



Annual Report 2002-03

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Chairperson's Introduction

The Authority is pleased to present its report for the year ended 30 June 2003.

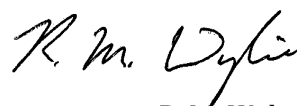
It was again a busy year as the continuing and further implementation of national competition policy saw the Authority involved in a wide range of assignments. The major tasks were:

- ◆ Final reports on the pricing of water supply services of both the Gladstone Area Water Board and the Burdekin Haughton Water Supply Scheme.
- ◆ Follow-up action from QR's Access Undertaking, including approval of Standard Access Agreements and its Costing Manual and consideration of reference tariff issues.
- ◆ The annual report on the performance of local governments in implementing national competition policy. There was a large increase in the number of business activities reviewed, with significant progress being shown by many councils.
- ◆ The oversight of the pricing and service quality provided by the distributors of both electricity and gas supply.
- ◆ The introduction of partial recovery of the Authority's costs from regulated organisations.

In addition to the continuation of ongoing roles in major review areas in the current year, new and significant assignments are already in hand, namely to consider a draft access undertaking of the Dalrymple Bay Coal Terminal and to determine the pricing policies which should apply in respect of infrastructure investments made in response to extraordinary circumstances in a regulated industry.

On behalf of the Authority, I acknowledge and thank all the executives and staff for their diligence in achieving the outcomes of this busy year. I also thank the other Members of the Authority for their commitment and conscientious contributions to our deliberations. The Authority, in my opinion, has been well served by its Members and its staff.

On a personal note, on the verge of retirement after six years as the inaugural Chairperson of the Authority, I wish to acknowledge the way in which over those years the various organisations which have found themselves subject to regulation have progressively cooperated towards achieving ongoing effectiveness in this sometimes difficult area. The strong support of the Authority's Ministers and relevant Government departments over this period is also acknowledged with thanks. In particular, I give special credit to Dr Darryl McDonough and Mr John Hall who have been the Deputy Chairperson and Chief Executive respectively of the Authority for all that time. Their commitment, outstanding support and high quality input have been most effective and are highly appreciated.



R. M. Wylie
Chairperson
6 August 2003

The Authority

Goals and Functions

The Queensland Competition Authority (the Authority) was established in 1997 and arose out of a series of Council of Australian Governments (COAG) agreements which aimed to forge a national approach to the implementation of competition policy.

The Authority is an independent agency that, within the scope of its enabling legislation, exists to improve the economic wellbeing of Queenslanders by:

- ◆ ensuring that users of essential economic infrastructure pay fair and reasonable prices;
- ◆ promoting competitive market outcomes; and
- ◆ ensuring that, where government competes with the private sector, it does so on fair and reasonable terms.

The Authority seeks to provide a recognised avenue whereby both government and third parties can rely on an independent, objective appraisal of the 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 within Queensland 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 because they are not constrained by competitors, either because none exist or those that do are not effective.

Through the prices oversight process, the Authority either investigates the pricing practices of government monopolies or simply monitors the prices charged by them. 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 only performs these functions 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 certain declared government business activities, which are in competition with the private sector, should not have a competitive advantage as a result of 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 (ie “third parties”) to access essential infrastructure which cannot be economically duplicated. Infrastructure which may meet this criterion includes electricity and gas distribution systems, rail tracks and port channels.

In some markets, competition cannot occur until competitors have such access.

Third party access enables competitors to use essential infrastructure on commercial terms so that they can compete 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. The Authority has received a number of directions under this provision, with the major one being to recommend the level of annual payments to councils under the Local Government Financial Incentive Payments Scheme. A section 10(e) direction was also received to assess the gazetted prices applying to water supplied to irrigators in the Burdekin River Irrigation Area.

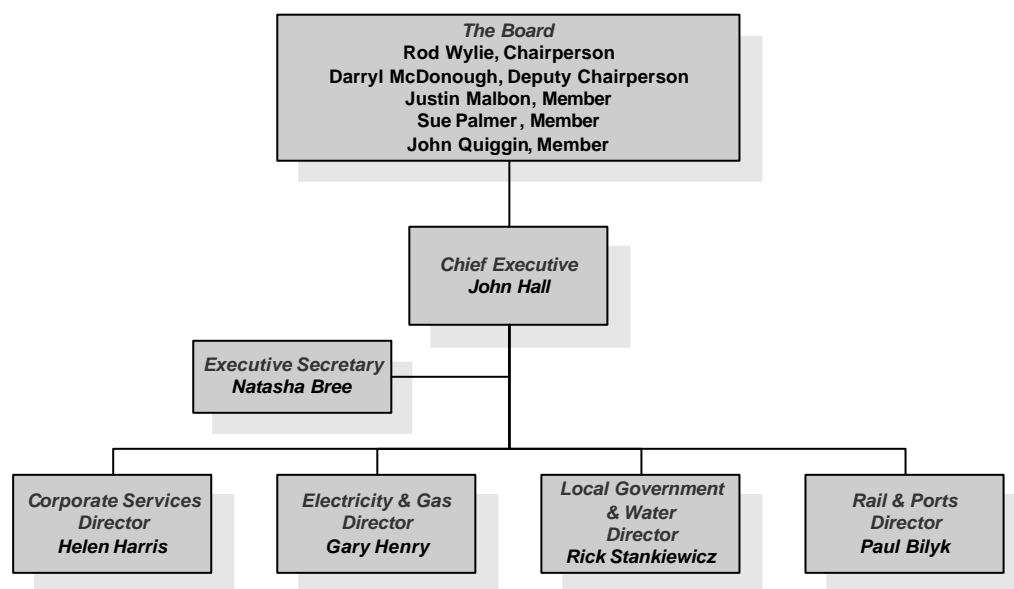
In addition to its responsibilities under the QCA Act, the Authority has responsibilities under other Queensland Government legislation. In this regard, the Authority is the relevant regulator in respect of the pricing of gas distribution under the Gas Code and electricity distribution under the Electricity Code. It also has certain responsibilities in respect of market conduct under the *Electricity Act 1994* and potential responsibilities in relation to service quality and setting of retail prices under the *Electricity Act 1994* and the *Gas Supply Act 2003*.

Application

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

- ◆ Competitive Neutrality
- ◆ Electricity
- ◆ Gas
- ◆ Local Government
- ◆ Ports
- ◆ Rail
- ◆ Water

Organisation Chart as at 30 June 2003



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 Rod Wylie, OBE BComm BA FCA FAICD

Chairperson – Formerly senior partner of the Queensland practice of Peat Marwick Mitchell & Co Chartered Accountants, Mr Wylie has recently retired as Chairman of Thiess Pty Ltd and Deputy Chairman of Leighton Holdings Limited. Mr Wylie was Chairman of Pauls Limited for approximately 20 years prior to its takeover and was also a Director of AMP Limited. He was also a former Chairman of the Queensland Branch Council and a former member of the National Council of both the Institute of Chartered Accountants in Australia and the Institute of Directors in Australia.

Dr Darryl McDonough, BBus LLB(Hons) SJD FCPA FAICD

Deputy Chairperson – Dr McDonough is a Brisbane partner of national law firm Clayton Utz, specialising in corporate matters. He is Chairman of Cellnet Group Limited, a Director of Bond University Limited and a past State President of the Australian Institute of Company Directors.

Dr Justin Malbon, LLB LLM PhD Barrister

Member – Appointed in August 2001, Dr Malbon is a Senior Lecturer at the Law School, Griffith University. Prior to that appointment, he was 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.

Ms Sue Palmer, BComm CA FAICD

Member – Appointed in August 2001, Ms Palmer is Regional Manager – Finance and Commercial for Leighton Contractors Pty Ltd. Ms Palmer was previously the Chief Finance Officer at CS Energy Ltd, a government owned energy company and also held senior positions within Incitec Ltd and Price Waterhouse Urwick. Ms Palmer is on the Board of the Royal Blind Foundation and the Board of the Port of Brisbane Corporation.

Professor John Quiggin, BA BEc MEc PhD FAICD FASSA

Member - Professor John Quiggin is an Australian Research Council Professorial Fellow at the University of Queensland. He will shortly take up a Federation Fellowship for research on the Murray-Darling River System. Professor Quiggin is prominent both as a research economist and as a commentator on Australian economic policy.



QCA Board Members and Chief Executive

From L to R standing – Dr Darryl McDonough, Mr Rod Wylie, Ms Sue Palmer, Dr Justin Malbon
From L to R seated – Mr John Hall, Professor John Quiggin

Senior Staff

Mr E John Hall, BCom BEcon MBA AAUQ FAICD

Chief Executive – 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.

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 was appointed as a Director of the Authority in November 2001.

Ms Helen Harris, BComm GradDipLegStud

Director – Ms Harris has considerable experience in the finance, information technology, administration, personnel and legal fields. Between 1988 and 1998, she held roles in the areas of genome research, central administration and policy, supercomputer research, international marketing, law and distance education across four different institutions within the university sector. Ms Harris was appointed as a Director of the Authority in 1998.

Mr Gary Henry, BCom(Econ)

Director – A former teacher, 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 March 2000.

Mr Rick Stankiewicz, BEcon MEconStuds MProfAcc

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.

The Year in Review

Summary for the Year

<i>Issues Papers/Request for Comments Papers/Discussion Papers/Decisions</i>	
Competitive Neutrality	0
Electricity Distribution	4
Gas Distribution	8
Rail	6
Water	3
<i>Total</i>	<i>21</i>
<i>Submissions Received</i>	
Competitive Neutrality	0
Electricity Distribution	22
Gas Distribution	17
Local Government Financial Incentive Payments Scheme	118
Rail	11
Water	33
<i>Total</i>	<i>201</i>
<i>Reports to Government (not publicly available)</i>	
Local Government Financial Incentive Payment Scheme Recommendation	1
Local Government (Two-Part Tariff Review)	4
<i>Total</i>	<i>5</i>

Competitive Neutrality

Although the Authority continued to receive enquiries about competitive neutrality matters during the twelve months ended 30 June 2003, none led to formal investigations.

Electricity

- *Choice of Form of Regulation for Next Regulatory Period*
- *Review of First Set of Regulatory Accounts*
- *Distributors' Ring-fencing Compliance Reports*
- *Public Release of Distributors' Quarterly Service Quality Reports*
- *Development of Service Quality Incentive Regime*
- *The Authority's Appointment as Metrology Co-ordinator for Queensland*

- *Valuation of Easements*
- *Approval of Distribution Prices*

The Authority's Final Determination on the Regulation of Electricity Distribution (May 2001) set the regulatory framework for the period 1 July 2001 to 30 June 2005. In its Final Determination, the Authority opted to regulate the Queensland electricity distribution networks by setting a fixed revenue cap for each of the four years of the initial regulatory period. This was accompanied by some secondary price controls to manage price shocks to customers.

The National Electricity Code requires that, if the Authority proposes to change from the current form of regulation, it must give two years prior notice to distributors of the new form of regulation to apply from the commencement of the next regulatory period. The Authority therefore had to make a decision on whether or not to change the form of regulation for the next regulatory period by 30 June 2003.

To assist in making this decision, the Authority undertook a public review during 2002-03. A discussion paper was released in October 2002. The Authority released a draft decision in April 2003, indicating that it was minded to maintain the current form of regulation for the next regulatory period. In large part, this reflected the Authority's reluctance to move away from the current fixed revenue cap arrangements so soon after implementing them. The Authority also had limited information against which to assess how the current regulatory regime was functioning. In June 2003, the Authority released its Final Decision to continue with the current form of regulation for the next regulatory period.

The distributors provided their first set of regulatory accounts (for 2001-02) under the current regulatory arrangements in October 2002. This allowed the Authority to assess, for the first time, how the distribution businesses were operating, relative to expectations at the time that the regulatory arrangements were put in place.

Energex's regulatory accounts indicated that it had exceeded its allowed revenue in 2001-02 by \$2 million. In contrast, Ergon Energy under-recovered its allowed revenue over the same period by \$1.4 million. These variations will be taken into account in setting the revenue caps in 2003-04.

The distributors' 2001-02 ring-fencing compliance reports were also submitted to the Authority in October 2002. After consideration of the compliance reports, the Authority found that neither distributor was able to satisfactorily demonstrate compliance with all aspects of the Ring-fencing Guidelines. While each appeared to have a number of ring-fencing policies in place in 2001-02, there was insufficient evidence to determine the effectiveness of these policies. However, given the distributors' progress in addressing outstanding problems, the Authority decided that no further action was required at this time.

The Authority's Service Quality Reporting Guidelines require DNSPs to provide data on specific service quality measures, such as reliability and customer service, on a quarterly and annual basis. In February 2003, the Authority commenced publishing the quarterly service quality data with the distributors' September quarter 2002 reports. Subsequent quarterly reports will be published as they are received. Publication of annual reports will commence with the distributors' reports for the 2002-03 year.

As Energex and Ergon Energy operate in very different circumstances, it is to be expected that their performance will vary significantly on a number of service quality measures. However, the Authority expects that, over time, the publication of service quality data should enable customers to gain a better understanding of the quality of the electricity distribution services they are receiving from each distributor.

The Authority has commenced work on a service quality incentive regime to be incorporated into the regulatory arrangements from 1 July 2005. A consultant was engaged to assist in the development of the operational features of the regime, including identifying the appropriate measures to target, the related benchmarks and the mechanism for setting rewards and penalties. As part of this process, the Authority held a public workshop and met with a range of distribution customers to gain a better understanding of service quality issues.

In March 2003, the Authority considered applications from Energex and Ergon for the pass-through of the QCA fees for 2002-03 and 2003-04 and the pass-through of costs associated with the establishment of the Electrical Safety Office (this was the second year that the Authority had considered the latter cost pass-through). The Authority assessed these applications in accordance with the principles set out in the Final Determination and decided to approve both pass-through applications with some minor amendments.

In November 2002, the Queensland Treasurer appointed the Authority as the Metrology Coordinator for Queensland effective from 1 January 2003. The Authority is required to develop metrology procedures by 31 December 2003.

Metrology procedures establish rules and processes to govern metering options for customers. While the Queensland Government has decided not to introduce full retail competition, initial metrology procedures will be established that will allow for the extension of contestability to smaller customers at some time in the future. The Authority has also participated in a national review of metrology procedures being undertaken in accordance with the National Electricity Code.

In the Authority's Final Determination on the Regulation of Electricity Distribution (May 2001), the Authority valued easements at historical cost but undertook to investigate this issue further during the current regulatory period. The Authority released a discussion paper in April 2003 to assist stakeholders in making submissions in relation to the appropriate longer term valuation methodology to apply to electricity easements. In the case of electricity distribution, an easement is a right to construct, operate and maintain a power line and does not involve ownership of the land over which the line passes.

Finally, in accordance with requirements established in the Authority's Final Determination on the Regulation of Electricity Distribution (May 2001), the Authority approved distribution prices to apply for 2003-04, as well as distribution loss factors for both distributors' networks. The annual pricing approval process involves approving any necessary revisions to the distribution pricing principles statements, determining a revenue requirement to be targeted for pricing purposes (including necessary adjustments, for example, due to past under or over recovery of revenue) and ensuring that resulting prices are consistent with side constraints established in the Final Determination.

Gas

- *Guidelines for Preparing Ring-fencing Compliance Reports*
- *Final Decision on Allgas Energy/Allgas Toowoomba Pty Ltd/Energex Retail Pty Ltd Proposed Associate Contract*
- *Approval of Information Packages*
- *General Accounting Guidelines for Gas Distribution Network Service Providers*
- *Cost Pass-through of QCA Levy and Retail Market Business Rules*
- *Determined Tariffs for Reference Services*
- *Decision on Gas Distribution: Monitoring Service Quality*

In July 2002, the Authority issued Guidelines for Preparing Ring-fencing Compliance Reports. The Guidelines are intended to assist service providers with the preparation of their ring-fencing compliance reports. The Guidelines also provide an indication of the assessment approach to be used by the Authority when assessing compliance with the Code.

Allgas and Envestra submitted their 2001-02 ring-fencing compliance reports in late 2002. The compliance reports demonstrated that both service providers had made significant progress towards meeting their ring-fencing obligations. However, neither service provider was yet able to clearly demonstrate compliance with all requirements of the ring-fencing provisions.

Allgas submitted a proposed Associate Contract to the Authority for approval in September 2002. The proposed contract was for the provision of network services by Allgas, and its wholly owned subsidiary Allgas Toowoomba Pty Ltd, to Energex Retail Pty Ltd. The Authority approved the proposed Associate Contract as it did not consider that the contract was likely to have the effect of substantially lessening, preventing or hindering competition in a market.

The Code requires that service providers prepare an information package to be available for prospective users of their network. The information package must contain a copy of the access arrangement and access arrangement information, information on the size and location of the pipelines, information relating to the availability of spare and developable capacity and a description of the procedures relating to specific access requests. The Authority approved information packages submitted by both service providers in February 2003.

In March 2003, the Authority received applications from Allgas and Envestra for the pricing pass-through of the QCA fees for 2002-03 and 2003-04. Allgas also made an application for the pass-through of costs associated with taking on the role of market operator under the Gas Retail Market Business Rules. The Authority assessed these applications in accordance with the relevant provisions of the service providers' access arrangements and decided to approve the pass-through applications.

Both service providers submitted revised reference tariffs to the Authority in April 2003. The Authority was satisfied that the revised tariffs were consistent with the price paths and side constraints established in the access arrangements. The Authority approved the tariff variations in May 2003, to come into effect on 1 July 2003.

In May 2003, the Authority issued General Accounting Guidelines to the distributors. The Guidelines aim to ensure an adequate level of information is available to monitor the implementation of, and compliance with, the access arrangements. This followed an extensive consultation period with the distributors. The Guidelines will also ensure that necessary information is collected in preparation for the next regulatory review. The guidelines apply to the regulatory accounts of Allgas and Envestra from the 2002-03 financial year.

In June 2003, the Authority issued its Decision on service quality monitoring for the gas distribution networks. The decision outlines the structure and process for implementing a service quality monitoring regime in Queensland. Service providers will be required to report annually against a range of service quality indicators. This information will be published by the Authority. Reflecting comments received in submissions and its own assessment, the Authority decided to implement a monitoring only process for gas distribution and did not opt to extend this to an incentive regime at this time.

Local Government

- *Fifth Annual Recommendation to Government on Level of Payments*
- *Review of 19 Councils' Two-Part Tariff Reports*

In July 1998, the Authority was directed under section 10(e) of the QCA Act to annually examine and report on the implementation of competition policy reforms by local governments, and to recommend to the Ministers levels of payment to local governments under the *Local Government Financial Incentive Payments Scheme* (the Scheme) over a five year period.

Under the Scheme, the State Government has allocated to local government a total of \$141.5 million (in 1994-95 terms) of the competition payments anticipated from the Commonwealth Government.

The Scheme Guidelines, the *Local Government Act 1993* and the *Local Government Finance Standard 1994* outline the desired reforms for those local governments that choose to participate. The Authority's assessment process addresses both the legislative obligations and the underlying principles of competition reform.

For the purposes of the fifth review, a further 236 business and COAG water activities were approved for assessment under the Scheme by the Minister for Local Government and Planning. As a consequence, the total number of business activities under assessment increased to 841.

As in the previous year, the Authority:

- ◆ prepared and distributed Information Returns to all councils;
- ◆ arranged regional workshops, providing councils with the opportunity to discuss the Authority's assessment process;
- ◆ visited the 8 councils, including Brisbane City Council, for which this was the final review;
- ◆ visited 47 councils which, by virtue of their size and progress in implementing the reforms, warranted more intensive verification; and
- ◆ reviewed detailed returns from councils for their relevant business activities.

In addition, to assist councils in understanding the requirements of the Scheme and to further verify compliance, the Authority:

- ◆ visited a further 58 Councils after the review of the previous year's performance was completed, to discuss the requirements of the Scheme and review implementation issues and progress;
- ◆ supported the Local Government Association of Queensland in the implementation of its Business Management Assistance Program; and
- ◆ continued its involvement in a range of activities such as presentations, workshops and conferences.

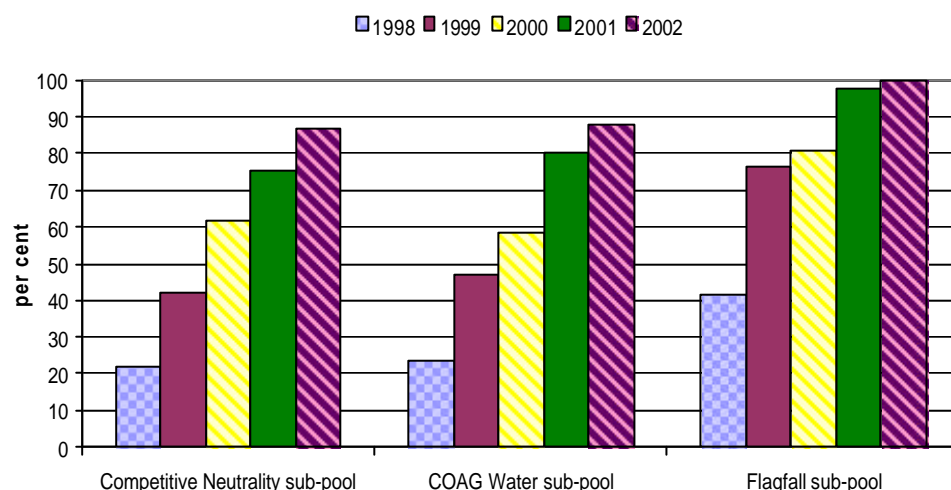
As part of its review of councils' performance, the Authority identified 19 councils that had produced a two-part tariff report for water pricing but had not yet implemented two-part tariffs. In some cases, the two-part tariff reports recommended against implementation and councils accepted this recommendation. In other cases, implementation was recommended but subsequently rejected by council. The Authority assessed councils' two-part tariff reports and submitted its findings to Ministers in February 2003.

Included amongst the councils reviewed was Townsville, which had accepted its two-part tariff report which recommended against implementation. As a result of this, the Commonwealth Government withheld \$270,000 from the Queensland Government in competition payments. The Authority's review concluded that the implementation of a two-part tariff in Townsville was not warranted.

On 28 February 2003, the Authority submitted its fifth report to the Ministers with its recommendations in respect of the year to 30 June 2002. Larger councils have substantially completed implementation of the necessary reforms and are generally concentrating on ongoing compliance issues. Significant progress has again been achieved by most smaller councils which continued to accelerate their implementation of competition reforms as they improved their understanding of the nature of the reforms required. All councils have now received their full flagfall entitlement.

A comparison of progress in recommended payments in the first five years of the Scheme against the maximum possible allocation for each reform category for all councils, follows:

Cumulative Payment Recommendations



Ports

The Dalrymple Bay Coal Terminal (DBCT) is owned by the Queensland Government corporation, DBCT Holdings P/L (Holdings), and has been leased to the Prime Infrastructure Group.

As part of the leasing process, DBCT was made subject to access regulation based on a declaration under Part 5 of the QCA Act. In addition, the terms of the lease required the lessee to prepare a draft access undertaking for Holdings' consideration by September 2002. Following Holdings' consideration of the draft access undertaking, the lease also required the lessee to submit it to the Authority for approval.

By mutual agreement, DBCT Management (part of the Prime Infrastructure Group) provided a draft access undertaking for Holdings' consideration in March 2003. On 20 June 2003, DBCT Management submitted, on behalf of Holdings, a draft access undertaking to the Authority for its approval.

Rail

- *Approval of QR's Standard Access Agreements (Operator and Access Holder Agreements)*
- *Finalisation of Rail Access Arbitration Guideline No. 1: Incremental Capacity Consumption Charges*
- *Decision on QR's Draft Amending Undertaking – North Goonyella Reference Tariff Review*
- *Assessment of QR's Draft Amending Undertaking – Newlands Reference Tariff Review*
- *Assessment of QR's Draft Amending Undertaking – Central Goonyella Indicative Reference Tariff*
- *Approval of QR's Costing Manual Amendments*

During 2002-03 the Authority made significant progress in finalising those elements of the Queensland rail access regime that remained outstanding after the Authority's approval of QR's access undertaking in December 2001. Reflecting this progress, a number of coal companies have sought to competitively source their supplier of rail haulage services.

QR's access undertaking provided for it to develop, and for the Authority to approve, a standard access agreement (SAA) for coal carrying train services. This SAA was developed and approved in two parts to reflect the alternative contracting structures, firstly, where the access holder was the train operator and secondly, where the access holder was an end-user (eg a mine) which then would subcontract the train operations to an accredited operator. The train operator agreement was approved by the Authority in October 2002 following its submission in March 2002. The end-user agreement was approved by the Authority in April 2003 following its submission in December 2002. While the two versions of the SAA contain consistent rights and obligations for QR and the access holder, they differ to reflect that, where the access holder is an end-user, some of the access holder's obligations will be performed by the subcontracted train operator.

The Authority's approval of the SAA was subject to the satisfactory completion of a contractual performance regime. Currently, the SAA provides for an incentive mechanism, based on a small number of key performance indicators, to encourage compliance with contractual commitments. Given the time required to develop an effective incentive mechanism, the Authority endorsed QR's proposed strategy to define and then conduct a 12 month paper trial of the key performance indicators. It is anticipated that the incentive mechanism will be fully implemented in January 2005. The Authority is continuing to liaise with stakeholders and QR on the performance regime.

Over the course of 2002-03, the Authority was involved in a number of matters involving reference tariffs for the central Queensland coal region. In November 2002, the Authority published an arbitration guideline relating to the incremental capacity consumption charge. While the access undertaking includes a charge to signal a train's consumption of network capacity, that charge relates to a standard train. The arbitration guideline sought to remove some of the uncertainty surrounding the determination of an access charge for non-standard trains, in particular pricing the impacts of the interaction between slower and faster trains. QR has indicated it will amend the access undertaking in a manner consistent with the Authority's arbitration guideline.

The access undertaking provides for the Authority to endorse changes to the central Queensland coal reference tariffs in the event of significant deviations from the forecast haulage task. This review mechanism seeks to share the risk of volume variability between QR and the coal mines. In December 2002, the Authority did not endorse a proposed increase in the North Goonyella reference tariff on the basis that the lower tonnages evident during 2002 were unlikely to be sustained beyond the June quarter 2003.

In April 2003, QR submitted for the Authority's endorsement, an indicative reference tariff for trains servicing the new Hail Creek coal mine development, located 85km west of Mackay. The Authority released an issues paper in response to QR's submission, identifying the major issues on which the Authority was seeking guidance. Three submissions were received. The Authority's consideration of this matter was also still in progress on 30 June 2003.

In early June 2003, QR sought the Authority's endorsement of its proposed transfer of management responsibility of the Callemondah and Jilalan marshalling yards in central Queensland from its above rail operator to Network Access. Following the completion of public consultation, a decision on this matter is scheduled for early 2003-04.

During 2002-03, the Authority continued to monitor QR's compliance with its access obligations and liaised with stakeholders on a range of access related matters. In this respect it is pertinent to note that in December 2002 the Queensland Auditor-General certified without qualification Queensland Rail Network Access's regulatory financial statements for 2001-02. Based on that initial audit and its own review, QR proposed a number of relatively minor amendments to its Costing Manual in April 2003, which the Authority approved in May 2003.

Water

- *Final Report on Gladstone Area Water Board Pricing Practices*
- *Final Report on Assessment of Certain Pricing Matters relating to the Burdekin River Irrigation Area (BRIA)*

In September 2000, the Ministers declared the storage, delivery and water treatment activities of the Gladstone Area Water Board (GAWB) to be government monopoly business activities, and referred related pricing practices for investigation by the Authority.

Following the release of a Draft Report in November 2001, and upon considering submissions received, the Authority released its Final Report *Gladstone Area Water Board: Investigation of Pricing Practices* in September 2002. The Final Report recommended a pricing framework consistent with what would be achieved in a competitive market and assessed GAWB's pricing practices against that framework. At 30 June, the Ministers had not yet made a decision in relation to the Authority's recommendations.

In January 2002, the Ministers directed the Authority to assess a number of matters relating to the gazetted prices for channel and river irrigators in the Burdekin River Irrigation Area within SunWater's Burdekin Haughton Water Supply Scheme.

Following the release of a Draft Report in September 2002, and after considering all available information, including submissions received, the Authority provided its Final Report *Burdekin Haughton Water Supply Scheme: Assessment of Certain Pricing Matters relating to the Burdekin River Irrigation Area* to the Ministers in April 2003. The report was accepted by the Ministers and released to the public in May 2003.

The Final Report concluded that current water prices in the Burdekin Scheme do not incorporate any excess return on capital. This conclusion was based upon a consideration of the capital contributions made by relevant parties, relevant capital costs, and the appropriate weighted average cost of capital for BRIA users. As required by the Ministers' Direction, the Authority's analysis accepted as a given the lower bound costs of the Scheme. The Authority also identified the circumstances under which it would be appropriate to charge a positive rate of return on scheme assets. In this context, the Authority found that, under prevailing and current expected prices for sugar, sugarcane irrigators in the BRIA do not, on average, have a capacity to pay a positive rate of return on capital.

In February 2002, the Ministers had directed the Authority to assess and report on whether the water supply activities undertaken by the Townsville-Thuringowa Water Supply Board (trading as NQ Water) met the Authority's Criteria for the Identification of Government Monopoly Business Activities. The Authority's Final Report was forwarded to Ministers in June 2002 and, consistent with the Authority's recommendations, NQ Water's water supply activities have been declared by the Ministers to be government monopoly business activities.

General Issues

On 27 May 2003, the Ministers directed the Authority to identify the general pricing principles which should underpin the treatment of infrastructure investments made in response to extraordinary circumstances across all regulated industries. Particular regard is to be had to infrastructure investments proposed in response to recent drought conditions affecting the Gladstone Area Water Board. Under the Direction, the Authority is required to consult with relevant parties as appropriate and is to report its findings and recommendations to the Ministers by 31 December 2003. By the end of June 2003, the Authority had commenced initial consultations.

Corporate Matters

Corporate Governance

The Authority places great emphasis on operating in accordance with sound corporate governance procedures. 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 has been developed to ensure that assets are safeguarded and that proper financial and accounting records are maintained. These policies are regularly reviewed as part of a rolling system of appraisal.

Information and knowledge are regarded as some of the Authority's most valuable assets and, accordingly, emphasis has been placed on the management and protection of this information, as well as the maintenance of confidentiality where appropriate.

In particular, Members of the Authority pay special attention to possible conflicts of interest with Members absenting themselves from all deliberations where conflicts of interest, real or perceived, may arise.

Staff are expected to behave in accordance with a code of conduct and the highest ethical standards are expected, all of which are outlined in the Authority's Code of Conduct.

Service Fees

Effective 1 February 2003, the Authority was required to charge fees to partially recover the costs of its services.

Fees are charged for the preparation, approval or amendment of an access undertaking, 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 fee is 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 will 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 will be shared between the parties as determined by the Authority and will not be automatically passed through to end users.

Financial Position

Detailed financial statements are included in a later section of this report. The Authority's total expenditure amounted to \$5,602,033 compared with \$5,518,880 in the previous year. The major items of expenditure were salaries (\$3,300,626) and specialist services (\$757,301). Revenue for the year exceeded expenditure by \$337,046, a margin of 6% on total expenditure.

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 believes it is a cost effective regulator.

Staffing Levels

The number of staff employed by the Authority as at 30 June 2003 was 40, three of whom were part-time and four of whom were temporary contract appointments. 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.

Performance Enhancement and Evaluation Process (PEEP)

Mercer Human Resource Consulting were engaged to assist the Authority develop and implement a performance management framework that reflects the Authority's culture and values and which recognises the special nature of the work performed. This process has been concluded with the implementation of the Performance Evaluation and Enhancement Process (PEEP) which has been designed to enhance and support the QCA's aim to be an employer of choice. Specifically, the PEEP framework addresses a number of important goals:

- ◆ improves consistency and objectivity across the QCA regarding the way the performance of staff is assessed;
- ◆ clarifies expectations regarding performance and provides a list of competencies which explicitly states the skills required at each position level; and
- ◆ allows staff members and supervisors to identify areas for personal development and provides a structure for career planning and progression.

Freedom of Information

The Authority is required to adhere to, and supports, the concepts embodied in the Freedom of Information (FOI) legislation. One FOI request, relating to an unsuccessful job application, was received during the 2002-03 financial year with full access being granted to the records requested.

Environmental Statement

The Authority attempts to maintain 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. Airconditioning is operated and maintained by building management and therefore falls outside the Authority's control. However, the Authority's offices are zoned in an attempt to minimise out of hours consumption.

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. To the extent practicable, the Authority supports part-time work, flexible working hours and the ability to work from home.

Staff Statistics as at 30 June 2003

	Total Staff	Male	Female	NESB ^(a)	A&TSI ^(b)
Chief Executive	1	1	-	-	-
Directors	4	3	1	1	-
Technical Staff	28	22	6	-	-
Support Staff ^(c)	7	2	5	-	-
Total	40	28	12	1	-
Full-time Staff	37	28	9	1	-
Part-time Staff	3	-	3	-	-
Age					
15-24	3	3	-	-	-
25-34	15	9	6	-	-
35-44	13	8	5	-	-
45 +	9	8	1	1	-

(a) Non English Speaking Background
(b) Aboriginal and Torres Strait Islander

(c) Includes 1 staff member on Maternity Leave

The Year Ahead

Competitive Neutrality

The Authority has no influence on the number or timing of the complaints it receives, and consequently is unable to estimate the number of investigations that can be reasonably anticipated over the coming year. Although the Authority expects to continue to receive enquiries concerning competitive neutrality matters, breaches of the principle of competitive neutrality are now more difficult to sustain under the amendments, introduced in May 1999, to the definition of the principle of competitive neutrality in the *Queensland Competition Authority Act 1997*. Accordingly, the number of complaint investigations is not expected to be significant in 2003-04.

Electricity

Having decided the form of regulation to apply in the regulatory period commencing in July 2005, the Authority will commence work on the detail and implementation of the regulatory arrangements for each distributor. Key tasks to be progressed over the year will include:

- ◆ valuing each distributor's regulatory asset base;
- ◆ assessing capital and operating expenditure requirements;
- ◆ assessing cost of capital and rate of return issues; and
- ◆ determining other aspects of the next regulatory arrangements, including the service quality incentive regime and an efficiency carryover mechanism.

Throughout this process, the Authority will provide regular opportunities for stakeholders to have an input to decisions and to inform the Authority of their views on the full range of issues.

The distributors are required to supply information to the Authority annually to demonstrate their compliance with the current regulatory arrangements. In this regard, the distributors will provide their second set of regulatory accounts and ring-fencing compliance reports, for 2002-03. In addition, the distributors will provide the Authority with quarterly and annual service quality reports. The Authority will publish an assessment of the financial and service quality performance of the distributors based on their regulatory accounts and annual service quality report. The distributors' quarterly service quality reports will continue to be published during the year.

The Authority will complete its review of the appropriate valuation method to apply to easements for Queensland's electricity distributors. The outcome of the review will be reflected in the valuation of each distributor's regulatory asset base for the next regulatory period.

The Authority will also finalise the development of initial metrology procedures for Queensland by 31 December 2003. This process will involve preparation of draft and final metrology procedures which will be subject to consultation with the distributors and other interested parties. In addition, the Authority will continue its participation in the national review of metrology procedures.

Gas

In October 2003, the service providers will submit their first set of regulatory accounts prepared in accordance with the General Accounting Guidelines.

The Guidelines require that both service providers submit their cost allocation manuals to the Authority for approval. It is envisaged that the service providers will have approved cost allocation manuals in place before the first set of regulatory accounting statements are provided.

Ring-fencing compliance reports are due to be submitted to the Authority in October 2003. Service providers will be required to identify the measures taken to ensure compliance with their ring-fencing obligations under the Code and to demonstrate the effectiveness of these measures. Given the progress evident in 2002, it is expected that 2003 will see both distributors able to demonstrate their compliance with all ring-fencing requirements.

Towards the end of the year, the Authority will again be required to approve tariff variations to ensure that prices are rolled forward in accordance with the price paths and side constraints established in the access arrangements.

Local Government

The fifth review was to have been the last under the Scheme. However, the Ministers approved a one year extension to 30 June 2003 for those business activities where councils resolved, by 30 March 2002, to implement the reforms by 30 June 2003.

The sixth and final review of councils' progress in the implementation of competition reforms is to commence on 1 July 2003. A report is to be presented to the Ministers in February 2004.

The Ministers have also requested the Authority to prepare a Supplementary Report in 2006 on the redistribution of any unexpended funds.

Ports

The Authority will assess the draft access undertaking for the DBCT in accordance with the relevant provisions of the QCA Act, including conducting an extensive consultation process. While the draft access undertaking covers a range of matters, the key issues are likely to centre on the provision of capacity and pricing arrangements. The pricing arrangements must seek to achieve a balance between allowing DBCT Management to earn sufficient revenue to maintain and expand the DBCT while providing customers of the DBCT with an access price that is 'fair'. Key issues in the assessment of DBCT Management's pricing arrangements include the proposed asset valuation for the DBCT and the rate of return applied.

The draft access undertaking only applies to commercial arrangements for future customers. Current commercial arrangements are embodied in existing access agreements between DBCT Management and customers. These access agreements contain provisions for a price renegotiation. If the parties are unable to reach agreement on new prices, the Authority is likely to be asked to arbitrate.

Rail

The Authority will continue to perform its ongoing statutory functions in relation to the operation of access to QR's declared rail infrastructure. The principles and processes established in QR's access undertaking will continue to govern access negotiations until its expiry on 30 June 2005.

Amongst other things, it is envisaged that the Authority will be required to:

- ◆ assess QR's review of its yard control services at Callemondah and Jilalan in the central Queensland coal system;
- ◆ continue to liaise with QR and stakeholders in finalising the performance regime for the SAA;
- ◆ continue to assess requests to endorse variations in coal reference tariffs as a result of significant variations in the amount of coal hauled;
- ◆ assess reference tariff applications for new coal mines in central Queensland; and
- ◆ as required, assess reference tariff applications for other train services.

The Authority also anticipates that it will commence public consultation on a range of matters that will be pertinent to its assessment of the access undertaking that will replace QR's current access undertaking that expires on 30 June 2005.

Water

The Authority anticipates making a significant contribution to the development of guidelines for infrastructure charging by local governments during the year.

Given the importance of the water industry and water reform, the Authority anticipates further water referrals from Government during 2003-04.

General Issues

The Authority will finalise its assessment of pricing principles for infrastructure expenditure made in response to extraordinary circumstances during 2003-04. This matter was initiated by potential water supply problems for the Gladstone Area Water Board.

Corporate Matters

The corporate services division has an ongoing workload in providing the support and systems required to achieve the high standard of technical work output expected. While systems are constantly monitored and updated to maintain efficiency, 2003-04 will involve the review and further development of the following areas of operation:

- ◆ upgrading the financial management systems to enable more accurate reporting following the implementation of self-funding
- ◆ developing and implementing a knowledge management system; and
- ◆ completing the rolling update of the IT systems and equipment.

Financial Statements

Statement of Financial Performance

For year ended 30 June 2003

	Notes	2003 \$	2002 \$
REVENUE FROM ORDINARY ACTIVITIES			
<i>Revenue from Operating Activities</i>			
Government Grant	3	4,700,000	4,800,000
Regulatory Service Fees	3	1,005,416	0
<i>Revenue from Non-operating Activities</i>			
Interest & Miscellaneous Income	4	233,663	132,741
Total Revenue from Ordinary Activities		5,939,079	4,932,741
EXPENSES FROM ORDINARY ACTIVITIES			
Members Fees	5	224,912	190,528
Staff and Related Costs	6	3,648,168	3,290,701
Operating Costs	7	1,728,953	2,037,651
Total Expenses from Ordinary Activities		5,602,033	5,518,880
Net Surplus/(Deficit)		337,046	(586,139)

This statement is to be read in conjunction with the notes to and forming part of the financial statements.

Statement of Financial Position

as at 30 June 2003

	Notes	2003 \$	2002 \$
CURRENT ASSETS			
Cash Assets	8	2,349,521	2,184,606
Receivables	9	297,073	0
Other Financial Assets	10	53,536	340,392
Total current assets		2,700,130	2,524,998
NON CURRENT ASSETS			
Other Financial Assets	10	0	140
Property, Plant & Equipment	11	909,478	884,464
Total non current assets		909,478	884,604
Total Assets		3,609,608	3,409,602
CURRENT LIABILITIES			
Payables	12	340,934	505,410
Provisions	13	297,468	229,469
Other Liabilities	14	30,000	0
Total current liabilities		668,402	734,879
NON CURRENT LIABILITIES			
Provisions	13	112,590	292,057
Other Liabilities	14	108,904	0
Total non current liabilities		221,494	292,057
Total Liabilities		889,896	1,026,936
Net Assets		2,719,712	2,382,666
EQUITY			
Contributed Equity	15	1,579,027	1,579,027
Cumulative Surplus/(Deficit)	16	1,140,685	803,639
Total Equity		2,719,712	2,382,666

This statement is to be read in conjunction with the notes to and forming part of the financial statements.

Statement of Cash Flows

for year ended 30 June 2003

	Notes	2003 \$	2002 \$
CASH FLOWS FROM ORDINARY ACTIVITIES			
Inflows:			
Government Grant		5,000,000	4,500,000
Regulatory Service Fees		714,466	0
Interest & Miscellaneous Income		233,094	130,215
GST collected on goods and services provided		116,567	601
GST refunded by ATO		215,285	189,731
		6,279,412	4,820,547
Outflows:			
Members Fees		(227,160)	(175,459)
Staff Related Expenses		(3,779,108)	(3,189,784)
Operating Costs		(1,740,752)	(1,836,252)
GST paid on acquisitions		(216,032)	(174,359)
GST paid to ATO		(116,542)	(2,324)
		(6,079,594)	(5,378,178)
Net cash provided by/(used in) ordinary activities	17(a)	199,818	(557,631)
CASH FLOWS FROM INVESTING ACTIVITIES			
Inflows:			
Proceeds from disposal of property, plant & equipment		8,720	4,034
Outflows:			
Property, plant & equipment		(182,527)	(52,190)
Net cash provided by/(used in) investing activities	17(b)	(173,807)	(48,156)
CASH FLOWS FROM FINANCING ACTIVITIES			
Inflows:			
Lease Incentive		150,000	0
Outflows:			
Lease Incentive		(11,096)	0
Net cash provided by/(used in) financing activities	17(c)	138,904	0
Net increase/(decrease) in cash held		164,915	(605,787)
Cash at beginning of reporting period		2,184,606	2,790,393
Cash & Investments at end of reporting period	8	2,349,521	2,184,606

This statement is to be read in conjunction with the notes to and forming part of the financial statements

Notes to and Forming Part of the Financial Statements

for the year ended 30 June 2003

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 the *Financial Administration and Audit Act 1977* and the *Financial Management Standard 1997*. The statements have been prepared in accordance with the historical cost convention with the exception of non-current physical assets which are valued as outlined in Note 2(d).

As a statutory body under the *Financial Administration and Audit Act 1977*, the Authority is required to prepare general purpose financial statements in accordance with professional Statements of Accounting Concepts, Urgent Issues Group Abstracts and Australian Accounting Standards. Unless otherwise stated, the accounting policies have been consistently applied.

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 recognized when incurred.

Salary and related staff costs include salaries, entitlements, recruitment costs, staff training and other costs. These are recognised on an accrual basis and include relevant oncosts.

c) Leasing

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

Operating lease costs are charged to the Statement of Financial Performance in the periods in which they are incurred.

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. The Authority does not have any finance leases.

Notes to and Forming Part of the Financial Statements (cont'd)
for the year ended 30 June 2003

d) Property, Plant & Equipment

In accordance with the Queensland State Government's policy, titled *Non-Current Asset Guidelines for the Queensland Public Sector*, the assets of the Authority are recorded at depreciated historic cost. On acquisition, assets are valued at cost including all expenses necessary to have the asset ready for use.

Items or components which form an integral part of an asset are recognised as a single asset. The asset recognition threshold has been set at \$300.

Depreciation of property, plant and equipment is calculated on a straight line basis based on estimated useful life. The following depreciation rates have been used:

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

e) Employee Entitlements

Liabilities for annual leave are based on current rates including related oncosts.

Non-current liabilities under the staff retention scheme are recognised and measured on a present value method using the yield on Treasury Fixed Coupon Bonds.

No liabilities are recorded for non-vesting sick leave, as it is expected that the sick leave taken in future reporting periods will not be greater than entitlements which are expected to accrue in those periods. The Authority does not have any vesting sick leave.

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 being on a whole-of-Government basis and reported in the Government's financial report prepared pursuant to AAS 31 – Financial Reporting by Governments.

f) Taxation

The activities of the Authority are exempt from Commonwealth taxation except for Fringe Benefits Tax (FBT) and Goods and Services Tax (GST).

g) 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 employee superannuation plans are charged as an expense as the contributions are paid or become payable.

h) Receivables

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

The collection of receivables is assessed periodically.

i) 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 30 days of the end of the month in which the invoice is received.

Notes to and Forming Part of the Financial Statements (cont'd)
for the year ended 30 June 2003

Note 3:	2003	2002
Revenue from Operating Activities	\$	\$
Government Grant	4,700,000	4,800,000
Regulatory Service Fees	1,005,416	0
Total	5,705,416	4,800,000

On 30 January 2003, the Governor in Council assented to a regulation allowing the Authority to charge fees for regulatory services. These fees have been charged from 1 February 2003.

Note 4:	2003	2002
Revenue from Non-Operating Activities	\$	\$
Interest	106,980	125,088
Miscellaneous income	126,683	7,653
Total	233,663	132,741

The Authority joined the State Government's Long Service Leave Central Scheme (the Scheme) from 1 July 2002. The difference between the Authority's provision for long service leave and the amount payable to the Government on joining the Scheme has been recognised as miscellaneous income. Miscellaneous income also includes profits and losses on sales of assets, and employee relocation reimbursements.

Note 5:
Members Fees
Members fees are determined by the Governor in Council.

Number of Members whose remuneration falls within the following bands:	2003	2002
\$0 - \$ 9,999	0	1
\$20,000 - \$29,999	0	3
\$30,000 - \$39,999	4	1
\$60,000 - \$69,999	0	1
\$70,000 - \$79,999	1	0

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

Note 6:	2003	2002
Staff and Related Costs	\$	\$
Salaries & related costs	3,300,626	2,844,403
Long Service Leave Central Scheme levy	43,324	0
Provision for employee entitlements accrued at QCA	116,576	197,653
Provision for employee entitlements assumed from prior service	7,919	7,971
Staff recruitment costs	92,326	156,000
Staff training costs	66,378	78,905
Other staff costs	21,019	5,769
Total	3,648,168	3,290,701

Notes to and Forming Part of the Financial Statements (cont'd)
for the year ended 30 June 2003

Note 7:	2003	2002
Operating Costs	\$	\$
Occupancy costs (including operating lease rentals)	392,124	411,014
Specialist services	757,301	999,782
Depreciation	194,380	220,677
Information technology costs	78,381	73,131
Travel & accommodation costs	67,183	74,416
Auditors remuneration	9,730	8,260
General administration costs	148,005	169,172
Other costs	81,849	81,199
Total	1,728,953	2,037,651

Note 8:

Cash Assets

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

	2003	2002
Balance	\$	\$
Cash at bank	106,152	88,479
Cash on hand	300	300
QTC Investment	2,243,069	2,095,827
Total	2,349,521	2,184,606

Effective rates of interest (floating rates)

	2003	2002
Cash at bank	3.75%	2.75%
Investment	4.91%	4.82%

Note 9:

Receivables

Current

	2003	2002
Debtors	297,073	0
Less: Provision for Doubtful Debts	0	0
Total	297,073	0

Note 10:

Other Financial Assets

Current

	2003	2002
Prepayments	52,697	39,813
Accrued income	839	300,579
Total	53,536	340,392

Non-Current

Prepayments	0	140
Total	0	140

Notes to and Forming Part of the Financial Statements (cont'd)
for the year ended 30 June 2003

Note 11:	2003	2002
Property, Plant & Equipment	\$	\$
Leasehold Improvements	21,080	17,724
Less: Accumulated amortisation	(16,720)	(13,925)
	4,360	3,799
Office Equipment	196,024	167,012
Less: Accumulated depreciation	(119,089)	(127,281)
	76,935	39,731
Computer Equipment	432,554	317,317
Less: Accumulated depreciation	(287,111)	(273,796)
	145,443	43,521
Fixtures and Fittings	1,256,237	1,245,235
Less: Accumulated depreciation	(573,497)	(447,822)
	682,740	797,413
Total Property, Plant & Equipment	909,478	884,464

Statement of Movement

	<i>Leasehold Improvements</i>	<i>Office Equipment</i>	<i>Computer Equipment</i>	<i>Fixture and Fittings</i>	<i>Total</i>
	\$	\$	\$	\$	\$
Written down value 30.6.2002	3,799	39,731	43,521	797,413	884,464
Add Acquisitions	3,356	71,361	141,087	12,067	227,871
Less Depreciation	(2,795)	(26,238)	(39,165)	(126,182)	(194,380)
Less Disposals at Cost	0	(42,348)	(25,850)	(1,065)	(69,263)
Add Accumulated Depreciation of Disposals	0	34,429	25,850	507	60,786
Written down value 30.6.2003	4,360	76,935	145,443	682,740	909,478

Note 12:	2003	2002
Payables	\$	\$
Audit Fees Payable	9,200	4,590
Creditors	164,228	202,467
Accrued Expenses	167,506	298,353
Total	340,934	505,410

Notes to and Forming Part of the Financial Statements (cont'd)
for the year ended 30 June 2003

Note 13:	2003	2002
Provisions	\$	\$
Current		
Employee entitlements accrued at the Authority	280,643	216,827
Employee entitlements related to prior public service employment	16,825	12,642
Total	297,468	229,469
Non-Current		
Employee entitlements accrued at the Authority	74,240	133,447
Employee entitlements related to prior public service employment	38,350	158,610
Total	112,590	292,057

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 being on a whole-of-Government basis and reported in the Government's financial report prepared pursuant to AAS 31 – Financial Reporting by Governments.

Note 14:	2003	2002
Other Liabilities	\$	\$
Current		
Lease Incentive Liability	30,000	0
Non Current		
Lease Incentive Liability	108,904	0

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

Note 15:	2003	2002
Contributed Equity	\$	\$
Establishment Grant	1,559,000	1,559,000
Contributed Assets	20,027	20,027
Total	1,579,027	1,579,027

Note 16:	2003	2002
Cumulative Surplus/(Deficit)	\$	\$
Cumulative Surplus/(Deficit) at beginning of reporting period	803,639	1,389,778
Net Surplus/(Deficit) for current reporting period	337,046	(586,139)
Cumulative Surplus/(Deficit) at end of reporting period	1,140,685	803,639

Notes to and Forming Part of the Financial Statements (cont'd)
for the year ended 30 June 2003

Note 17:	2003	2002
Notes to the Statement of Cash Flows	\$	\$
a) <i>Reconciliation of Operating Surplus to Net Cash Provided by/(Used in) Ordinary Activities</i>		
Operating Surplus/(Deficit)	337,046	(586,139)
Add Depreciation expense	194,380	220,677
Less loss on disposal of property, plant & equipment	(243)	(3,192)
<i>Changes in Assets and Liabilities</i>		
Decrease/(increase) in receivables	(297,073)	0
Decrease/(increase) in prepaid expenses and accrued income	286,996	(284,640)
Increase/(decrease) in employee entitlements	(111,468)	104,362
Increase/(decrease) in creditors and accruals	(209,820)	(8,699)
Net Cash Provided by/(Used in) Ordinary Activities	199,818	(557,631)
b) <i>Reconciliation of change in valuation in property, plant & equipment to Net Cash Provided by/(Used in) Investing Activities</i>		
Acquisitions	(227,871)	(52,160)
Proceeds from disposals	8,720	4,034
<i>Changes in Assets and Liabilities</i>		
Increase/(decrease) in creditors and accruals	45,344	(30)
Net Cash Provided by/(Used in) in Investing Activities	(173,807)	(48,156)
c) <i>Reconciliation of change in Liabilities to Net Cash Provided by/(Used in) Financing Activities</i>		
Increase/(decrease) in lease incentive	150,000	0
Decrease/(increase) in amortisation of lease incentive	(11,096)	0
Net Cash Provided by/(Used in) in Financing Activities	138,904	0
d) For the purposes of this statement, cash includes cash at bank, cash on hand and investments. Cash at the end of the year as shown in the cash flows equals the cash and investments as disclosed in the balance sheet.		
e) The Authority has no unused credit, standby credit or loan facilities		

Notes to and Forming Part of the Financial Statements (cont'd)
for the year ended 30 June 2003

Note 18:

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

	2003	2002
	\$	\$
Not later than one year	365,375	224,118
Later than one year but not later than two years	378,926	0
Later than two years but not later than five years	1,068,603	0
Later than five years	0	0
Total commitments	1,812,904	224,118

GST of \$164,810 (\$20,375 in 2002) is included in the above amounts and is recoverable

Lease rentals (exclusive of GST) included in the determination of the operating result	318,827	341,268
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Note 19:

The Authority has no known Contingent Liabilities not disclosed elsewhere in the Notes.

Note 20:

Financial Instruments

Receivables – Comprised of invoices receivable in 30 days and refunds due.

Payables – Comprised of invoices payable in 30 days and accrued expenses.

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 financial position.

Net Fair Value – For other assets and liabilities the net fair value approximates the carrying value.

Note 21:

Remuneration

The superannuable salary range of the Chief Executive's remuneration (that is, the salary on which QSuper defined benefits would be calculated) fell within the band \$180,000 - \$189,999. (\$180,000 - \$189,999 in 2002).

The superannuable salary does not include fringe benefits such as private use of a motor vehicle and employer superannuation contributions.

Certificate of the Queensland Competition Authority

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

- the prescribed requirements for establishing and keeping the accounts have been complied with in all material respects; and
- 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 2003 and of the financial position of the Authority at the end of that year.

Chairperson
R M Wylie
6 August 2003

Chief Executive Officer
E J Hall
6 August 2003

Independent Audit Report

To the Chairman and Members of the Queensland Competition Authority

Scope

I have audited the general purpose financial statements of the Queensland Competition Authority prepared by the statutory body for the year ended 30 June 2003 in terms of section 46F of the *Financial Administration and Audit Act 1977*. The financial statements comprise the Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows, Notes to and forming part of the financial statements and certificates given by the Chairperson and person responsible for financial administration.

The Authority is responsible for the preparation and the form of presentation of the financial statements and the information they contain. I have audited the financial statements in order to express an opinion on them.

The audit has been conducted in accordance with Queensland Audit Office's Auditing Standards, which incorporate the Australian Auditing Standards, to provide reasonable assurance as to whether the financial statements are free of material misstatement. Audit procedures included the examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial statements are presented fairly in accordance with prescribed requirements in Australia which include Australian Accounting Standards so as to present a view which is consistent with my understanding of the Queensland Competition Authority and the entity's financial position and the performance as represented by the results of its operations and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In accordance with section 46G of the *Financial Administration and Audit Act 1977*, I certify that I have received all the information and explanations I have required and, in my opinion:

- the prescribed requirements in respect of the establishment and keeping of accounts have been complied with in all material respects; and
- the statements have been drawn up so as to present a true and fair view, in accordance with prescribed accounting standards and other mandatory professional reporting requirements in Australia, of the transactions of the Queensland Competition Authority for the financial year 1 July 2002 to 30 June 2003 and of the financial position as at the end of that year.

P J Nottingham, FCPA
(Delegate of the Auditor-General)



Queensland Audit Office
Brisbane

Appendices

1. List of Declared Significant Business Activities

For the Authority to be able to investigate a potential breach of the principle of competitive neutrality by a State government agency, a complaint must be directed against a government activity which has been “declared” to be a significant business activity by gazette notice. Below is a list of declared significant business activities as advised to the Authority by Queensland Treasury. The list is current at 30 June 2003.

Significant Declared Business Activity	Relevant Government Agency
Bundaberg Port Authority	Bundaberg Port Authority
C S Energy	C S Energy
Cairns Port Authority	Cairns Port Authority
CITEC	Department of Public Works and Housing
DPI Forestry	Department of Primary Industries
Energex Limited	Energex Limited
Energex Retail Pty Limited	Energex Retail Pty Limited (1)
Enertrade (Queensland Power Trading Corporation)	Enertrade (Queensland Power Trading Corporation)
Ergon Energy Corporation Limited	Ergon Energy Corporation Limited
Ergon Energy Pty Ltd	Ergon Energy Corporation Limited (2)
Gladstone Area Water Board	Gladstone Area Water Board
Gladstone Port Authority	Gladstone Port Authority
Golden Casket Lottery Corporation Limited	Golden Casket Lottery Corporation Limited
GOPRINT	Department of Public Works and Housing
Mackay Port Authority	Mackay Port Authority
Mount Isa Water Board	Mount Isa Water Board
Port of Brisbane Corporation	Port of Brisbane Corporation
Ports Corporation of Queensland	Ports Corporation of Queensland
Project Services	Department of Public Works and Housing
Queensland Electricity Transmission Corporation	Queensland Electricity Transmission Corporation
Queensland Investment Corporation	Queensland Investment Corporation
Queensland Rail	Queensland Rail
RoadTek	Department of Main Roads
Road Transport Construction Service	Department of Main Roads
Rockhampton Port Authority	Rockhampton Port Authority

Significant Declared Business Activity	Relevant Government Agency
Sales and Distribution	Department of Public Works and Housing
Stanwell Corporation	Stanwell Corporation
SunWater (3)	Department of Natural Resources
Tarong Energy Corporation	Tarong Energy Corporation
Townsville Port Authority	Townsville Port Authority

Notes

1. Energex Retail Pty Limited is a wholly-owned subsidiary of Energex Limited.
2. Ergon Energy Pty Limited is wholly-owned subsidiary of Ergon Energy Corporation Limited.
3. As a result of the corporatisation of State Water Projects on 1 October 2000, the business activities of State Water Projects were transferred to the new corporatised entity called SunWater.

2. List of Local Government Nominations of the Authority to act as Competitive Neutrality Referee

Under the *Local Government Act 1993*, councils may resolve to appoint the Authority as their referee for the hearing of competitive neutrality complaints against specified local government business activities. Below is a list of the Councils which have appointed the Authority as their competitive neutrality referee for various business activities. The list is current as at 30 June 2003.

Local Government	Business Activity
Barcaldine Shire Council	Roads
Belyando Shire Council	Roads
Blackall Shire Council	Roads
Broadsound Shire Council	Roads
Caloundra City Council	Water and Sewerage
Cambooya Shire Council	Roads
Chinchilla Shire Council	Roads
Cooloola Shire Council	Roads
Crows Nest Shire Council	Roads
Dalrymple Shire Council	Roads
Duaringa Shire Council	Roads
Hervey Bay City Council	Roads Water and Sewerage
Livingstone Shire Council	Roads
Logan City Council	Water and Sewerage Waste
Mackay City Council	Roads Water and Sewerage
Mareeba Shire Council	Roads
Mount Isa City Council	Roads
Murilla Shire Council	Roads
Noosa Shire Council	Water and Sewerage
Paroo Shire Council	Roads
Pine Rivers Shire Council	Water and Sewerage
Redland Shire Council	Roads Water and Sewerage Waste
Rockhampton City Council	Roads Water and Sewerage
Rosalie Shire Council	Roads
Townsville City Council	Roads Water and Sewerage Waste Services

3. Staff List

as at 30 June 2003

Team Leaders

Sean Andrews BBus(Eco/Fin) MBA
 Les Godfrey BE BEcon MBA(Adv) MFM FIEAust CPEng ASA
 Rohan Melhuish BEcon BElecEng MAppFin
 George Passmore BAgEconHons MAgEcon
 Matt Rodgers BEcon GradDipEconomics

Technical

Cath Barker BA BEcon
 Michael Blake BSc(Math.Econ) BA(Hist) MPubPol PhD(Econ)
 Felicity Brown BEcon BBusMan
 Angela Colby BA BEcon MProfEcon
 Ross Culpitt BEcon
 Gary Davies BCom(Econ) MAppEcon
 Ralph Donnet BAgEcon GradDipFinMgt
 Isaac Feehely BA(PolSc) BEcon
 Amanda Fitzgibbons BAEcon(Hons) PhD
 Mark Goulding BEcon(Hons)
 Sean Greenup BEcon BBus(Hons)
 Mark Gresswell BCom
 Jennifer Harris BA(Econ/Polit.) MA(Econ) **
 Craig Lawrence BEcon MMgtEcon
 Dominic L'Huillier BEcon BCom(Hons)
 Greg McLennan BCom BEc(Hons)
 Charles Millstead BA BEcon(Hons)
 Matt O'Connor # BBus CPA
 Tyson Self BCom BEcon
 Paul Smith # BAppSci (App Biol)
 Daniel Spiller # BBE(URP) MURP MProfEcon
 Dean Wigmore BBus(Econ) GradDipAppFinInv
 Trish Worland BA MEcon **

Support

Natasha Bree
 Andria McKay *
 Jeannie Mitchell
 Stuart Murnain MCP
 Geoff Popple MCP #
 Bev Peake **
 Kaye Tidmarsh BBus(Acc)

* *maternity leave*

** *part-time*

temporary appointment

4. Legislative Provisions

The Authority's legislative responsibilities can be found in:

- ◆ *The Queensland Competition Authority 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*

5. Publications

During 2002-03, the Authority released the following publications. Printed copies of the publicly available publications are available 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 2002	Guidelines for Preparing Ring-Fencing Compliance Reports Under Section 4.13 of the National Gas Code
September 2002	<i>Final Decision</i> – Gladstone Area Water Board – Investigation of Pricing Practices
September 2002	<i>Draft for Consultation</i> – Burdekin Haughton Water Supply Scheme: Assessment of Certain Pricing Matters relating to the Burdekin River Irrigation Area
October 2002	<i>Discussion Paper</i> – Review of the Form of Regulation of Electricity Distribution
October 2002	<i>Discussion Paper</i> – Allgas Energy Ltd/Allgas Toowoomba P/L/Energex Retail P/L Proposed Associate Contract
October 2002	<i>Final Decision</i> – Decision on QR's Standard Access Agreement for Coal Carrying Services
November 2002	<i>Final Decision</i> - Allgas Energy Ltd/Allgas Toowoomba P/L/Energex Retail P/L Proposed Associate Contract
November 2002	<i>Discussion Paper</i> – Gas Distribution: Monitoring Service Quality
November 2002	Rail Access Arbitration Guideline No. 1
December 2002	<i>Final Decision</i> – Decision on QR's Application to Revise Reference Tariffs for the North Goonyella Cluster
March 2003	<i>Discussion Paper</i> – Electricity Distribution: Valuation of Easements
March 2003	<i>Draft for Comment</i> – General Accounting Guidelines for Gas Distribution Network Service Providers (Draft Version)
April 2003	<i>Draft Decision</i> – Form of Regulation of Electricity Distribution to commence from 1 July 2005

April 2003	<i>Request for Comments</i> – QR's Access Undertaking: Indicative Reference Tariff – Central Goonyella Cluster (Hail Creek Mine)
April 2003	<i>Final Decision</i> – Decision on QR's Standard Access Agreement for Coal Carrying Services (Access Holder Agreement)
April 2003	<i>Final Decision</i> – Burdekin Haughton Water Supply Scheme: Assessment of Certain Pricing Matters relating to the Burdekin River Irrigation Area
May 2003	General Accounting Guidelines for Gas Distribution Network Service Providers (Version 1.0)
May 2003	<i>Final Decision</i> - General Accounting Guidelines for Gas Distribution Network Service Providers
May 2003	<i>Final Decision</i> – Decision on QR's Proposed Costing Manual Amendments
June 2003	<i>Final Decision</i> – Form of Regulation of Electricity Distribution to commence from 1 July 2005
June 2003	<i>Decision</i> – Gas Distribution: Monitoring Service Quality

Reports to Government (not publicly available)

<i>Release Date</i>	<i>Title</i>
November 2002	<i>Draft Report for Comment</i> – Townsville City Council – Two-Part Tariff Review
November 2002	<i>Draft Report for Comment</i> - Local Government Two-Part Tariff Review
February 2003	<i>Final Report</i> – Townsville City Council – Two-Part Tariff Review
February 2003	<i>Final Report</i> – Local Government Two-Part Tariff Review
February 2003	<i>Recommendations for Payments for Local Government Reforms 2001-2002</i> Local Government National Competition Policy Financial Incentive Payments Scheme

6. Specialist Services

Total expenditure on specialist services during 2002-03 was \$757,301, which was within budget.

<i>Specialist Services by Category in 2002-03</i>	\$
Management	43,235
Finance/Accounting	68,667
Professional/Technical	645,399
<i>Total</i>	757,301

<i>Specialist Services Awarded in 2002-03 by Value</i>	<i>No. of Consultants</i>
Less than \$20,000	35
\$20,001 - \$100,000	7
More than \$100,000	1
<i>Total</i>	<i>43</i>

7. Other Issues

Overseas Visits

No overseas travel was undertaken by the Authority during 2002-03.

Meetings of the Authority

Sixteen meetings of the Authority were held during 2002-03.

	<i>Scheduled Meetings</i>		<i>Special Meetings</i>	
	<i>Held</i>	<i>Attended</i>	<i>Held</i>	<i>Attended</i>
Rod Wylie	10	10	6	6
Darryl McDonough	10	9	6	6
John Quiggin	10	10	6	5
Justin Malbon	10	9	6	5
Sue Palmer	10	10	6	6

Details of Annual Report Production

300 copies of this report have been printed at an average cost of \$7.14 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 below.

8. Contact Details

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