energy Efficiency Target Act 2007*, and penalties issued under these acts and the *Essential Services Commission Act 2001*.

These and certain other administered revenues are collected by the Commission but not controlled by it, and are not recognised as revenues/receivables within the body of the financial statements, but are reported as administered revenues/receivables. Such amounts are required to be paid to the Consolidated Fund.

	2019	2018
	\$	\$
Administered income from transactions		
Licence and other fees	17,387,249	15,759,000
Other income	-	-
Total administered income from transactions	17,387,249	15,759,000
Administered expenses from transactions		
Payments into the Consolidated Fund	16,535,487	14,685,350
Total administered expenses from transactions	16,535,487	14,685,350
Administered net result	851,762	1,073,650

Administered assets		
Financial assets		
Debtors	63,796	369,516
Accrued income	9,122,074	7,964,592
Total administered assets	9,185,870	8,334,108
Administered net assets	9,185,870	8,334,108

Note 5. Key assets available to support delivery of services

<p>The commission controls property plant and equipment that are utilised in fulfilling its objectives and conducting its activities. They represent the key resources that have been entrusted to the commission to be utilised for delivery of services.</p>	<p>5.1. Property, plant and equipment:</p> <p>5.1.1. Depreciation and amortisation</p> <p>5.1.2. Reconciliation of movements in carrying values of property, plant and equipment</p>
--	--

5.1. Property, plant and equipment

	Gross carrying amount		Accumulated Depreciation		Net carrying amount	
	2019	2018	2019	2018	2019	2018
	\$	\$	\$	\$	\$	\$
Leasehold improvements	106,470	106,470	(49,686)	(28,393)	56,784	78,077
Office and computer equipment at fair value	23,140	23,140	(23,140)	(22,308)	-	832
Motor vehicle under finance lease	37,865	101,506	(21,879)	(43,141)	15,986	58,365
Construction in Progress – Building	139,716	-			139,716	-
Construction in Progress – Plant & Equipment	37,902	13,059			37,902	13,059
Net carrying amount	345,093	244,175	(94,705)	(93,842)	250,388	150,333

Initial recognition

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

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

Subsequent measurement

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

Leasehold improvements

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

5.1.1. Depreciation and amortisation

	2019	2018
Charge for the period	\$	\$
Leasehold improvements	21,294	25,120
Office and computer equipment	832	3,328
Motor vehicles under finance lease	13,248	20,251
Intangible assets	-	139,137
Total depreciation and amortisation	35,374	187,836

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 straightline 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 2019 and 30 June 2018 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.

Impairment of non-financial assets

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

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

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

	Leasehold	Office and computer	Motor vehicles under	Construction in Progress	Construction in Progress	Total

	improvements	re-equipment	finance lease	s – Building	s – Plant & Equipment	
	\$	\$	\$	\$	\$	\$
2019						
Carrying amount at start of year	78,077	832	58,365		13,059	150,333
Additions	-		29,601	139,716	24,843	194,160
Disposals			(31,650)			(31,650)
Depreciation expense	(21,293)	(832)	(13,248)			(35,373)
Transfers to Held for Sale	-	-	(27,082)			(27,082)
Carrying amount at end of year	56,784	0	15,986	139,716	37,902	250,388
2018						
Carrying amount at start of year	45,816	4,160	78,616		-	128,592
Additions	57,381		-	-	13,059	70,440
Disposals			-			-
Depreciation expense	(25,120)	(3,328)	(20,251)			(48,699)
Carrying amount at end of year	78,077	832	58,365	-	13,059	150,333

Note 6. Other assets and liabilities

This section sets out those assets and liabilities that arose from the commission's controlled operations.	6.1. Receivables 6.2. Payables 6.3. Make Good provision
--	---

6.1. Receivables

	2019	2018
	\$	\$
Current:		
Contractual		
Debtors	3,740	-
	3,740	-
Statutory		
Amounts receivable from government departments	18,020,655	16,462,227
GST recoverable	129,478	101,658
	18,150,133	16,563,885
Total current receivables	18,153,873	16,563,885
Non-current:		

Statutory		
Amounts receivable from government departments	330,337	305,108
Total non-current receivables	330,337	305,108
Total receivables	18,484,210	16,868,993

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

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

6.2. Payables

	2019	2018
	\$	\$
Current:		
Contractual		
Creditors and accruals	1,864,051	1,440,255
Total payables	1,864,051	1,440,255

Payables consist of:

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

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

6.3. Make Good Provision

Current:		
Make Good Provision	106,470	106,470
	106,470	106,470

The make good provision is recognised in accordance with the agreement over the leased premise. The commission is required to remove any leasehold improvements from the lease premise and restore the premise to its original condition at the end of the lease term.

Note 7. Financing our operations

<p>This section provides information on the sources of finance utilised by the commission during its operations, along with interest expenses (the cost of borrowings) and other information related to financing activities of the commission.</p> <p>This section includes disclosures of balances that are financial instruments (such as borrowings and cash balances).</p>	<p>7.1. Reconciliation of net result to cash flow from operating activities</p> <p>7.2. Commitments for expenditure</p>
---	---

7.1. Reconciliation of net result to cash flow from operating activities

	2019	2018
	\$	\$
Net result	1,660,295	290,004
Non-cash movements		
Depreciation	35,374	187,836
Loss on disposal of property, plant and equipment	2,104	-
Movements in assets and liabilities		
(Increase)/decrease in receivables	(1,615,217)	(943,956)
(Increase)/decrease in prepayments	77,529	(30,214)
Increase/(decrease) in payables	423,796	(189,488)
Increase/(decrease) in provisions	(403,552)	719,383
Net cash flows from operating activities	180,329	33,565

7.2. Commitments for expenditure

	2019	2018
	\$	\$
Outsourcing commitments		
Information technology services, payable:		
Within one year	480,858	824,328
Later than one year but not later than five years	-	480,858
Total commitments (inclusive of GST)	480,858	1,305,186
Less GST recoverable	43,714	118,653
Total outsourcing commitments (exclusive of GST)	437,144	1,186,533

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	921,338	876,767
Later than one year but not later than five years	1,608,881	2,338,046

Total operating lease commitments	2,530,219	3,214,813
--	------------------	------------------

Commitments for future expenditure include operating and outsourcing commitments arising from contracts. These commitments are disclosed at their nominal value and inclusive of GST payable except for operating lease commitments. In addition, where it is considered appropriate and provides additional relevant information to users, the net present values of significant individual projects are stated. These future expenditures cease to be disclosed as commitments once the related liabilities are recognised in the balance sheet.

Note 8. Risks, contingencies and valuation judgements

<p>The commission is exposed to risk from its activities and outside factors. In addition, it is often necessary to make judgements and estimates associated with recognition and measurement of items in the financial statements. This section sets out financial instrument specific information, (including exposures to financial risks) as well as those items that are contingent in nature or require a higher level of judgement to be applied, which for the commission related mainly to fair value determination.</p>	<p>8.1. Financial instruments specific disclosures</p> <p>8.1.1. Categorisation of financial instruments</p> <p>8.1.2. Net holding gain/(loss) on financial instruments by category</p> <p>8.1.3. Financial risk management objectives and policies</p> <p>8.2. Contingent assets and contingent liabilities</p>
---	--

8.1. Financial instruments specific disclosures

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

From July 2018, the commission applies AASB 9 Financial Instruments and classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms.

Categories of financial assets under AASB 9

Financial assets at amortised cost

Financial assets are measured at amortised costs if both of the following criteria are met and the assets are not designated as fair value through net result:

- the assets are held by the commission to collect the contractual cash flows, and
- the assets' contractual terms give rise to cash flows that are solely payments of principal and interests.

These assets are initially recognised at fair value plus any directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method less any impairment.

The commission recognises the following assets in this category:

- Debtors

Categories of financial assets previously under AASB 139

Loans and receivables

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

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

Categories of financial liabilities under AASB 9 and previously under AASB 139

Financial liabilities at amortised cost

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

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

Offsetting financial instruments

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

8.1.1. Categorisation of financial instruments

Financial assets	Note	Category	Carrying amount	
			2019 \$	2018 \$
Receivables*	6.1	Financial assets at amortised cost	3,740	-
			3,740	-
Financial liabilities				
Payables	6.2	Financial liabilities at amortised cost	1,864,051	1,440,255
Finance lease liability		Financial liabilities at amortised cost	42,995	58,711
			1,907,046	1,498,966

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

Financial liabilities				
Finance lease liability		Financial liabilities at amortised cost	(439)	(2,421)

			(439)	(2,421)
--	--	--	--------------	----------------

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

The net holding gains or losses disclosed relate to interest expense and are measured at amortised cost.

8.1.3. Financial risk management objectives and policies

Financial instruments: Credit risk

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

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

Financial instruments: 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.

Financial Instruments: 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.

8.2. Contingent assets and contingent liabilities

The Commission had no contingent assets or contingent liabilities at 30 June 2019 (30 June 2018: Nil).

Note 9. Other disclosures

<p>This section includes additional material disclosures required by accounting standards or otherwise, for the understanding of this financial report.</p>	<p>9.1. Other economic flows included in net result 9.2. Change in accounting policies 9.3. Responsible persons 9.4. Remuneration of executives 9.5. Related parties 9.6. Australian Accounting Standards issued that are not yet effective 9.7. Events after reporting date 9.8. Remuneration of auditors 9.9. Glossary of terms</p>
---	---

9.1. Other economic flows included in net result

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

Disposal of non-financial assets

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

Other gains and losses from other economic flows

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

9.2 Change in accounting policies

The commission has elected to apply the limited exemption in AASB 9 paragraph 7.2.15 relating to transition for classification and measurement and impairment, and accordingly has not restated comparative periods in the year of initial application. As a result:

- any adjustments to carrying amounts of financial assets or liabilities are recognised at beginning of the current reporting period with difference recognised in opening retained earnings; and
- financial assets and provision for impairment have not been reclassified and/or restated in the comparative period.

AASB 9 introduces a major change to hedge accounting. However, it is the commission's policy not to apply hedge accounting.

This note explains the impact of the adoption of AASB 9 *Financial Instruments* on the commission's financial statements.

9.2.1 Change to classification and measurement

On initial application of AASB 9 on 1 July 2018, the commission's management has assessed for all financial assets based on the commission's business models for managing the assets. The following is the change in the classification of the commission's financial assets:

(a) Contractual receivables previously classified as other loans and receivables under AASB 139 are now reclassified as financial assets at amortised cost under AASB 9. There was no difference

between the previous carrying amount and the revised carrying amount at 1 July 2018 to be recognised in opening retained earnings.

The accounting for financial liabilities remains largely the same as it was under AASB 139, except for the treatment of gains or losses arising from the commission’s own credit risk relating to liabilities designated at fair value through net result. Such movements are presented in other comprehensive income with no subsequent recycle through profit or loss.

9.2.2 Changes to the impairment of financial assets

Under AASB 9, all loans and receivables as well as other debt instruments not carried at fair value through net result are subject to AASB 9’s new expected credit loss (ECL) impairment model, which replaces AASB 139’s incurred loss approach.

For other loans and receivables, the commission applies the AASB 9 simplified approach to measure expected credit losses based on the change in the ECLs over the life of the asset. Applying the ECL model does not result in recognition of additional loss allowance (previous loss allowance was nil).

9.3. Responsible persons

The persons who held the positions of Minister and Accountable Officer in the commission (from 1 July 2018 to 30 June 2019 unless otherwise stated) were:

Responsible Minister	The Hon. Robin Scott, MP, Assistant Treasurer
Accountable Officer	Dr John Hamill, Chief Executive Officer

Tim Pallas MP acted for the Assistant Treasurer in the absence of the Hon. Robin Scott MP.

Total remuneration received or receivable by the Accountable Officer in connection with the management of the commission during the reporting period was in the range: \$300,000 – \$309,999 (\$300,000 – \$309,999 in 2017–18).

Amounts relating to ministers are reported in the annual statements of the Department of Parliamentary Services.

9.4. Remuneration of executives

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

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

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

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

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

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

	Total remuneration
--	---------------------------

Remuneration of executive officers	2019	2018
	\$	\$
Short-term employee benefits	871,843	1,526,613
Post-employment benefits	94,961	166,166
Other long-term benefits	47,882	47,754
Termination benefits	214,735	77,146
Total remuneration	1,229,422	1,817,679
Total number of executives	7	8
Total annualised employee equivalents(a)	4.42	7.7

Notes:

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

9.5. Related parties

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

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

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

Significant transactions with government-related entities

Significant transactions entered into by the commission during 2018–19 are disclosed in relevant notes as detailed below:

- The commission received grant funding from DTF which is disclosed in Note 2; and
- The Commission on behalf of the Victorian Government collected licence fees from Victorian water businesses \$2,481,353 (\$4,004,503 in 2017–18) This is included as part of the total administered income balance disclosed in Note 4.

Key Management Personnel

Key management personnel (KMP) of the commission include the Portfolio Minister, the Hon. Robin Scott MP, and the commissioners and Chief Executive Officer, which includes:

- Acting Chairperson (1 June 2019 to 30 June 2019) and Commissioner (1 July 2018 to 31 May 2019), Kate Symons;
- Chairperson (1 July 2018 to 31 May 2019), Dr Ron Ben-David;
- Commissioner (9 April 2019 to 30 June 2019), Simon Corden;
- Commissioner (1 July 2018 to 29 March 2019), Richard Clarke and
- Chief Executive Officer, Dr John Hamill

The compensation detailed below excludes the salary and benefit the Portfolio Minister receives. The Minister's remuneration and allowance, set by the *Parliamentary Salaries and Superannuation Act 1968*, are reported within the Department of Parliamentary Services' Financial Report.

Compensation of KMPs	2019	2018
	\$	\$

Short-term employee benefits	855,774	905,992
Post-employment benefits	70,888	63,761
Other long-term benefits	12,381	22,044
Termination benefits		
Total	939,043	991,797

9.6. Australian Accounting Standards issued that are not yet effective

The following AASs become effective for reporting periods commencing after 1 July 2019:

AASB 16 *Leases*

AASB 15 *Revenue from Contracts with Customers*

AASB 1058 *Income of Not-for-profit Entities*

Leases

AASB 16 *Leases* replaces AASB 117 *Leases*, AASB Interpretation 4 *Determining whether an Arrangement contains a Lease*, AASB Interpretation 115 *Operating Leases-Incentives* and AASB Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases on the balance sheet by recording a Right-Of-Use (RoU) asset and a lease liability except for leases that are shorter than 12 months and leases where the underlying asset is of low value (deemed to be below \$10,000).

AASB 16 also requires the lessees to separately recognise the interest expense on the lease liability and the depreciation expense on the RoU asset, and remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The amount of the remeasurement of the lease liability will generally be recognised as an adjustment to the RoU asset.

Lessor accounting under AASB 16 is substantially unchanged from AASB 117. Lessors will continue to classify all leases using the same classification principle as in AASB 117 and distinguish between two types of leases: operating and finance leases.

The effective date is for annual reporting periods beginning on or after 1 January 2019. The commission intends to adopt AASB 16 in the 2019–20 financial year when it becomes effective.

The commission will apply the standard using a modified retrospective approach with the cumulative effect of initial application recognised as an adjustment to the opening balance of accumulated surplus at 1 July 2019, with no restatement of comparative information.

The commission has performed a detailed impact assessment of AASB 16 and the potential impact in the initial year of application has been estimated as follows:

- increase in RoU (\$3,840,609),
- increase in related depreciation (\$822,666),
- increase in lease liability (\$4,014,750),
- increase in related interest (\$148,915) calculated using effective interest method, and
- decrease in rental expense (\$797,440).

Various practical expedients are available on adoption to account for leases previously classified by a lessee as operating leases under AASB 117. The commission will elect to use the exemptions for

all short-term leases (lease term less than 12 months) and low value leases (deemed to be below \$10,000)

Grants

AASB 15, AASB 1058 and the related guidance will come into effect for not-for-profit entities for annual reporting periods beginning on or after 1 January 2019. The commission intends to adopt these standards in 2019–20 financial year when it becomes effective.

The commission will apply the standard using a modified retrospective approach with the cumulative effect of initial application recognised as an adjustment to the opening balance of accumulated surplus at 1 July 2019, with no restatement of comparative information.

The commission has performed a detailed impact assessment of AASB 15 and AASB 1058 and there is no potential impact for each major class of revenue and income in the initial year of application.

9.7. Events after reporting date

There were no subsequent events that had the potential to significantly effect the ongoing operations and financial activities of the commission.

9.8. Remuneration of auditors

The fee for the audit of the 2018–19 annual financial statements by the Victorian Auditor-General's Office amounts to \$17,500 (\$17,000 in 2017–18). No other services are being provided by the Victorian Auditor-General's Office.

9.9. Glossary of terms

Administered item

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

Annualised employee equivalent

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

Capital asset charge

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

Commitments

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

Comprehensive result

The net result of all items of income and expense recognised for the period. It is the aggregate of operating result and other comprehensive income.

Controlled item

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

Depreciation

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

Employee benefits expenses

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

Financial asset

A financial asset is any asset that is:

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

Financial instrument

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

Financial liability

A financial liability is any liability that is:

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

Financial statements

A complete set of financial statements comprises:

- a) a comprehensive operating statement for the period;
- b) a balance sheet as at the end of the period;

- c) a statement of changes in equity for the period;
- d) a cash flow statement for the period;
- e) notes, comprising a summary of significant accounting policies and other explanatory information;
- f) comparative information in respect of the preceding period as specified in paragraph 38 of AASB 101 *Presentation of Financial Statements*; and
- g) a balance sheet as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraph 41 of AASB 101.

Grants

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

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

Interest expense

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

Net result

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

Net result from transactions

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

Non-financial assets

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

Other economic flows included in net result

Other economic flows included in net result are changes in the volume or value of an asset or liability that do not result from transactions. They include gains and losses from disposal, revaluation and impairment of non-current physical and intangible assets; actuarial gains and losses

arising from defined benefit superannuation plans and fair value changes of financial instruments. In simple terms, they are changes arising from market re-measurements.

Other economic flows – other comprehensive income

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

Payables

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

Receivables

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

Supplies and services

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

Transactions

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

Appendix A: Disclosures index

Our annual report is prepared in accordance with all relevant Victorian legislations and pronouncements. This index page facilitates the identification of the commission’s compliance with statutory disclosure requirements, including financial reporting directions (FRD) and standing directions (SD).

Legislation	Requirement	Page number
Charter and purpose		
FRD 22H	Manner of establishment and relevant ministers	96, 97, 102
FRD 22H	Purpose, functions, powers and duties	7-10, 57-58
FRD 8D	Objectives, indicators and outputs	8-9
FRD 22H	Key initiatives and projects	36-39, 40-41, 45
FRD 22H	Nature and range of services provided	1, 2-3, 57, 58
Management and structure		
FRD 22H	Organisational structure	55
Financial and other information		
FRD 22H	Performance against output performance measures	65
FRD 10A	Disclosure index	94
FRD 22H	Disclosure of major contracts	95

FRD 22H	Executive officer disclosures	86
FRD 15D	Employment and conduct principles	96
FRD 22H	Occupational health and safety policy	95
FRD 22H	Summary of the financial results for the year	60
FRD 22H	Significant changes in financial position during the year	60
FRD 22H	Major changes or factors affecting performance	60
FRD 22H	Subsequent events	N/A
FRD 22H	Application and operation of Freedom of Information Act 1982	97
FRD 22H	Compliance with building and maintenance provisions of Building Act 1993	94
FRD 22H	Statement on National Competition Policy	95
FRD 22H	Application and operation of the Protected Disclosure Act 2012	96
FRD 22H	Application and operation of the Carers Recognition Act 2012	N/A
FRD 22H	Details of consultancies over \$10,000	94
FRD 22H	Details of consultancies under \$10,000	94
FRD 22H	Disclosure of advertising expenditure	94
FRD 22H	Disclosure of ICT expenditure	102
FRD 24C	Statement of availability of other information	99
FRD 25C	Reporting of office-based environmental impacts	99
FRD 29B	Local Jobs First	95
SD 5.2	Workforce data disclosures	53
SD 5.2	Specific requirements under standing direction 5.2	58
Compliance attestation and declaration		
SD 5.1.4	Attestation for compliance with ministerial standing direction	58
SD 5.2.3	Declaration in report of operations	1
Financial statements declaration		
SD 5.2.2	Declaration in financial statements	60
Other requirements under standing direction 5.2		
SD 5.2.1 (a)	Compliance with Australian accounting standards and other authoritative pronouncements	72
SD 5.2.1 (a)	Compliance with ministerial directions	60
SD 5.2.1 (b)	Compliance with model financial report	60
Other disclosures as required by financial reporting directions in notes to the financial statements		
FRD 9B	Department disclosure of administered assets and liabilities by activity	97
FRD 11A	Disclosure of ex-gratia expenses	94
FRD 13	Disclosure of parliamentary appropriations	73

FRD 21C	Disclosures of responsible persons, executive officers and other personnel (contractors with significant management responsibilities) in the financial report	84
FRD 103G	Non-financial physical assets	77
FRD 110A	Cash flow statements	71
FRD 112D	Defined benefit superannuation obligations	74
Legislation		
Freedom of Information Act 1982		97
Building Act 1993		94
Protected Disclosure Act 2012		96
Carers Recognition Act 2012		N/A
Victorian Industry Participation Policy Act 2003		95
Financial Management Act 1994		60
All other legislation		97

Appendix B: Disclosures

Advertising expenditure

We had no advertising campaigns with a media spend of \$100,000 or greater.

Building works

We did not have any buildings under our direct control and are exempt from notifying our compliance with the building and maintenance provisions of the Building Act 1993.

Consultancies over \$10,000

We engaged 21 consultancies at a total expenditure of \$818,872 (excluding GST). View details of individual consultancies at www.esc.vic.gov.au/annual-reports.

Consultancies under \$10,000

We engaged three consultancies at a total expenditure of \$17,950 (excluding GST).

Diversity and inclusion

We strive to create an environment that supports a diverse, inclusive and flexible workforce. We reviewed our recruitment materials on a number of occasions throughout the 2017–18 year to encourage a more diverse applicant pool.

We also celebrated the diversity of our employees with recognition or events held for National Reconciliation Week, IDAHoBIT day, Harmony Day and Wear It Purple Day.

Our Empowered Women's Network and our pride network continue to grow and work with the organisation to ensure our practices are inclusive.

In 2018–19, we had two staff members (1.7 percent of employees) who self-identified as Aboriginal or Torres Strait Islander.

Employee relations

We are committed to ensuring that employee relations matters are treated fairly and promptly, and that employees are aware of our grievance processes. This year we rewrote our grievance policy and replaced our sexual harassment and bullying policy with a new fair workplace treatment policy.

These new policies are supported by procedure documents. All staff were invited to comment on these new policies.

No employee time was lost in 2018–19 due to industrial disputes and no formal grievances were lodged.

Employment and conduct principles

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

We have correctly classified our employees in workforce data collections.

Ex-gratia payments

There were no ex-gratia payments in 2018–19.

Local Jobs First Act 2003

The Local Jobs First Act 2003, introduced in August 2018, brings together the Victorian Industry Participation Policy (VIPPP) and Major Project Skills Guarantee (MPSG), policy which were previously administered separately.

Departments and public sector bodies are required to apply the Local Job First policy in all projects valued at \$3 million or more in Metropolitan Melbourne or for statewide projects, or \$1 million or more for projects in regional Victoria.

We did not commence or complete any such procurements in 2018–19.

Major contracts

We awarded no major contracts greater than \$10 million during 2018–19.

National Competition Policy

We complied with the National Competition Policy, including compliance with the requirements of the policy statement Competitive Neutrality Policy Victoria and any subsequent reforms.

Occupational health and safety

We continued to promote occupational health and safety through a range of measures in 2018–19, including our occupational health and safety policy, health and safety representative and an OH&S committee, which meets quarterly. We had no WorkCover claims in 2018–19.

Workcover statistics	2018–19	2017–18
Claims during 2018–19	0	1

Private interest declarations

Declarations of private interests were completed by relevant officers in 2018–19. New employees were required to complete declarations prior to commencement.

Appendix C: Appeals, notices and determinations in 2018–19

Appeals lodged under the Essential Services Commission Act 2001

One appeal was lodged under Section 55 of the Essential Services Commission Act 2001 during the 2018–19 financial year. The appeal was later withdrawn by the applicant.

Disclosures issued under the Essential Services Commission Act 2001

Section 38 of the Essential Services Commission Act 2001 allows us to disclose, under specified circumstances, information or the content of a document given to us under the Act. No disclosures were made by the commission under section 38 during 2018–19.

Inquiries conducted under the Essential Services Commission Act 2001

Part 5 of the Essential Services Commission Regulations 2011 requires us to report on the outcomes of any public inquiries we conducted after consultation with the minister responsible for the commission.

We did not conduct any public inquiries in 2018–19.

Notices issued under the Essential Services Commission Act 2001

Section 37 of the Essential Services Commission Act 2001 empowers us to obtain information or documents that may assist in the performance of our functions. No notices were issued under section 37 during 2018–19.

Price determinations issued under the Essential Services Commission Act 2001

Price determinations made under section 33 of the Essential Services Commission Act 2001 in the 2018–19 financial year included 1 price determination for maximum fares for unbooked commercial passenger vehicles from 1 October 2018.

Third party access regime determinations under the Essential Services Commission Act 2001

Regulation 10 of the Essential Services Commission Regulations 2011 requires us to report on the outcomes of third-party access regime determinations we make under part 3A of the Essential Services Commission Act 2001.

There were no third party access determinations made under Part 3A.

Appendix D: Our compliance with the Protected Disclosure Act 2012

The Protected Disclosure Act 2012 encourages and assists people in making disclosures of improper conduct by public officers and public bodies. The Act provides protection to people who make disclosures in accordance with the Act and establishes a system for the matters disclosed to be investigated and rectifying action to be taken.

We do not tolerate improper conduct, nor the taking of reprisals against those who come forward to disclose such conduct. We are committed to ensuring transparency and accountability in its administrative and management practices and support the making of disclosures that reveal corrupt conduct, conduct involving a substantial mismanagement of public resources, or conduct involving a substantial risk to public health and safety or the environment.

We will take all reasonable steps to protect people who make such disclosures from any detrimental action in reprisal for making the disclosure. It will also afford natural justice to the person who is the subject of the disclosure to the extent it is legally possible.

Reporting procedures

Disclosures of improper conduct or detrimental action by us or any of our employees may be made to the Independent Broad-Based Anti-Corruption Commission:

Level 1, North Tower, 459 Collins Street
Melbourne, VIC 3000
Phone: 1300 735 135
Internet: www.ibac.vic.gov.au

Email: see the IBAC website for their secure email disclosure process, which also provides for anonymous disclosures.

More information

You can request our protected disclosure procedures for the protection of persons from detrimental action by us or any of our employees and/or officers.

Appendix E: Legislation and freedom of information

Legislation

Our main piece of legislation is the Essential Services Commission Act 2001.

Other legislation related to our work includes:

- Accident Towing Services Act 2007
- Commercial Passenger Vehicle Industry Act 2017
- Electricity Industry Act 2000
- Gas Industry Act 2001
- Grain Handling and Storage Act 1995
- Local Government Act 1989
- National Electricity (Victoria) Act 2005
- National Gas (Victoria) Act 2008
- Port Management Act 1995
- Rail Management Act 1996
- Victorian Energy Efficiency Target Act 2007
- Water Act 1989
- Water Industry Act 1994.

Freedom of information

The Freedom of Information Act 1982 allows the public a right of access to documents held by the commission. The purpose of the Act is to extend as far as possible the right of the community to access information held by government departments, local councils, ministers and other bodies, such as the commission, who are subject to the Act.

An applicant has a right to apply for access to documents held by the commission. This comprises documents both created by the commission or supplied to the commission by an external organisation or individual, and may also include maps, films, microfiche, photographs, computer printouts, computer discs, tape recordings and videotapes. Information about the type of material produced by the commission includes:

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

The Act allows the commission to refuse access, either fully or partially, to certain documents or information. Examples of documents that may not be accessed include: cabinet documents; some internal working documents; law enforcement documents; documents covered by legal professional privilege, such as legal advice; personal information about other people; and information provided to the commission in-confidence.

If an applicant is not satisfied by a decision made by the commission, under section 49A of the Act, they have the right to seek a review by the Office of the Victorian Information Commissioner (OVIC) within 28 days of receiving a decision letter.

Making a request

An application fee may apply. Access charges may also be payable if the document pool is large, and the search for material, time consuming.

Access to documents can also be obtained through a written request to:

John Henry, Principal Solicitor, VEU program
 Essential Services Commission
 Level 37, 2 Lonsdale Street
 Melbourne VIC 3000

When making a freedom of information (Fol) request, applicants should ensure requests are in writing, and clearly identify what types of material/documents are being sought.

Freedom of information statistics and timeliness

During 2018–19, the commission received six applications.

The commission made four Fol decisions during the 12 months ended 30 June 2019.

Three decisions were made within the statutory time period. Two decisions were not required to be made in the financial year 2018–19.

The average time taken to finalise requests in 2018–19 was 53 days.

During 2018–19, one request was subject to an internal review by Office of the Victorian Information Commissioner.

More information

Further information regarding the operation and scope of FoI can be obtained from the Act, regulations made under the Act, and foi.vic.gov.au.

Further information may be obtained from:

- Freedom of Information Act 1982
- Freedom of Information (Access Charges) Regulation 2014
- Freedom of Information Regulations 2019 www.foi.vic.gov.au

Reports, publications and informal requests

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

Requests may also be directed to:

Essential Services Commission

Level 37, 2 Lonsdale Street

Melbourne, Vic 3000

Telephone: (03) 9032 1300

or 1300 664 969

publications@esc.vic.gov.au

Appendix F: Office-based environmental impact

We have continued to monitor key indicators of our environmental impact in 2018–19. Since 2017–18, some indicators have increased while others have decreased. Our full-time equivalent (FTE) count has also decreased over this period, and when this is considered most indicators, show a decrease in our environmental impact per FTE.

Overview of performance, 2018–19

Category	Quantity used	Quantity per employee	Greenhouse gas emissions (tonnes CO ₂ -e)
Energy consumption (MJ)	487,801	4,234	171
Waste management (tonne)	7.42	0.06	13
Paper procurement (reams)	938	8.14	4
Transport use: car (litres of petrol)	1,048	9.10	3
Transport use: aeroplane (km)	64,974	564	13
Water consumption	N/A	N/A	N/A

Total greenhouse gas emissions			203.18
---------------------------------------	--	--	---------------

Energy

Energy consumption data is taken from our energy retailer billing information. In 2018–19, energy use for one of the two floors we occupied was estimated assuming our staff made up 85% of total staff on that floor. In 2017–18, we assumed our staff made up 53 per cent staff on that floor.

Usage per employee is based on an annual employee average for the whole year. In financial year 2018–19, our energy usage decreased, but our usage per FTE increased.

This table uses estimated data only.

Indicator	2018–19	2017–18
Total energy use segmented by primary source (MJ)	487,801	488,784
Greenhouse gas emissions associated with energy use, segmented by primary source and offsets (t CO ₂ -e)	171	171.1
Percentage of electricity purchased as Green Power	0	0
Units of energy used per FTE (MJ/FTE)	4,234	4,073
Units of energy used per unit of office area (MJ/m ²)	289	220

Waste

We conduct a single waste audit each year. As the audit only measures waste production for one day, this day may not be representative of average waste production. To account for this potential inaccuracy, the figures displayed in the following table represent the average for all waste audits up to and including the year in question. Relative to 2017–18, our waste production decreased in 2018–19, and our waste production per FTE decreased.

This table uses estimated data only.

Indicators (estimates)		2018–19 (tonnes/year)	2017–18 (tonnes/year)	Difference compared to previous year (%)
General waste/landfill	Total units of waste disposed per year by destination	2.22	2.29	-3%
	Units of office waste disposed per full-time equivalent	0.02	0.02	1%
Co-mingled recycling	Total units of waste disposed per year by destination	0.78	0.90	-13%
	Units of office waste disposed per FTE	0.01	0.01	-9%
Organic recycling	Total units of waste disposed per year by destination	0.67	0.74	-9%
	Units of office waste disposed per FTE	0.01	0.01	-5%
	Total units of waste disposed per year by destination	3.75	5.10	-26%

Paper and cardboard recycling	Units of office waste disposed per FTE	0.03	0.04	-23%
-------------------------------	--	------	------	------

Paper

The paper data is based on supplier billing information and paper storage auditing. In 2018–19, we only used recycled paper, however our overall and per-employee consumption of paper increased.

Indicator	2018–19	2017–18	Difference compared to previous year (%)
Total units of copy paper used (reams)	938	864	9%
Units of copy paper used per FTE (reams/FTE)	8.14	7.20	13%
Percentage of 75–100 per cent recycled content copy paper purchased	100%	99.4%	1%
Percentage of 0–50 per cent recycled content copy paper purchased	0.0%	0.6%	-100%
Greenhouse gas emissions associated with paper use, segmented by primary source and offsets (t CO2-e)	3.56	3.27	9%

Water

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

Transport

Transport data was collected from VicFleet logs and our air travel records. We use the Victorian Government vehicle pool for all our operational car travel, and the use of hybrid fuel vehicles by staff is encouraged. The amount of travel by plane for the commission decreased in 2018–19 however the kilometres travelled via car has increased.

Transport type	Indicator	2018–19	2017–18	Difference (%)
Car (ULP)	Total travel associated with entity operations (km)	14,640	13,571	8%
	Greenhouse gas emissions from fleet (t CO2-e)	2.55	2.53	1%
	Greenhouse gas emissions from fleet per 1000 km travelled (t CO2-e)	0.17	0.19	-6%
Aeroplane	Total distance travelled (km)	64,974	96,523	-32.7%
	Greenhouse gas emissions (t CO2-e)	13.22	19.63	-32.7%
Sustainable transport	Percentage of employees using public transport, cycling walking or car pooling to get to and from work	N/A	N/A	-

Summary of greenhouse gas emissions

Emission source		CO2 emissions (t CO2-e)		
		2018–19	2017–18	Difference (%)
Direct emissions	Vehicle hire	2.6	2.5	1%
Indirect emissions	Electricity	170.7	171.1	0%
Optional emissions	Office paper	3.6	3.3	9%
	Waste	13.1	16.7	-21%
	Flights	13.2	19.6	-33%
Total		203.2	213.2	-5%
Total per FTE		1.8	1.8	-0.72%

Appendix G: ICT expenditure

For the 2018–19 reporting period, we had a total ICT expenditure of \$2,193,686 with the details shown below.

All operational ICT expenditure	ICT expenditure related to projects to create or enhance ICT capabilities			
	Business as usual (BAU) ICT expenditure	Non business as usual (non-BAU) ICT expenditure	Operational expenditure	Capital expenditure
(Total)	(Total = operational expenditure and capital expenditure)			
2,155,784	499,626	1,656,158	37,902	

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

Appendix H: Ministerial statement of expectations

Each year, we receive a statement of expectations from the Assistant Treasurer. The statement sets out the Assistant Treasurer's expectations of our contribution to the Victorian Government's regulatory reform program.

The Assistant Treasurer supplied a statement of expectations spanning 2018–2020. The following table reports on our progress against these expectations for the 2018–19 year.

Key area	Improvement expected by the Assistant Treasurer	Target by 30 June 2020	Progress as at 30 June 2019
Stakeholder consultation and engagement	Implement the stakeholder engagement framework.	Maintain stakeholder satisfaction over 75 per cent.	Our 2019 reputation survey showed satisfaction with consultation and engagement at 73 per cent.

Timeliness (processes/systems in place)	Increased online capability as part of the Victorian Energy Efficiency Target digital portal upgrade.	A 10 per cent increase in capacity to handle Victorian Energy Upgrades business forms measured by a 10 per cent overall reduction in time to approve applications.	The project design phase started in 2018–19. We are awaiting final government approval for the build phase of the project.
Incentive-based regulation	Review the new water pricing framework.	Evidence that water businesses have pursued cost efficiencies and/or delivered better services.	An independent review of our water pricing framework found it provided incentives for water businesses to deliver better value for money to customers, either through lower prices or better services.
Risk-based strategies	Apply a risk-based and targeted approach to enforcement in the energy sector.	Target to be developed in 2018–19.	In 2018–19, the commission applied a risk-based approach to prioritising and targeting its enforcement activity in the Victorian energy market. This resulted in the commission issuing 34 penalty notices against licensed power companies in the financial year.
Compliance related assistance and advice	Conduct user testing to confirm website redevelopment has led to improvements for users.	User testing indicates the website is easy to use 63 per cent of the time.	Our 2019 reputation survey showed the usefulness of our website was rated at 66 per cent.

Glossary

Term	Definition
'best offer'	A type of energy reform that enables Victorians to see whether they're on the energy retailer's most suitable plan. From 1 July 2019, your energy retailer must put 'best offer' information on your electricity and gas bills at least once every four months.
CALD	An acronym that stands for 'culturally and linguistically diverse'. People within the CALD community may speak a foreign language, organise specific cultural activities or have spiritual needs.

CPV	Commercial passenger vehicle. A term that includes taxis and unbooked ride-share services.
domestic building insurance	A type of insurance taken out by builders and covers homeowners for defects if their builder dies, disappears or goes out of business.
electricity distributor	Electricity businesses that own and manage the power poles and wires that deliver power to your home or business. These businesses are generally separate to energy retailers (who sell you electricity and gas).
Energy Fairness Plan	A Victorian Government initiative that aims to implement reforms within the energy sector.
Energy Retail Code	A code that sets out the rules electricity and gas retailers must follow when selling energy to Victorian customers. The commission maintains the code.
Engage Victoria	A Victorian Government website that enables citizens and businesses to make submissions on key projects run by government bodies.
Essential Services Commission	We are an independent regulator that promotes the long-term interests of Victorian consumers with respect to the price, quality and reliability of essential services. We regulate Victoria's energy, water and transport sectors, administer the rate-capping system for the local government sector and regulate the Victorian Energy Upgrades (VEU) program.
Fair Go Rates system	A local council rate-capping system. It establishes rate caps to limit the amount by which Victorian councils can increase rates in a year without seeking additional approval.
FarrierSwier	An advisory and management consulting service.
higher cap application	An application where a local council asks for a rate increase above the cap set by the Minister for Local Government. Councils submit their applications to us, and we then assess and accept or reject the applications.
LED	Light-emitting diode. A form of energy efficient lighting.
Local Government Victoria	A Victorian Government body that provides policy advice, oversees legislation and works with councils to support responsive and accountable local government services.
non-cash payment surcharge	A surcharge that applies when a taxi passenger pays for a fare using non-cash payment transaction options, including credit, debit and charge card. We are reviewing the maximum surcharge.
PREMO	A water pricing framework we implemented for water prices that apply from 1 July 2018 onwards. The framework aims to put customers at the centre of a water business's decision making through incentives focused on five elements: performance, risk, engagement, management and outcomes. These elements form the 'PREMO' acronym.
Royal Commission into Family Violence	A commission focused on investigating how to eliminate family violence within Australia. The commission concluded its work in May 2016.
simple standing offer	A type of electricity pricing offer. You may be able to check your bill to determine if you're on a simple standing offer.
tariff	A list or table showing the costs (prices) of a service or item. Tariffs we regulate include water tariffs and the minimum feed-in tariff that your energy company pays you for power you export to the grid (via sources including solar panels).

VEEC	Victorian energy efficiency certificate. Large energy retailers are required to acquire and surrender these certificates in order to participate in the Victorian Energy Upgrades program.
VEET Act	The Victorian Energy Efficiency Target Act 2007. Our Victorian Energy Upgrades Program operates under the VEET Act.
VEU	The Victorian Energy Upgrades program. An energy efficiency initiative that helps Victorians reduce their energy bills and greenhouse gas emissions by providing access to discounted energy efficient product and services.
Victorian Default Offer	A type of energy reform that applied in Victoria from 1 July 2019. The offer is an independent, 'fair', priced electricity offer that you can switch to, or use to check if you're getting value for money on your electricity.
Victorian Energy Market Report	A guide on how the electricity and gas markets are performing. The report aims to help customers piece together how the energy retail market works, and what they need to do to get the best out of it.
Victorian Managed Insurance Authority	The authority provides risk and insurance services to protect Victoria's assets and minimise losses from adverse events.

Index

accident towing	3, 34, 35, 78, 107
appeals	105
assistant treasurer	i, 36, 61, 68, 70, 82, 94, 114,
audit and risk committee	59, 61, 62
CEO, from the	13
chairperson, from the	5
commercial passenger vehicles	35, 37, 62, 105
corporate governance	58, 61,
cost of commission activities by industry	17, 25
council rates	6, 32,
determinations	1, 23, 24, 35, 58, 62, 105
disclosures	
general	103, 106
index	101-102
domestic building insurance	7, 34, 35, 36, 37, 59, 67, 115
electricity (see also, energy)	
'best offer'	14, 16, 17, 20, 46, 115
bills	15, 16, 18, 20, 46
energy (see also, electricity)	
efficiency	1, 3, 5, 6, 12, 15, 17, 40, 42, 43,
.....	44, 45, 67, 78, 82, 107, 114, 116
electricity and gas	1, 2, 6, 14, 15, 16, 18, 19, 20, 115
fairness plan	13, 66, 115
reforms	6, 13, 14, 16, 20, 21, 46, 66, 115
retail code	6, 15, 23, 115
rights campaign	20, 46,

team.....	5, 17, 41, 43, 44
enforcement	
energy (electricity and gas)	3, 14, 15, 19, 66, 67, 78, 114
Victorian Energy Upgrades	43, 58
environment, regulatory	8-9, 10, 30
family violence	1, 5, 6, 14, 15, 18, 22, 23, 24, 25, 116
financial management compliance	
attestation statement	i, 62, 70
financial statements	69, 70, 73-76, 77, 79, 82, 90, 92, 93, 96, 98, 99
Freedom of Information.....	107-108
gas	1, 2-3, 6, 12, 14, 16, 18, 19, 20, 40, 44, 68, 78, 82,
.....	107, 109, 111, 112, 115
glossary	115
highlights, key	2
ICT expenditure	113
legislation,.....	31, 39, 61, 78, 107, 116
local council	
higher cap applications	28, 29, 30, 31, 62, 115
outcomes report	6, 28, 29, 32, 33, 46
rate capping	3, 6, 28, 29, 30, 32, 33, 65, 67,
local government team.....	31
memorandums of understanding	62
Minister	114
for Energy	94, 95, 96
for Local Government.....	7, 28, 29, 30, 31, 94, 95, 96, 115
for Public Transport.....	37, 94, 95
for Roads	7, 34, 94, 95, 96
for Transport	94, 95, 96
for Water	94, 95, 96
notices	5, 13, 105, 114
office-based environmental impact.....	109
organisation	
chart.....	60
function	10, 15, 42, 61, 62, 65, 78
goals	6-7, 10, 11, 19
governance	61, 62
mission.....	12
performance.....	6-7, 11, 15, 19
structure.....	58
values	12
payment difficulties (customers).....	6, 14, 18, 20, 23, 26
performance of the commission	
energy.....	15, 19,
finance	63, 99

future goals	2, 41, 42, 64
local government.....	3, 6, 7, 28, 29, 30, 31, 32, 46
output measures	67
overview.....	109
people and culture.....	52, 53, 54, 80
Port of Melbourne.....	6, 34, 35, 36, 37
strategic communication.....	48, 50, 51
taxis	1, 6, 34, 35, 37, 38, 39, 78
transport.....	34, 35, 36,
Victorian Energy Upgrades	41, 44
Water	22, 23, 24, 26
people and culture	
executive numbers	1, 55
flexible work	52, 54, 63, 103
graduates.....	53
health and wellbeing	52, 53
workforce data	56-57, 103
plain English	7, 36, 47, 50, 51
Port of Melbourne	6, 34, 35, 36, 37, 62, 68
PREMO (water pricing framework).....	2, 6, 7, 13, 22, 23, 24, 25, 26, 27, 114, 116
Protected Disclosures Act.....	106
rail access regime, Victoria	35, 37,
reputation survey	7, 13, 17, 25, 36, 47, 4, 8, 49, 50, 51, 114
responsible body's declaration.....	i
social media.....	21, 25, 36, 46, 47, 48, 58
statement of expectations, performance against target of evidence that water businesses have pursued cost efficiencies and/or delivered better services	24
capacity to handle Victorian Energy	19
Upgrades business forms	
overall reduction in time to approve	114
Victorian Energy Upgrades applications	
risk-based strategy approach for enforcement in the energy sector	6, 7, 41, 42, 114
stakeholder satisfaction with the commission	114
website ease of use	21, 41, 114
strategic communication	46, 48, 51, 58
strategy, three-year.....	10-11, 20, 48, 52
survey	
commission stakeholders	7, 13, 50-51
water customers.....	2, 7, 22, 23, 26, 27, 46
taxis	1, 6, 34, 35, 37, 38-39, 78, 115
transport team	37
Victorian	
Default Offer.....	5, 7, 13, 14, 16, 17, 20, 46, 60, 66, 67, 116
energy efficiency certificates (VEECs).....	3, 5, 6, 40, 44, 82

Energy Market Report	1, 15, 16, 19, 59, 116
Energy Upgrades team	5, 41, 50
Government	5, 7, 8, 11, 16, 29, 30, 31, 35, 62, 64,
.....	66, 82, 86, 92, 96, 112, 114, 115, 116
water	
team.....	25
prices	22, 23, 24, 27, 59, 116
pricing framework (PREMO)	2, 7, 13, 22, 23,
.....	25, 26, 27, 114, 116
website	7, 9, 21, 41, 48, 51, 106, 114, 115
what we do	1
who we are	12, 52

Designed by [OU](#)

Copyright notice© Essential Services Commission 2019

This work, Annual Report 2018–19, is licensed under a Creative Commons Attribution 4.0 licence [creativecommons.org/licenses/by/4.0]. You are free to re-use the work under that licence, on the condition that you credit the Essential Services Commission as author, indicate if changes were made and comply with the other licence terms.

The licence does not apply to any brand logo, images or photographs within the publication.

Essential Services Commission

Level 37, 2 Lonsdale Street, Melbourne Victoria VIC 3000

ABN: 71 165 498 668

Phone: (+61 3) 9032 1300 or 1300 664 969

Fax: (+61 3) 9032 1303

Email: reception@esc.vic.gov.au

Website: www.esc.vic.gov.au

Business hours: Mon–Fri from 8.45am to 5pm

Follow us on social media:

Twitter: @EssentialVic

Linkedin: Essential Services Commission