



Annual Report 2006-07

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Chairperson's Introduction

This eleventh Annual Report of the Queensland Competition Authority (the Authority) contains details of the Authority's activities over the 2006-07 financial year.

As foreshadowed in the Authority's tenth Annual Report, a major imperative this year has been to ensure that regulatory arrangements under the Access Undertakings approved in 2005-06 for the Dalrymple Bay Coal Terminal and for Queensland Rail's intrastate rail infrastructure remain conducive to the expansion of the infrastructure in line with the needs of the State's commodity exporters.

The expansion of the DBCT facility has proceeded according to plan. The initial short-gain expansion was commissioned, which together with dredging by the Ports Corporation of Queensland takes capacity to 60 million tonnes per annum (mtpa). Further phases of expansion currently in progress will eventually take capacity to 85 mtpa. The Authority's current role is to oversee the expansion process to ensure that expansions are prudent and in line with the terminal's master plan and that procurement processes are delivering value for money. The Authority also approves the consequent amendments to the DBCT revenue cap. In 2006-07, these processes have operated smoothly and I anticipate that this will continue in the year to come.

In June 2007, the Authority approved amendments to QR's Access Undertaking, introducing a revenue cap to underlie access charges for the central Queensland coal carrying system. This issue of the management of volume risk on the system was left outstanding when the QR Access Undertaking was approved in June 2006, pending further consultations between QR and users. The Authority was unable to complete its assessment of QR's capital expenditures owing to difficulties in obtaining the necessary information from QR. Also, the master planning process included in the QR Access Undertaking has yet to be fully activated. I hope that these difficulties will be resolved during 2007-08.

The Authority has acquired a range of new responsibilities relating to the oversight of full retail competition in the Queensland electricity and gas markets. Among the more prominent is the calculation of the Benchmark Retail Cost Index, which is used to adjust electricity prices for customers who choose to remain on regulated electricity tariffs. For the time being, the Authority has also retained responsibility for the regulation of electricity and gas distribution in Queensland, the timetable for the transfer of these responsibilities to the Australian Energy Regulator having yet to be finalised.

With the winding up of the Local Government Financial Incentive Payments Scheme promoting competition reforms, the Authority's activity with respect to local government was more limited in 2006-07 than had been the case in previous years. However, the Authority has now been appointed as independent review body for local government infrastructure charges to developers, which represents a major expansion of its local government role. Another area in which expanded responsibilities can be expected is the regulation of water infrastructure. The Queensland Water Commission's final report on institutional arrangements, pricing and cost recovery for urban water supply in south east Queensland recommended significant roles for the Authority.

In concluding, I thank my fellow Board Members and the Chief Executive and Staff of the Authority for the professional way in which they have continued to discharge their duties. I am confident that the Authority has the expertise required to meet the challenges that face it in the year ahead.

Brian R Parmenter
Chairperson
4 September 2007

The Authority

In Brief

In a properly functioning competitive market, a business is constrained by its competitors in the prices it may charge for comparable goods or services. If too high a price is charged, consumers are likely to buy from a competitor at a lower price. Alternatively, if the business is the only supplier and charges too high a price, a competitor will likely enter the market offering a lower, but still profitable, price.

It is not always possible or sensible to have competition in the provision of essential services that require significant capital investment. This is because there may be only one possible supplier (for example, there may be only one possible site for a dam) or it may not be economic to have more than one supplier.

In these cases, there are not the forces of competition available to constrain the behaviour of the respective businesses, which include water, transport and energy businesses.

The role of the Authority is to put in place arrangements to ensure that these businesses do not abuse the lack of competition.

The Authority seeks to do this in two main ways:

- Using a practical business focus and economic theory, it attempts to ensure that the pricing and other arrangements surrounding monopoly businesses mimic a competitive market to the maximum extent possible and reasonable, so that consumers can access services at a price which is fair to them and at the same time the businesses can earn a fair investment return; and
- Ensuring that businesses can gain access to the infrastructure they need to enable them to compete in the market with an existing monopoly supplier. For instance, companies other than Queensland Rail may now run trains on track owned by Queensland Rail, in the same way that Optus may provide telephone services over Telstra's copper wire network. As a result, coal mines are now able to choose the supplier who offers the best train service.

The Full Picture

The responsibilities of the Authority, as set out in its legislation, are explained in more detail below:

Goals and Functions

The Authority is an independent agency that was established in 1997. It arose out of a series of Council of Australian Governments agreements which aimed to forge a national approach to the implementation of competition policy.

The Authority seeks to provide a recognised avenue whereby both government and third parties may rely on an independent, objective appraisal of issues subject to its review. It also seeks to produce sensible, forward-looking solutions and recommendations which are capable of practical implementation and which facilitate compliance with the principles of national competition policy.

Responsibilities

In terms of the *Queensland Competition Authority Act 1997* (the QCA Act), the Authority's main responsibilities are:

Monopoly Prices Oversight

'Government owned monopolies should not abuse their market power'

Monopoly prices oversight is a mechanism that seeks to ensure that government monopolies or near monopolies do not charge excessive prices for their products or services. Such monopolies may have the ability to charge excessively either because no competitors exist or because those that do are not effective.

Through the prices oversight process, the Authority either investigates the pricing practices of government monopolies or simply monitors their pricing practices. Which of these particular

functions is performed depends on the referral the Authority receives from the Premier and the Treasurer (the Ministers), as the Authority performs these functions only on request from the Ministers.

Competitive Neutrality

'Significant government business activities which compete with the private sector should do so fairly'

The principle of competitive neutrality requires that declared government business activities that are in competition with the private sector should not have a competitive advantage by not being subject to one or more of the following: Commonwealth or State taxes and tax equivalent systems; debt guarantee fees; or the procedural or regulatory requirements of the Commonwealth, State or local government.

The need for competitive neutrality is reinforced by the growth in competition between the public sector and the private sector, resulting, in part, from the commercialisation and corporatisation of government business activities.

The principle of competitive neutrality does not extend to competitive advantages arising from factors such as business size, skills, location or customer loyalty.

Third Party Access

'Essential infrastructure should be accessible to all potential users'

Third party access supports competition by enabling competitors (i.e. 'third parties') to access essential infrastructure that cannot be economically duplicated. Infrastructure that may meet this criterion includes electricity and gas distribution systems, rail tracks and port channels.

Third party access enables competition to occur in related markets such as electricity and gas retailing and rail transport.

General Issues

Under section 10(e) of the QCA Act, the Ministers can direct the Authority to examine and report on any matter relevant to the implementation of competition policy. While the Authority has received a number of directions under this provision, no directions are currently in force.

In addition to its responsibilities under the QCA Act, the Authority has responsibilities under other Queensland legislation. The Authority is the relevant regulator in respect of the pricing of gas distribution services under the National Gas Code through the *Gas Pipelines Access (Queensland) Act 1998*. In 2007, the Authority also became responsible for administering the Gas Industry Code of Queensland.

The Authority is the relevant regulator in respect of Electricity distribution services under the National Electricity Rules through the *Electricity Act 1994*. The Authority also has responsibilities regarding market conduct under the *Electricity Act 1994* and in relation to service quality and the setting of retail prices under the *Electricity Industry Code*.

The Authority also has responsibilities under the *Local Government Act 1993* with respect to the application of competitive neutrality principles by significant local government business activities.

In addition, the Authority has arbitration responsibilities under the *Water Act 2000* in relation to decisions by the Department of Natural Resources and Water concerning service providers' obligations in relation to strategic asset management plans.

Application

In undertaking its roles, the Authority is currently working in the following areas:

- Ports;
- Rail;
- Competitive Neutrality;
- Water;
- Electricity;
- Gas; and
- Local Government.

Members of the Authority

Under the QCA Act, the Authority is to consist of at least three members, each of whom may be appointed for a term not exceeding five years. In appointing a member, regard must be had to the desirability of the members collectively having knowledge and understanding of commerce, economics, the interests of consumers and the interests of the Government in government agencies that carry on business activities.

Mr Brian Parmenter, BA (Hons), MA

Chairman - Appointed in 2005, Mr Parmenter is Director, Investment Services at Tactical Global Management Ltd (TGM), a Brisbane-based global wholesale funds management firm. Before taking up an executive position with TGM in 2000, Mr Parmenter was Professor of Applied Economics in the Centre of Policy Studies at Monash University, a member of the Monash University Council and Chairman of the TGM Board.

Mr Ian White, BEcon(Hons) CPA FAICD

Deputy Chairperson - Re-appointed in 2003 as a Member, then appointed as Deputy Chairperson in 2005, Mr White is Managing Director and Chief Executive Officer of Queensland Sugar, a position he has held for over 7 years. Originally from a finance and accounting background in both government and private industry, Mr White has extensive senior management and agribusiness experience, being a previous Chief Executive Officer of Grainco Australia Limited, Defiance Mills Limited and Queensland Cotton's US Operations. Mr White is a Director of Cubbie Group Pty Ltd.

Mr Mark Christensen BBus MFM CPA FSIA

Member - Appointed in 2005, Mr Christensen is a Senior Lecturer in the School of Economics and Finance at the Queensland University of Technology and has been lecturing for 22 years. During this time, he has consulted to private and public organisations, mainly on valuation issues and capital structure. Mr Christensen is actively involved in education within the broader business community via professional associations and also as an author of finance texts.

Associate Professor Justin Malbon, LLB LLM PhD Barrister

Member - Appointed in 2001, Associate Professor Malbon is a former Dean of the Law School, Griffith University. Prior to his appointment at Griffith, he had been an Assistant Parliamentary Counsel with the Queensland Office of Parliamentary Counsel and a solicitor at the Melbourne office of Blake Dawson Waldron. He has been actively involved in the consumer movement for many years, holding positions as President of the Queensland Consumers' Association and as a member of the board of the Australian Federation of Consumer Organisations.

Chief Executive

Mr E John Hall, BCom BEcon MBA AAUQ FAICD

Mr Hall has been Chief Executive of the Authority since its inception in 1997. Prior to that, Mr Hall had extensive senior executive experience in the public and private sectors, including almost 10 years at chief executive level. Mr Hall is also an experienced company director, having held board positions, including those of Chairman and Deputy Chairman, with a number of public and private enterprises. Mr Hall is currently a Director of Consolidated Rutile Ltd.

Senior Staff

Mr Paul Bilyk, BEcon(Hons)

Director - Mr Bilyk has broad experience in the oversight of infrastructure industries, first at the Industry Commission and then at the Bureau of Industry Economics. Between 1996 and 2001, he was a Director in the Australian Competition and Consumer Commission's Electricity Branch, where he was involved in a range of market design, third party access and regulatory projects. Mr Bilyk commenced as a Director with the Authority in 2001.

Ms Helen Harris, BComm GradDipLegStud GAICD

Director - Ms Harris, who was appointed as a Director of the Authority in 1998, resigned as from 1 June 2007.

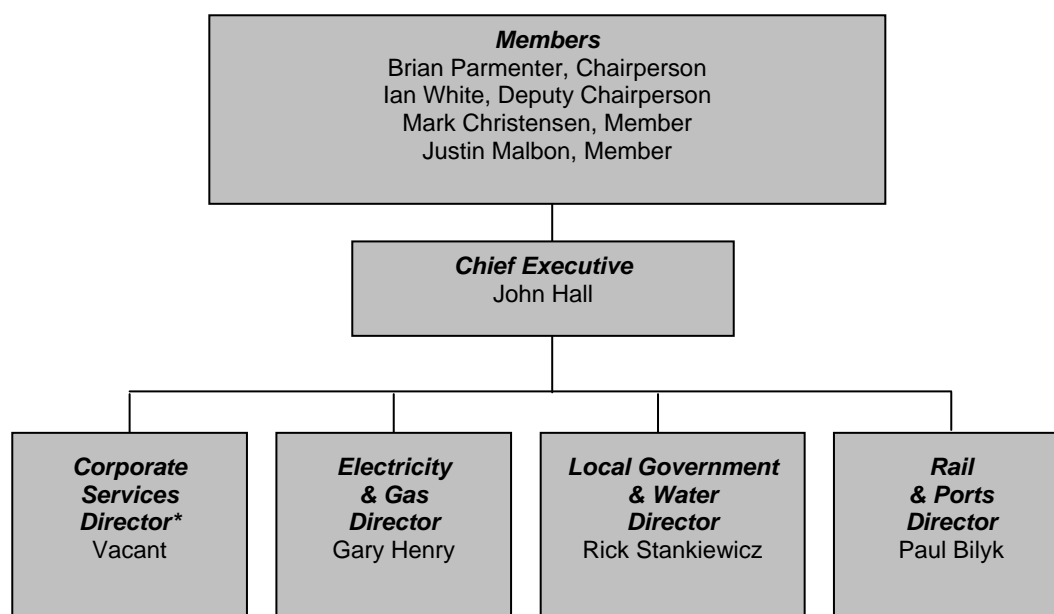
Mr Gary Henry, BCom(Econ)

Director - Mr Henry joined the Industries Assistance Commission in 1984 and worked on a range of industry inquiries in both the Econometric and Inquiry Divisions of the Commission. In 1990, he moved to the Northern Territory Treasury where he held a number of senior positions before being appointed Deputy Under Treasurer in 1996. Mr Henry commenced as a Director with the Authority in 2000.

Mr Rick Stankiewicz, BEcon MEconStuds MProfAcc, MBus Admin

Director - Mr Stankiewicz has been with the Authority since its inception in 1997. Prior to joining the Authority, Mr Stankiewicz was a Director of the Audit Commission Implementation Office, served as an advisor to the Commission of Audit and, prior to that, was a Director with Queensland Treasury. He has considerable experience in micro-economic reform and industry policy.

Organisation Chart as at 30 June 2007



*Robyn Farley-Sutton was appointed Director Corporate Services on 16 July 2007.

Summary for the Year

Issues Papers / Request for Comments Papers / Discussion Papers / Decisions / Reports to Government

Competitive Neutrality	0
Electricity	16
Gas	1
Rail	5
Ports	4
Water	1
Local Government	0
Other	2
Total	29

Submissions Received

Competitive Neutrality	0
Electricity	32
Gas	4
Rail	13
Ports	0
Water	11
Local Government	0
Other	0
Total	60

Ports

In Brief

The coal handling services at the Dalrymple Bay Coal Terminal (DBCT) have been 'declared' for third party access under the QCA Act.

Following the Authority's approval of an access undertaking in June 2006, the Authority's work during 2006-07 has concentrated on the terminal's expansion.

The Full Picture

Access Undertaking

The coal handling services at DBCT are declared under Part 5 of the QCA Act for the purposes of third party access.

By early 2007, the majority of terminal users had agreed to new contracts with DBCT providing for access in line with the 2006 access undertaking. This allowed the approved revenue requirements within the undertaking to be applied. DBCT Management applied in March for these revenue requirements for 2005-06 and 2006-07 to be rolled-forward. The Authority approved these applications in April and May 2007.

DBCT Management has been progressively expanding DBCT. In August 2006, DBCT Management commissioned the short gain expansion of the terminal, which increased terminal capacity from 54.5 to 59 million tonnes per annum (mtpa). Ports Corporation of Queensland channel dredging added another 1 mtpa, bringing capacity to 60 mtpa.

Consistent with the undertaking, DBCT Management sought to vary its revenue requirement and tariff to reflect the \$33.3 million in capital expenditure on this expansion. Accordingly, DBCT Management lodged a draft amending access undertaking with the Authority in early May 2007. Following its review of this application and public consultation, the Authority approved the short gain draft amending access undertaking in June 2007.

Further expansions (DBCT 7x project) are currently in progress, occurring in discrete phases. Phase 1 will increase terminal capacity to 68 mtpa, and phases 2 and 3 will further increase capacity to 85 mtpa.

The access undertaking contains a series of controls to ensure that DBCT Management conducts expansions in a prudent manner. In particular, the undertaking provides for the Authority to accept capacity expansion expenditure where it approves, among other things:

- that the scope of the proposed expansion is consistent with the terminal's master plan;
- the standard and specification of the expansion works;
- that the works were contracted and managed in accordance with an approved tender and contract management process (TCMP).

Collectively, these controls require DBCT Management to rigourously justify their expansion plans and demonstrate that their procurement processes deliver value for money.

For instance, DBCT Management must demonstrate that the particular standard and specifications of works are necessary and not overdesigned or 'gold-plated'.

DBCT Management is also required to demonstrate that the contract terms represent a prudent balance between price and risk and that any contract provisions regarding escalation and variation accord with good commercial practice.

The TCMP used by DBCT Management was refined from its previous procurement processes and, in August 2006, was approved by the Authority as, *inter alia*, in accordance with good industry practice and capable of generating efficient and competitive procurement outcomes. The TCMP requires DBCT Management to generate a series of auditable documents demonstrating its compliance with the approved procurement processes. DBCT Management's compliance with the TCMP is then assessed by an independent external auditor through an arms-length audit process that has been approved by the Authority.

Consistent with the arrangements in the undertaking, the Authority approved the scope of the phase 1 expansion and the phase 2/3 expansion in August and October 2006 respectively.

Furthermore, in July 2006, the Authority approved the engagement of Concorde Corporation as the independent external auditor for the phase 1-3 expansions. The Authority approved Concorde Corporation's audit process in October 2006.

The Authority has subsequently assessed the audit reports and the standards and specifications on a contract-by-contract basis. By the end of 2006-07, the Authority had accepted the audit reports and the standards and specifications for 26 contract packages worth approximately \$540 million.

The undertaking expires on 31 December 2009.

Price Review Arbitration

In April 2004, DBCT Management and the existing users of the terminal referred a dispute to the Authority for arbitration regarding the prices that applied under existing user agreements. At the request of the parties, the arbitration was placed on hold pending finalisation of the access undertaking.

As a result of the terminal's users changing over during 2006-07 to new contracts under which prices were determined in accordance with the access undertaking, DBCT Management and the users moved to end the arbitration, which was formally confirmed by all parties shortly thereafter.

The Year Ahead

Over the course of 2007-08, the Authority will continue its assessment of DBCT Management's terminal expansion.

During this period, it is also anticipated that DBCT Management will commission the phase 1 expansion. In line with this expansion program, the Authority expects that DBCT Management will submit a draft amending access undertaking seeking to vary its revenue cap to take account of the phase 1 expenditure.

Rail

In Brief

Queensland Rail (QR) must allow other train operators to use its intrastate rail infrastructure, in accordance with an access undertaking approved by the Authority on 29 June 2006.

The access undertaking sets out general terms and conditions for the negotiation of access agreements, and also contains reference tariffs for coal train services in central Queensland and on the western system.

The infrastructure is managed by QR's below-rail group, Network Access.

The Full Picture

QR's approved access undertaking expires on 30 June 2009. The access undertaking sets out the terms and conditions under which QR will provide access to the relevant parts of its rail infrastructure. It identifies a broad range of activities that QR is obliged to undertake during the course of the undertaking, including processes to update aspects of the undertaking on an ongoing basis (e.g. new reference tariffs), master planning and reporting requirements.

The Authority's work for 2006-07 focused on assessing, and ultimately approving, QR's proposal to introduce a revenue cap for setting access charges for coal-carrying services in the central Queensland coal region; assessing QR's capital expenditure proposals; and ongoing work to assist QR meeting its public and regulatory reporting requirements.

In addition, the Authority received two proposals from QR seeking to amend the approved access undertaking under the amendment provisions in the QCA Act.

Managing Volume Risk

On 28 February 2007, QR submitted, for the Authority's approval, amendments to its approved access undertaking to introduce a revenue cap for setting access charges for coal-carrying services in the central Queensland coal region. After a rigorous consultation process, in May 2007 the Authority released its final decision to not approve QR's proposal. The Authority

accepted, in principle, the move to a revenue cap but required QR to amend aspects of how the revenue cap was to be implemented. In June 2007, the Authority approved QR's revised proposal for a revenue cap for coal carrying services. The new arrangements included an unders-and-overs mechanism and an incentive payment in those circumstances where QR contributes to improving supply chain efficiency. It also includes changes to the way that take-or-pay and relinquishments fees are treated. The new arrangements apply from 30 June 2007.

Assessing QR's Capital Expenditure Proposals

QR's access undertaking provides for the Authority to assess annually the prudence of the previous year's capital expenditure based on an assessment of the scope, standard and cost of the works undertaken. It also provides for the Authority to approve the scope of specified works automatically if they have been pre-approved by customers.

In October 2006, QR formally submitted its request for the Authority to approve some \$138 million of capital expenditure on projects commissioned in 2005-06. The Authority was not able to finalise its assessment as QR had failed to provide sufficient material to support its claims. The Authority's consideration of this matter is ongoing.

In November 2006, QR provided a separate application to pre-approve the scope of 20 capacity expansion projects, with an estimated cost of around \$580 million, for the period 2006-07 to 2008-09. These were accepted by the Authority in February 2007.

Disclosure of Coal Access Agreements

In July 2006, Pacific National requested that the Authority publish QR's internal access agreements for coal hauls, as provided for in QR's access undertaking.

In October 2006, the Authority published the below-rail aspects of QR's internal access agreements. The Authority chose not to require origin-destination contract expiry dates to be publicly disclosed as the information might have raised commercial concerns for some end users.

Ring-fencing

QR's access undertaking establishes a set of obligations governing QR's treatment and disclosure of confidential information. QR's compliance with these obligations and procedures is audited annually.

The audit report for the 2005-06 financial year was completed in October 2006. This audit found that QR had complied in all material respects with its information handling obligations under the access undertaking. The Authority published the audit report in December 2006.

The Year Ahead

The Authority will continue to oversee access to QR's declared rail infrastructure, in accordance with the QCA Act and QR's access undertaking. The Authority will also continue to perform its administrative functions under the QCA Act and the access undertaking, including arbitrating any disputes and assessing reference tariffs for new lines or new coal mines.

Over the course of 2007-08, it is anticipated that QR will seek the Authority's approval to adjust revenues and reference tariffs for coal-carrying train services in central Queensland under its new revenue cap arrangements. It is also anticipated that QR will seek to establish a number of new reference tariffs for coal-carrying train services in central Queensland.

The Authority will continue to assess QR's capital expenditure claims, and will also evaluate QR's 2006 Master Plan addendum and 2007 Master Plan (when submitted), which outline QR's proposed capital expenditure for the current regulatory period.

Electricity

In Brief

Retail

Full retail competition (FRC) in the Queensland electricity market commenced on 1 July 2007. As a result, the Authority acquired a number of new responsibilities. Key among these is the administration and enforcement of the *Electricity Industry Code* and the calculation of the annual adjustment of regulated (notified) retail electricity prices. Significant preparatory work was required during 2006-07.

Distribution

The Authority continued its work in the area of electricity distribution. Since Energex Ltd and Ergon Energy Corporation Ltd are the sole distributors in their supply areas, prices for these services are regulated to ensure they are fair and reasonable. In addition, their service quality is monitored. The regulatory arrangements approved by the Authority expire on 30 June 2010.

The Full Picture

Final Determination Follow-up

Retail

With the introduction of FRC on 1 July 2007, licensed electricity retailers are able to offer electricity to all consumers, including those who are currently on notified (regulated) prices.

Under the revised *Electricity Act 1994*, the Authority is responsible for the administration and enforcement of the revised *Electricity Industry Code*. The Code imposes a range of obligations on electricity entities across a number of activities, including customer connections and transfers, retail market information and marketing conduct, customer retail services and network management. The Code also imposes a number of obligations on the Authority.

In preparing to discharge its obligations under FRC, and in order to ensure that energy entities discharge theirs, the Authority undertook work during 2006-07 in the following key areas.

Notified Prices for Non-market Customers

Under the revised *Electricity Act 1994*, the notified price of electricity is to be adjusted annually according to the cost of providing electricity. In particular, the rate of change in a Benchmark Retail Cost Index (BRCI) is to be used to adjust notified electricity prices each year. The Minister for Mines and Energy delegated responsibility for calculating the BRCI to the Authority on 22 March 2007. Following a consultative review, the Authority advised the Minister on 13 June 2007 that the BRCI for 2007-08 was expected to increase by 11.37 per cent.

Price Comparator

As required under the *Electricity Industry Code*, the Authority developed a price comparator to assist residential customers in comparing market offers from different retailers and standard retail prices. The price comparator is available on the Authority's website at www.qca.org.au.

Retailer of Last Resort Scheme

A Retailer of Last Resort (RoLR) is responsible for supplying any customers whose current retailer makes an unplanned exit from the market. The *Electricity Act 1994* established the Authority as the administrator of the RoLR scheme for electricity in Queensland. Prior to the commencement of FRC, the Authority established procedures with the National Electricity Market Management Company and the RoLRs in Queensland, Origin Energy and Country Energy, to ensure that, should a retailer operating in the Queensland market fail, customers would be inconvenienced as little as possible.

Consumer Advisory Committee

The amended *Electricity Act 1994* required that the Authority establish a consumer advisory committee to advise it on the performance of its functions under the Act. The Committee, comprising organisations which represent the interests of consumers, met for the first time on 6 June 2007 and will meet in the future on a quarterly basis, or more often if required.

Distribution

Medium-Term Pricing

In its 2005 Final Determination, the Authority encouraged Energex and Ergon Energy to consider a number of medium-term pricing issues and to submit proposals to address these issues during 2005-06. The Authority worked with both distributors to finalise the medium-term pricing

policies that were published by the distributors in December 2006.

Energex capital expenditure pass-through

The Authority included a specific cost pass-through mechanism in its 2005 Final Determination that would allow Energex to seek to pass-through the costs associated with up to an additional \$720 million in capital expenditure during the regulatory period, subject to certain conditions. In October 2006, Energex applied for the Authority's approval to pass-through costs associated with \$720 million of additional capital expenditure it deemed necessary for the efficient operation of its network. After public consultation, the Authority approved Energex's application in March 2007.

Ring-fencing

With the sale of the competitive retail arms of both Energex and Ergon Energy, ring-fencing became a less critical issue than had previously been the case. While Ergon Energy has retained its franchise customers, these are serviced via a subsidiary of Ergon Energy which is not permitted to compete for customers in the contestable retail market. As a result, in February 2007, the Authority granted Ergon Energy a waiver from certain ring-fencing obligations in respect of its retail activities.

Review of Distribution Related Activities

The Authority is required to approve distribution loss factors (DLFs) annually for each distributor. As part of the process for approving DLFs to apply for 2007-08, the Authority commissioned a study of the distributors' load flow calculations and methodologies for the calculation of DLFs. The study concluded that the methodologies used by Energex, Ergon Energy, Oakey Creek Coal and Capcoal complied with the National Electricity Rules.

Ongoing Distribution Processes

The 2005 Final Determination provided for the continuation of regulatory processes involving Energex and Ergon Energy that were established in the Authority's 2001 Final Determination. These included:

- annual approval of prices and revised Pricing Principles Statements;

- assessment and publication of regulatory reporting information, including service quality and financial information;
- assessment of compliance with ring-fencing arrangements; and
- annual approval of distribution loss factors.

Exclusion of Network Services provided by Oakey Creek Coal and Anglo Coal

Oakey Creek Coal (OCC) and Anglo Coal – Capcoal Management (Capcoal) each own and operate distribution network assets that support the mining activities that each company undertakes on mining leases in central Queensland. In February 2007, following a request by OCC and Capcoal, the Authority approved a light-handed form of regulation for these services.

The Year Ahead

At the time of preparing this report, the timetable and process for shifting regulatory responsibilities from the Authority to the AER remained uncertain. Given the need to set a forward work program for the year, the Authority has assumed that it will continue to administer the current arrangements during 2007-08 at least.

Retail

The Authority will undertake a range of activities related to the retail electricity industry during 2007-08, including:

- reporting on the development of the retail electricity market in Queensland;
- determining the Benchmark Retail Cost Index to be applied to 2008-09 notified prices;
- monitoring (and if necessary enforcing) retailers' compliance with the Electricity Industry Code; and
- maintaining the retail electricity price comparator.

Distribution

The Authority's distribution-related activities during 2007-08 are expected to centre on:

- assessing an application by Energex to pass-through costs associated with the introduction of FRC;
- assessing an application by Ergon Energy to pass-through costs associated with Tropical Cyclone Larry;

- ensuring that Energex and Ergon Energy comply with their obligations under the Electricity Industry Code, including the preparation of Network Management Plans and Summer Preparedness Plans, and compliance with Minimum Service Standards and Guaranteed Service Levels;
- reviewing the Minimum Service Standards and Guaranteed Service Levels that are to apply during the next regulatory period; and
- continuing with ongoing regulatory processes such as approving distribution prices and monitoring the service quality and financial performance of Energex and Ergon Energy.

Gas

In Brief

Retail

Full retail competition (FRC) commenced in the Queensland gas market on 1 July 2007. At this time, the Authority assumed responsibility for administering the Gas Industry Code of Queensland, which governs the operation of the market. Significant preparatory work was required during 2006-07.

Distribution

The Authority continues to be responsible for the economic regulation of the Queensland gas distribution networks owned by APT Allgas Energy Pty Limited (APT) and Envestra Ltd (Envestra).

Access arrangements for both gas distributors expire on 30 June 2011.

The Full Picture

Retail

Administration of the Gas Industry Code

On 1 July 2007, FRC commenced in the Queensland gas market and the Authority became responsible for administering the Gas Industry Code of Queensland. The Gas Industry Code sets out rules for gas retailers and distributors including service obligations to customers, marketing conduct and the provision of information to customers post FRC.

In preparing for these new responsibilities, the Authority developed guidelines that set out the procedures it will follow in the event, or likely event, of a contravention of the Gas Industry Code.

Price Comparator

With the introduction of FRC, retail gas prices ceased to be regulated in Queensland. The Authority established a price comparator that allows consumers to compare retail offers from the various retailers. The comparator can be accessed through the Authority's web site at www.qca.org.au.

Distribution

Price Approvals

The Authority approves annual revisions to the distributors' prices, ensuring these revisions meet the requirements of the approved access arrangements. In June 2007, the Authority approved the 2007-08 prices for APT and Envestra to apply from 1 July 2007.

Cost Pass-through

During the year, the Authority received applications from APT and Envestra for approval to pass-through costs relating to the introduction of FRC. The Authority is currently consulting on these applications and a decision on each will be made during 2007-08. At the same time, both distributors were permitted to set prices which recovered a conservative estimate of the costs of introducing FRC.

Ring-fencing

Both service providers submitted their 2005-06 Ring-fencing Compliance Reports to the Authority as required. Following an assessment of these reports, the Authority formed the view that Envestra was compliant. While APT did not meet all of its ring-fencing obligations, no further action was proposed because the sale of Energex's retail gas business would eliminate the identified issues.

General Accounting Guidelines

The General Accounting Guidelines issued by the Authority in 2004 require a service provider to submit a cost allocation manual to the Authority for approval and to provide a set of regulatory accounts prepared in accordance with the guidelines.

For 2005-06 regulatory accounting purposes, the Authority approved APT's and Envestra's cost allocation manuals and regulatory accounts as fulfilling their obligations.

Service Quality

In June 2003, the Authority established a set of annual service quality reporting requirements for the gas distributors. The distributor's annual service quality reports were submitted to the Authority in September 2006. These reports were reviewed by the Authority and published in November 2006 with an accompanying overview.

The Year Ahead

Retail

In the year ahead, the Authority is required to monitor compliance with the Gas Industry Code as well as deal with any issues that may emerge under it.

Distribution

As in past years, the distributors will provide Ring-fencing Compliance Reports and Regulatory Accounts to the Authority in October. The Authority will also collect and publish service quality measures during the year.

Early in 2008, the distributors will submit revised prices to apply in 2008-09 which will be assessed by the Authority to ensure the revised prices have been varied in accordance with the price paths included in the distributor's approved access arrangements. Revised distribution prices will be published around May 2008.

Local Government

In Brief

The Authority reported to Government on the implementation of competition reform by Local Government businesses, including reform of their water supply businesses, from 1998 to 2006.

The Authority has been appointed as the independent review body for local government infrastructure charges.

The Full Picture

Competition Reforms

In July 1998, the Authority was directed to examine and report annually on the implementation of competition policy reforms by local governments, and to recommend the levels of payment to local governments under the *Local Government Financial Incentive Payments Scheme* (the Scheme).

The Authority submitted its final report to the Government in June 2006 which included recommendations for the distribution of unexpended funds based on reforms that went beyond the requirements of the Scheme.

Final payments to councils under the Scheme were made in May 2007. Consistent with the Authority's recommendations, payments to councils totalling \$150.2 million have been made under the Scheme.

Infrastructure Charges

The Authority has recently been appointed as the independent review body for local government infrastructure charges.

While detailed arrangements are yet to be finalised, the Authority will be required to assess whether infrastructure charges established by councils under the *Integrated Planning Act 1997* reflect the true and fair cost of providing trunk infrastructure.

The Year Ahead

Competition Reforms

While the Scheme has expired, the States have recommitted to the application of the Competition Principles Agreement to local government, although detailed arrangements have not yet been finalised.

Given the Authority's past involvement in monitoring councils' compliance with competition reforms, the Authority anticipates a continued role in respect of the new arrangements.

Infrastructure Charges

It is proposed that the Authority review infrastructure charges schedules when councils submit their priority infrastructure plans to the Minister for Planning for consideration of State interests. Councils are required to make their submissions by 30 June 2008. After 30 June 2008, councils that have not adopted an approved priority infrastructure plan and infrastructure charges schedule may only levy regulated infrastructure charges.

Water

In Brief

The Authority is required to monitor and report on the pricing practices of declared State and Local Government monopoly water business activities.

During 2006-07, the Authority commenced an investigation of the pricing practices associated with the Gladstone Area Water Board's proposed contingent supply strategy.

During the year, the Authority arbitrated a water supply dispute pursuant to Part 5A of the *QCA Act* over the supply of water for irrigation purposes.

The Full Picture

Gladstone Area Water Board

The Gladstone Area Water Board (GAWB) owns the Awoonga Dam on the Boyne River together with a network of pipelines, pump stations, reservoirs and treatment plants. It provides treated and raw water to large industrial customers, power stations and the Gladstone City and Calliope Shire Councils.

In response to changing hydrological circumstances and potential increases in demand, GAWB has developed a contingent water supply strategy based upon access to supplies of water from the Fitzroy River. In February 2007, the Government directed the Authority to investigate GAWB's proposed strategy.

The investigation is to be conducted in three stages. The first stage involves a review of proposed preparatory expenditure and its recovery from existing and future customers, having regard to the prudence of the Fitzroy pipeline option, the level of efficient preparatory costs, the timing of expenditures and the means by which preparatory costs would be incorporated in prices.

The Authority's review commenced following GAWB's submission dated 26 March 2007 and includes consultation with customers and other stakeholders.

Water Reform

Urban Water Supply Arrangements in South East Queensland

In March 2007, the Queensland Water Commission (QWC) released two draft reports for consultation, dealing with proposed institutional arrangements for urban water supply in south east Queensland, and recommendations in regard to cost recovery and pricing, including the role of the Authority.

The Authority's response to the QWC highlighted the need for a third party access regime, the importance of determining efficient water supply costs, and the need to monitor retail prices to ensure they reflect changes in bulk water costs.

The QWC subsequently released its Final Report proposing significant roles for the Authority during and after the transitional period. In particular, the QWC proposed that the Authority monitor retail prices during the transitional period (through to June 2010) and undertake investigations into distribution contracts should these be referred to the Authority by Ministers. Beyond the transitional period, the QWC proposed that the Authority would have arbitration powers for disputes relating to bulk supply contracts, prices oversight roles for water grid sales contracts, and will determine prices at the distribution level under an access regulation framework. The Government has not yet responded to the QWC's report.

National Water Initiative

There has been an increased national focus on the pricing and management of water resources. The National Water Initiative (NWI), agreed by all States and Territories, sets out a detailed agenda for continuing water reform through to 2010 and beyond. Officers from the Authority have participated at various forums associated with Queensland's response to the NWI. This has involved contributing to debate on issues such as pricing principles for new capital expenditure, consistent principles for urban water tariffs and pricing principles for recycled water, stormwater and trade waste.

Dispute Resolution

During 2006-07, the Authority resolved to arbitrate a water supply dispute between the South East Queensland Water Corporation

Limited (SEQWater) and Mr Steven Sinclair over the supply of water for irrigation purposes.

The Year Ahead

GAWB

The Authority will continue with the first stage of the GAWB investigation, with completion expected early in the 2007-08 year. It is anticipated that GAWB's submissions in regard to the next stages will be received by the Authority during the first half of the financial year. The second stage of the investigation requires the Authority to review GAWB's proposed criteria for triggering construction of the Fitzroy River pipeline, while the third stage entails an investigation of proposed changes to pricing as a result of the augmentation.

Reform Initiatives

The Authority anticipates being asked to contribute further to the ongoing development of reforms in south east Queensland. The extent and timing of any regulatory roles remain to be determined by Government.

The ongoing national debate in relation to the NWI will also have implications for the Authority during the year.

Dispute Resolution

The arbitration of the dispute between SEQWater and Mr Sinclair will be finalised early in the financial year.

Legislative Provisions

The Authority's legislative responsibilities can be found in:

- The QCA Act 1997
- The Local Government Act 1993
- The Electricity Act 1994
- The Electricity - National Scheme (Queensland) Act 1997
- The Gas Pipelines Access (Queensland) Act 1998
- The Gas Supply Act 2003
- The Water Act 2000

Freedom of Information

The Authority is subject to the provisions of Freedom of Information (FOI) legislation. No FOI requests were received during the 2006-07 financial year.

Competitive Neutrality

In Brief

There should be a level playing field when government departments and agencies seek to compete with the private sector. Government departments or agencies should not get an unfair advantage or suffer an unfair disadvantage solely as a result of their government ownership or control.

The Full Picture

Although the Authority continued to receive enquiries about competitive neutrality matters during the twelve months ended 30 June 2007, breaches of the principle of competitive neutrality are difficult to sustain under the amendments, introduced in May 1999, to the definition of the principle of competitive neutrality in the QCA Act.

No complaints received were within the bounds of the Authority's legislated responsibilities, therefore no formal investigations were undertaken.

The Year Ahead

The Authority has no influence on the number or timing of the complaints it receives, and consequently is unable to estimate its level of activity over the coming year.

Corporate Matters

Corporate Governance

The Authority places great emphasis on corporate governance. Management, under the guidance of Authority members, has implemented an administrative framework which ensures that the Authority is managed in an effective and efficient manner.

A range of policies and procedures have been developed to ensure that assets are safeguarded and that proper financial and accounting records are maintained. These policies are regularly reviewed.

After its staff, information and knowledge are the Authority's most valuable assets. Accordingly, emphasis has been placed on the management and protection of this information, as well as the maintenance of confidentiality where appropriate.

Particular attention is paid to possible conflicts of interest, with members absenting themselves from all deliberations where conflicts of interest, real or perceived, may arise.

The Authority's Code of Conduct is based on the core public sector values of respect for the law and system of government, respect for persons, integrity, diligence, economy and efficiency. Staff members are aware of their requirements to behave in accordance with the highest ethical standards, as outlined in the Code of Conduct.

Financial Position

Detailed financial statements are included in a later section of this report. The Authority's total expenditure amounted to \$5.7 million compared with \$6.1 million in the previous year. The major items of expenditure were salaries (\$3.3 million) and specialist services (\$1.0 million).

The expenditure incurred by the Authority in undertaking its duties and responsibilities was within budget.

Expenditure, including performance against budget, is reported monthly to Authority members. The Authority is a cost effective regulator.

Fees

The Authority charges fees for certain of its services. During 2006-07, these fees amounted to some 41.7% of total income.

Fees are charged for the approval and monitoring of new or amended access undertakings, the investigation or monitoring of the pricing practices of a government monopoly business activity and the regulation of the electricity and gas distribution entities under their respective national codes.

These fees are set annually, on a financial year basis, while ever the Authority has an ongoing regulatory role, and are payable quarterly in arrears. The fees are comprised of a fixed component and a variable component based on regulated income.

- a) The fixed component is based on total revenue bands as follows:

Less than \$50m	\$100,000
\$50m - \$250m	\$200,000
\$250m - \$500m	\$300,000
\$500m - \$750m	\$400,000
Over \$750m	\$500,000
- b) The variable component is a set percentage of the regulated income from the prior financial year.

Fees charged for regulatory services can be passed through to end-users as the beneficiaries of regulation.

Fees are also chargeable for the provision of arbitration or mediation services in respect to access disputes, including access determinations, and water supply disputes, including water supply determinations. These fees can be shared between the parties as determined by the Authority and will not necessarily be passed through to end users.

Staff Statistics as at 30 June 2007

Staffing Levels

The number of staff employed by the Authority as at 30 June 2007 was 29. The staffing levels of the Authority are based on the Authority's annual operational plan. In addition to staff, the Authority engages consultants or contract staff for specialist advice and, if necessary, to meet peak activity demands.

The Authority supports a healthy work/life balance and to that end encourages staff to take recreation leave on a regular basis.

Equal Employment Opportunities

The Authority supports the principles underlying equal employment opportunities and actively ensures that these principles, the principles of anti-discrimination and the avoidance of sexual harassment and bullying are adhered to in the Authority's work environment.

The Authority supports flexibility in the workplace and has staff who work part time, staff who work flexible hours and staff who work from home on a regular basis.

	<i>Total Staff</i>	<i>Male</i>	<i>Female</i>	<i>NESB^(a)</i>	<i>A&TSI^(b)</i>
Chief Executive	1	1	0	0	0
Directors	3	3	0	1	0
Technical Staff	18	13	5	0	0
Support Staff	7	2	5	0	0
Total	29	19	10	1	0
Full-time Staff	25	19	6	1	0
Part-time Staff	3	0	3	0	0
Casual	1	0	1	0	0
Age 15-24	1	1	0	0	0
25-34	7	2	5	0	0
35-44	11	8	3	0	0
45 +	10	8	2	1	0
	29	19	10	1	0

(a) *Non English Speaking Background*

(b) *Aboriginal and Torres Strait Islander*

Environmental Statement

The Authority maintains an environmentally friendly workplace. Office waste is recycled wherever possible and recycled toners are used where compatible with office equipment. Energy consumption has been minimised by the use of a number of lighting zones within the office, the use of out of hours safety lighting and reversible switching. Air-conditioning is operated and maintained by building management and therefore falls outside the Authority's control.

Publications

During 2006-07, the Authority released the following publications. Printed copies of the publicly available publications can be obtained from the Authority's office or in PDF format from the Authority's website at www.qca.org.au.

Publicly Available Publications

<i>Release Date</i>	<i>Title</i>
July 2006	Report: QR 2006 Draft Costing Manual
September 2006	Draft Decision: Queensland Competition Authority Response to Queensland Treasury's Discussion Paper – Proposed Amendments to <i>QCA Act 1997</i>
November 2006	Report: Gas Distribution – Service Quality Performance for the Year Ending 30 June 2006
November 2006	Report: Electricity Distribution – Service Quality Performance for the June Quarter 2006
December 2006	Draft Decision: Application for Waiver of Ring-Fencing Arrangements by Ergon Energy
December 2006	Draft Decision: Application for Exclusion of Network Services by Oaky Creek Coal and Anglo Coal (Capcoal Management)
December 2006	Report: Electricity Distribution – Service Quality Performance for the September Quarter 2006
February 2007	Final Decision: Application for Exclusion of Network Services by Oaky Creek Coal and Anglo Coal (Capcoal Management)
February 2007	Final Decision: Application for Waiver of Ring-Fencing Arrangements by Ergon Energy
February 2007	Draft Decision: Energex Application for Capital Expenditure Cost Pass-through
March 2007	Report: Electricity Distribution – Service Quality Performance for the December Quarter 2006
March 2007	Report: Ergon Energy Financial & Service Quality Performance 2005-06
March 2007	Report: Energex Financial & Service Quality Performance 2005-06
March 2007	Final Decision: Energex Application for Capital Expenditure Cost Pass-through
April 2007	Draft Decision: QR's Proposed Schedule F Amendment
April 2007	Decision: Dalrymple Bay Coal Terminal Annual Revenue Requirement Roll Forward 2005-06 and 2006-07
May 2007	Draft Decision: Benchmark Retail Cost Index for Electricity 2006-07 and 2007-08
May 2007	Position Paper: Dalrymple Bay Coal Terminal Short Gain Expansion
May 2007	Decision: QR's Proposed Schedule F Amendment
May 2007	Decision: Dalrymple Bay Coal Terminal Annual Revenue Requirement Roll Forward 2007-08
June 2007	Decision: Dalrymple Bay Coal Terminal Short Gain Expansion
June 2007	Amendment: Electricity Distribution - Determination of Prescribed Services
June 2007	Report: Electricity Distribution – Service Quality Performance for the March Quarter 2007
June 2007	Approval: QR's Proposed Schedule F Amendment

June 2007	Amendment: Relinquishment Fees
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June 2007	Guidelines for Code Contravention
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June 2007	Final Decision: Advice to the Minister for Mines & Energy, Benchmark Retail Cost Index for Electricity 2006-07 and 2007-08
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Reports to Government (not publicly available)

<i>Release Date</i>	<i>Title</i>
November 2006	Report: Proposal to Assist Treasury with COAG and Other Matters

April 2007	Submission to Queensland Water Commission RE Institutional Arrangements & Cost Recovery and Pricing for Urban Water Supply in South East Queensland
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Financial Statements

INCOME STATEMENT

for the year ended 30 June 2007

	Notes	2007 \$	2006 \$
Income			
Revenue			
Government Grant		4,000,000	4,000,000
Regulatory Service Fees		3,053,000	3,015,000
Arbitration and Mediation Fees		75,624	137,463
Other Revenue	3	371,960	234,361
Total Income		7,500,584	7,386,824
Expenses			
Members Expenses	4	181,489	207,685
Employee Expenses	5	3,709,601	3,716,683
Operating Expenses	6	1,859,828	2,163,961
Total Expenses		5,750,918	6,088,329
Operating Surplus/(Deficit)		1,749,666	1,298,495

The accompanying notes form part of these financial statements

BALANCE SHEET

as at 30 June 2007

	Notes	2007 \$	2006 \$
Current Assets			
Cash Assets	7	6,291,056	4,352,482
Receivables	8	332,066	229,169
Other	9	82,048	84,036
Total Current Assets		6,705,170	4,665,687
Non Current Assets			
Plant and Equipment	10	191,791	315,854
Total Non Current Assets		191,791	315,854
Total Assets		6,896,961	4,981,541
Current Liabilities			
Payables	11	379,650	231,187
Accrued Employee Benefits	12	393,953	349,424
Other Financial Liabilities	13	18,904	30,000
Total Current Liabilities		792,507	610,611
Non Current Liabilities			
Accrued Employee Benefits	12	224,363	221,601
Other Financial Liabilities	13	-	18,904
Total Non Current Liabilities		224,363	240,505
Total Liabilities		1,016,870	851,116
Net Assets		5,880,091	4,130,425
Equity			
Contributed Equity		1,559,000	1,559,000
Retained Surpluses		4,321,091	2,571,425
Total Equity		5,880,091	4,130,425

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2007

	Retained Surpluses		Contributed Equity	
	2007	2006	2007	2006
	\$	\$	\$	\$
Balance 1 July	2,571,425	1,272,930	1,559,000 *	1,559,000
Operating Surplus/(Deficit)	1,749,666	1,298,495	-	-
Balance 30 June	4,321,091	2,571,425	1,559,000	1,559,000

* Exclusive of Contributed Assets on establishment

CASH FLOW STATEMENT

for the year ended 30 June 2007

	Notes	2007 \$	2006 \$
Cash flows from operating activities			
<i>Inflows:</i>			
Government Grant		4,000,000	4,000,000
Regulatory Service Fees		3,082,975	2,813,425
Arbitration and Mediation Fees		-	137,463
Interest		351,265	233,233
Other		20,231	24,232
GST collected on services provided		307,107	301,593
GST input tax credits from ATO		192,036	239,200
		7,953,614	7,749,146
<i>Outflows:</i>			
Members Expenses		(181,489)	(207,685)
Employee Expenses		(3,753,201)	(3,688,330)
Operating Expenses		(1,559,569)	(2,138,894)
GST paid to Suppliers		(183,744)	(224,551)
GST remitted to ATO		(307,164)	(301,506)
		(5,985,167)	(6,560,966)
Net cash provided by / (used in) operating activities	14	1,968,446	1,188,180
Cash flows from investing activities			
<i>Inflows:</i>			
Proceeds from disposal of plant and equipment		-	250
<i>Outflows:</i>			
Plant and Equipment		126	(48,990)
Net cash provided by / (used in) investing activities		126	(48,740)
Cash flows from financing activities			
<i>Outflows:</i>			
Lease Incentive		(30,000)	(30,000)
Net cash provided by / (used in) financing activities		(30,000)	(30,000)
Net increase/(decrease) in cash held		1,938,572	1,109,440
Cash at beginning of reporting period		4,352,483	3,243,043
Cash at end of financial year	7	6,291,056	4,352,483

The accompanying notes form part of these financial statements

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2007

Note 1:

Objective

The Queensland Competition Authority (the "Authority") is a statutory body established under the *Queensland Competition Authority Act 1997*. Its aim is to perform specified services associated with national competition policy in Queensland. Broadly, the Authority is responsible for:

- subject to reference or declaration by the Ministers (the Premier and the Treasurer), undertaking prices oversight of monopoly or near monopoly Government business activities;
- receiving and investigating competitive neutrality complaints against significant government and local government business activities;
- accrediting significant government and local government business activities as complying with the principle of competitive neutrality;
- overseeing and arbitrating third party access to infrastructure; and
- undertaking such other activities relating to national competition policy as the Ministers may direct.

Note 2:

Summary of Significant Accounting Policies

a) Basis of Preparation

The financial statements have been prepared in accordance with Australian Equivalents to International Financial Reporting Standards (AEIFRS).

This financial report is a general purpose financial report.

The financial statements comply with the Treasurer's Minimum Reporting Requirements for the year ending 30 June 2007, and other authoritative pronouncements.

Except where stated, the historical cost convention is used.

In the determination of whether an asset or liability is current or non-current, consideration is given to the time when each asset or liability is expected to be realised or paid. The asset or liability is classified as current if it is expected to be turned over within the next 12 months, being the Authority's operational cycle.

Comparative information is restated where necessary to be consistent with disclosures in the current reporting period.

b) Revenue and Expenses

The Government grant is recognised when received or when an entitlement is established, while other revenue is recognised when earned. Expenses are recognised when incurred.

Salary and related staff costs include salaries, benefits, recruitment costs, staff training and other staff costs, and are inclusive of oncosts.

c) Leasing

Operating leases are those where the risk of ownership is retained by the lessor.

The Authority also leases motor vehicles which are part of employees' remuneration packages and therefore lease expenses for those vehicles are included with Employee Expenses. Employees' bear all costs and responsibilities in relation to those leased motor vehicles.

The Authority does not have any finance leases.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2007

d) Plant and Equipment

The Queensland State Government's policy, titled *Non-Current Asset Policies for the Queensland Public Sector*, establishes prescribed asset measurement methods and recognition thresholds. In accordance with these policies, the assets of the Authority are measured at depreciated cost. On acquisition, assets are valued at cost including all expenses necessary to have the asset ready for use.

Items of plant and equipment with a cost or other value equal to or in excess of \$5,000 are recognised for financial reporting purposes in the year of acquisition. Items with a lesser value are expensed in the year of acquisition.

Depreciation of plant and equipment is calculated on a straight line basis. Fixtures and fittings are depreciated over the lesser of the unexpired period of the Authority's building lease and the estimated useful life, while other plant and equipment is depreciated over the estimated useful life. The unexpired period of the lease includes any option period where the exercise of the option is probable.

In general, the following depreciation rates have been used:

Office Equipment:	20% to 33%
Computer Equipment:	33%
Fixtures and Fittings:	10% to 33%
Leasehold Improvements:	10% to 33%

e) Intangibles

Intangible assets with a cost or other value greater than \$100,000 are recognised in the financial statements, items with a lesser value being expensed.

f) Employee Benefits:

Unpaid benefits expected to be paid within 12 months, are recognised at their undiscounted values. Benefits not expected to be paid within 12 months, are recognised at their present value, calculated using yields on fixed rate Commonwealth Government bonds of similar maturity.

As sick leave is non-vesting, an expense is recognised for this leave as it is taken.

The Authority joined the State Government's Long Service Leave Central Scheme (the Scheme) from 1 July 2002. Under the Scheme, a levy is made on the Authority to cover this expense. Amounts paid to employees for long service leave are claimed from the Scheme as and when leave is taken.

No provision for long service leave is recognised in the Financial Statements from 1 July 2002, the liability is reported on a whole-of-Government basis pursuant to AAS31 - Financial Reporting by Governments.

g) Taxation:

The activities of the Authority are exempt from Commonwealth taxation except for Fringe Benefits Tax (FBT) and Goods and Services Tax (GST). Input tax credits receivable and GST payable from/to the Australian Taxation Office have been recognised.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2007

h) Superannuation:

Employees of the Authority may elect to be members of QSuper or any other complying superannuation fund.

Contributions to superannuation meet the minimum requirements of the *Superannuation Guarantee (Administration) Act 1992*. Contributions to employees' superannuation plans are charged as an expense as the contributions are paid or become payable.

l) Receivables:

Trade Debtors are recognised at the nominal amounts due, with settlement generally being required within 30 days from invoice.

The collectability of receivables is assessed periodically with provision being made for impairment. No provision for impairment has been necessary.

j) Payables:

Amounts payable in the future for goods and services received are recognised, whether or not billed to the Authority. Creditors are generally unsecured, not subject to interest charges and are normally settled within agreed business terms.

Note 3:

Other Revenue

	2007	2006
	\$	\$
Interest	351,729	233,497
Other Income	20,146	614
Gains on sale of Plant and Equipment	85	250
Total	371,960	234,361

Note 4:

Members Expenses

	2007	2006
	\$	\$
Members Cost including Members' remuneration, travel and training	181,489	207,685

Members Fees

Members fees are determined by the Governor in Council.

Number of Members whose remuneration falls within the following bands:

	2007	2006
\$30,000 - \$39,999	3	3
\$70,000 - \$79,999	1	1

(Based on total costs including superannuation and any benefits received)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2007

Note 5:

Employee Expenses

	2007	2006
	\$	\$
Salaries	3,121,602	3,074,890
Employer Superannuation Contributions	253,816	257,335
Long Service Leave Central Scheme Levy	52,157	51,164
Employee Related Expenses		
Payroll tax	156,296	158,482
Staff Training Costs	61,693	79,459
Staff Recruitment Costs	49,680	80,288
Other Staff Expenses	8,761	7,245
Workers Compensation	5,596	7,820
Total	3,709,601	3,716,683

Note 6:

Operating Expenses

	2007	2006
	\$	\$
Specialist Services	972,446	1,349,498
Occupancy Costs (including operating lease rentals)	382,205	371,956
Depreciation and Amortisation	124,063	132,078
Information Technology Costs	162,891	89,439
Travel and Accommodation Costs	34,703	44,275
Auditors Remuneration	12,200	12,535
General Administration Costs	59,473	67,477
Other Expenses	111,847	96,703
Total	1,859,828	2,163,961

Note 7:

Cash Assets

Cash assets include cash at bank, cash on hand and cash with Queensland Treasury Corporation (QTC). All cash amounts are at call and can be redeemed at short notice at their face value. The organisation does not have any borrowing or overdraft facilities.

Balance

	2007	2006
	\$	\$
Cash at Bank	215,217	52,897
Cash on Hand	300	300
Cash with QTC	6,075,539	4,299,285
Total	6,291,056	4,352,482

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2007

Note 8:	2007	2006
	\$	\$
Receivables		
<i>Current</i>		
Trade Debtors	171,600	201,575
Other	144,595	3,489
	316,195	205,064
Net GST receivable		
GST Receivable (see Note 19)	15,901	24,192
GST Payable	(30)	(87)
	15,871	24,105
Total Receivables	332,066	229,169

Note 9:	2007	2006
	\$	\$
Other		
<i>Current</i>		
Prepayments	82,048	84,036
Total	82,048	84,036

Note 10:	2007	2006
	\$	\$
Plant and Equipment		
At Cost	1,183,498	1,225,847
Less: Accumulated Depreciation	(991,707)	(909,993)
Total Plant and Equipment	191,791	315,854

Statement of Movement

	Opening WDV 01/07/2006	Additions	Disposals at WDV	Depreciation	Closing WDV 30/6/2007
	\$	\$	\$	\$	\$
Plant and Equipment	315,854	-	-	(124,063)	191,791
Total	315,854	-	-	(124,063)	191,791

Note 11:	2007	2006
	\$	\$
Payables		
Accrued Expenses	225,792	136,211
Creditors (see Note 19)	141,658	78,719
Audit Fees Payable	12,200	12,000
Other Payables	-	4,257
Total	379,650	231,187

Note 12:	2007	2006
	\$	\$
Accrued Employee Benefits		
<i>Current</i>		
Employee Benefits	264,888	289,231
Salaries Payable	129,065	60,193
	393,953	349,424
<i>Non-Current</i>		
Employee Benefits	224,363	221,601

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2007

Note 13:	2007	2006
Other Financial Liabilities	\$	\$
Current		
Lease Incentive Liability	18,904	30,000
Non-Current		
Lease Incentive Liability	-	18,904

Lease incentive provided by landlord being amortised over the term of the lease.

Note 14:	2007	2006
Notes to the Cash Flow Statement	\$	\$
Reconciliation of Operating Surplus to Net Cash Provided by / (Used in)		
Operating Activities		
Operating surplus/(deficit)	1,749,666	1,298,495
Depreciation expense	124,063	132,078
Loss on disposal of plant and equipment	-	23,618
Gain on sale of plant and equipment	-	(250)
Changes in Assets and Liabilities		
Decrease/(increase) in receivables	(111,132)	(201,311)
Decrease/(increase) in prepayments/other	1,988	(14,643)
Increase/(decrease) in accrued employee benefits	47,292	71,339
Increase/(decrease) in payables and accruals	156,571	(121,146)
Net Cash Provided by / (Used in) Operating Activities	1,968,447	1,188,180

Note 15:	2007	2006
Operating Lease Commitments	\$	\$
The offices occupied by the Authority are subject to an operating lease which expires on 15 February 2008.		
Future operating lease rentals not provided for in the financial statements are payable as follows:		
Not later than one year (inclusive of GST)	264,674	409,846
Later than one year but not later than five years (inclusive of GST)	-	264,674
Total commitments	264,674	674,520

Note 16:
Contingencies
The Authority has no known material Contingent Assets or Contingent Liabilities not disclosed elsewhere in the Notes.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2007

Note 17:

	2007	2006
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Financial Instruments

(a) Interest Rate Risk

Financial Assets

Cash Assets:- Effective Interest Rates

Cash at Bank

5.53%

5.16%

Cash with QTC

6.64%

6.14%

All cash amounts are deposited at call on a floating rate basis.

Receivables: - Comprised of debtors invoices in the ordinary course of business and refunds due. These are non-interest bearing.

Financial Liabilities

Payables: - Comprised of invoices in the ordinary course of business and accrued expenses. These are non-interest bearing.

(b) Credit Risk

The maximum exposure to credit risk at balance date to recognised financial assets is the carrying amount of those assets as disclosed in the statement of financial position.

(c) Net Fair Value

For other assets and liabilities the net fair value approximates the carrying value.

CERTIFICATE OF QUEENSLAND COMPETITION AUTHORITY

This general purpose financial statement has been prepared pursuant to s.46F(1) of the *Financial Administration and Audit Act 1977* (the Act), and other prescribed requirements. In accordance with s.46F(3) of the Act we certify that in our opinion:

- a) the prescribed requirements for establishing and keeping the accounts have been complied with in all material respects; and
- b) the statements have been drawn up to present a true and fair view, in accordance with prescribed accounting standards, of the transactions of the Queensland Competition Authority for the financial year ended 30 June 2007 and of the financial position of the Authority at the end of that year.

.....
Chairperson
Brian Parmenter

.....
Chief Executive
EJ Hall

28 September 2007

28 September 2007

INDEPENDENT AUDITOR'S REPORT

To the Members of the Queensland Competition Authority

Matters Relating to the Electronic Presentation of the Audited Financial Report

The audit report relates to the financial report of the Queensland Competition Authority for the financial year ended 30 June 2007 included on the Queensland Competition Authority's web site. The Members are responsible for the integrity of the Queensland Competition Authority's web site. We have not been engaged to report on the integrity of the Queensland Competition Authority's web site. The audit report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of the financial report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report, available from the Queensland Competition Authority, to confirm the information included in the audited financial report presented on this web site.

These matters also relate to the presentation of the audited financial report in other electronic media including CD Rom.

Report on the Financial Report

I have audited the accompanying financial report of the Queensland Competition Authority which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and certificates given by the Chairperson and Chief Executive.

The Member's Responsibility for the Financial Report

The Members are responsible for the preparation and fair presentation of the financial report in accordance with prescribed accounting requirements identified in the *Financial Administration and Audit Act 1977* and the *Financial Management Standard 1997*, including compliance with applicable Australian Accounting Standards (including the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with *Auditor-General of Queensland Auditing Standards*, which incorporate the *Australian Auditing Standards*. These Auditing Standards require compliance with relevant ethical requirements relating to audit engagements and that the audit is planned and performed to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of risks of material misstatement in the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control, other than in expressing an opinion on compliance with prescribed requirements. An audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates made by the Authority, as well as evaluating the overall presentation of the financial report including any mandatory financial reporting requirements as approved by the Treasurer for application in Queensland.

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

Independence

The *Financial Administration and Audit Act 1977* promotes the independence of the Auditor-General and QAO authorised auditors. The Auditor-General is the auditor of all Queensland public sector entities and can only be removed by Parliament.

The Auditor-General may conduct an audit in any way considered appropriate and is not subject to direction by any person about the way in which audit powers are to be exercised. The Auditor-General has for the purposes of conducting an audit, access to all documents and property and can report to Parliament matters which in the Auditor-General's opinion are significant.

Auditor's Opinion

In accordance with s.46G of the *Financial Administration and Audit Act 1977* –

- (a) I have received all the information and explanations which I have required; and
- (b) in my opinion –
 - (i) the prescribed requirements in respect of the establishment and keeping of accounts have been complied with in all material respects; and
 - (ii) the financial report has been drawn up so as to present a true and fair view, in accordance with the prescribed accounting standards of the transactions of the *Queensland Competition Authority* for the financial year 1 July 2006 to 30 June 2007 and of the financial position as at the end of that year.

K THOMAS CPA
(as Delegate of the Auditor-General of Queensland)



Queensland Audit Office
Brisbane

Appendices

Staff List

as at 30 June 2007

Team Leaders

Sean Andrews BBus(Eco/Fin) MBA AFAIM MLGMA ASA
Moston Neck BEcon, GradDipEcon
George Passmore BAgEconHons MAgEcon

Technical

Cath Barker BA BEcon **
Scott Bertram BEcon
Michael Blake BSc(Math.Econ) BA(Hist) MPubPol PhD(Econ)
Gary Davies BCom MAppEcon
Ralph Donnet BAgEcon GradDipFinMgt
Les Godfrey BE BEcon MBA(Adv) MFM Cert IV in AWT FIEAust CPEng ASA
Emma Green BCom(Econ)
Sean Greenup BEcon BBus (Hons)
Ann Jones BEcon MCom(Econ)(Hons) **
Michelle Kelly BEcon BBus
Charles Millsted BA BEcon(Hons)
Lisa Newton BEcon BEcon(Emet)(Hons) PhD(Emet)
Ravi Prasad BEcon(Hons) LLB
Paul Smith BAppSci (App Biol)
Michael Wydeveld BCom(Econ) MCom(Econ)(Hons)

Support

Diane Brocklebank
Hugh Cansdell
Sabina O'Donoghue
Tamra Simpson #
David Walsh
Helen Wood BCom(Acct) CPA
Katrina Wood BA(Mgt) **

** *part-time*

temporary or casual appointment

Specialist Services

Total expenditure on specialist services during 2006-07 was \$972,446.

<i>Specialist Services by Category in 2006-07</i>		<i>\$</i>
Management		0
Finance/Accounting		0
Professional/Technical		972,446
<i>Total</i>		<i>972,446</i>

<i>Specialist Services Awarded in 2006-07 by Value</i>		<i>No. of Consultants</i>
Less than \$20,000		8
\$20,001 - \$100,000		12
More than \$100,000		2
<i>Total</i>		<i>22</i>

Other Issues

Overseas Visits

No overseas travel was undertaken by the Authority during 2006-07.

Meetings of the Authority

Fourteen meetings of the Authority were held during 2006-07.

	<i>Scheduled Meetings</i>		<i>Special Meetings</i>	
	<i>Held</i>	<i>Attended</i>	<i>Held</i>	<i>Attended</i>
Brian Parmenter	11	11	3	3
Ian White	11	9	3	3
Justin Malbon	11	11	3	3
Mark Christensen	11	7	3	3

Details of Annual Report Production

200 copies of this report have been printed at an average cost of \$10.37 per copy. Extra copies may be obtained from the Authority's office. A copy of this report is available in PDF format on the Authority's website at www.qca.org.au.

Feedback on Annual Report

Readers are encouraged to provide feedback on the contents or structure of this report by contacting the Authority's offices as detailed on the back cover. No comments were made in respect of the Authority's 2005-06 report.