



Annual Report 2005-06

Table of Contents

	Page
Chairperson's Introduction	1
The Authority	2
Summary for the Year	6
Ports	7
Rail	8
Competitive Neutrality	9
Electricity	10
Gas	12
Local Government	14
Water	16
Legislative Provisions	16
Corporate Matters	17
Publications	19
Financial Statements	21
Appendices	36

Chairperson's Introduction

This tenth Annual Report of the Queensland Competition Authority (the Authority) is the first produced under my chairmanship. It contains details of the Authority's activities over the 2005-06 financial year.

During the year, the Authority finalised major revisions of regulatory arrangements in three of the areas for which it is responsible: rail, ports and gas distribution.

The issue that attracted most public attention was the access arrangements to apply to Queensland Rail's (QR's) intrastate rail infrastructure from July 2005 onwards. The Authority issued its Final Decision rejecting QR's draft access undertaking in December 2005. That decision was challenged by QR in an application to the Supreme Court for judicial review. Following that application, the Authority initiated discussions with QR and the Queensland Resources Council. These led to QR submitting a revised undertaking that the Authority was able to approve in June 2006. Included in the new arrangements is a master-planning process that should facilitate the expansion of Queensland's rail infrastructure to service the needs of its important coal-export industry.

Also vital to coal exports are the access arrangements for the Dalrymple Bay Coal Terminal (DBCT), a major focus of the Authority's efforts in previous years. In April 2005, the Authority had declined to approve access arrangements submitted by BBI (DBCT) Management Pty Limited (DBCT Management). A revised access undertaking, consistent with the Authority's April decision and generally supported by the terminal's users, was approved by the Authority in June 2006. With access issues resolved, the necessary expansion of the terminal can now proceed.

In both these cases, the time that elapsed before access arrangements were approved was greater than ideal. The lesson is that, in future cases, all parties need to work harder to ensure that contentious issues are resolved between the issue of the Authority's draft and final decisions, not after the final decision has been issued.

The third major revision was to the access arrangements for the State's two gas distribution networks. Revised arrangements to apply from July 2006 to June 2011 were approved by the Authority in June 2006, following a draft decision in December 2005 and a final decision in May 2006.

While these three major issues absorbed much of its resources over the year, the Authority continued to meet its obligations in other areas: monitoring the implementation of competition reforms by local government, including recommending the allocation of residual funds from the Local Government Financial Incentive Payments Scheme; overseeing ring-fencing, regulatory accounting and service quality for the State's electricity and gas distribution networks; and ensuring that competitive-neutrality principles are not breached by government instrumentalities that compete with the private sector.

In the year ahead, I anticipate that the Authority's expertise in electricity and gas regulation will be called upon to facilitate the successful introduction of full retail contestability for electricity and gas in Queensland from 1 July 2007 and to ensure a successful transition of the responsibility for the economic regulation of the State's electricity and gas distribution to the Australian Energy Regulator during 2007-08. For ports and rail, a major imperative for the Authority in the coming year is to ensure that regulatory arrangements remain conducive to the expansion of the infrastructure in line with the needs of the State's commodity exporters. The Authority also has considerable expertise relevant to Queensland's current water-infrastructure problems. I hope that the Authority will have the opportunity to make valuable contributions in this area during the coming year.

In concluding, I thank my predecessor, my fellow board members and the Chief Executive and staff of the Authority for the professional way in which they have discharged their duties in a challenging year. It has been a privilege for me to oversee the conclusion of such an exciting year's activities.

Brian R Parmenter
Chairperson
1 September 2006

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 which 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 which will 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 may access services at a price which is fair to them and at the same time provides the businesses with a fair investment return; and
- Ensuring that businesses may 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 Queensland Rail owned track, 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 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 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 declared government business activities, which 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 which cannot be economically duplicated. Infrastructure which 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. 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 previously received to investigate certain pricing related matters of the Burdekin Houghton Water Supply Scheme.

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* and 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 potential responsibilities in relation to service quality and the setting of retail prices under the *Electricity Act 1994* and the *Gas Supply Act 2003*.

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 a service provider's obligations in relation to strategic asset management plans.

Application

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

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

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 Research at Tactical Global Management Ltd (TGM), a Brisbane-based global wholesale funds management firm. Before taking up this position 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 6 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 was appointed as a Director of the Authority in 2001.

Ms Helen Harris, BComm GradDipLegStud GAICD

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.

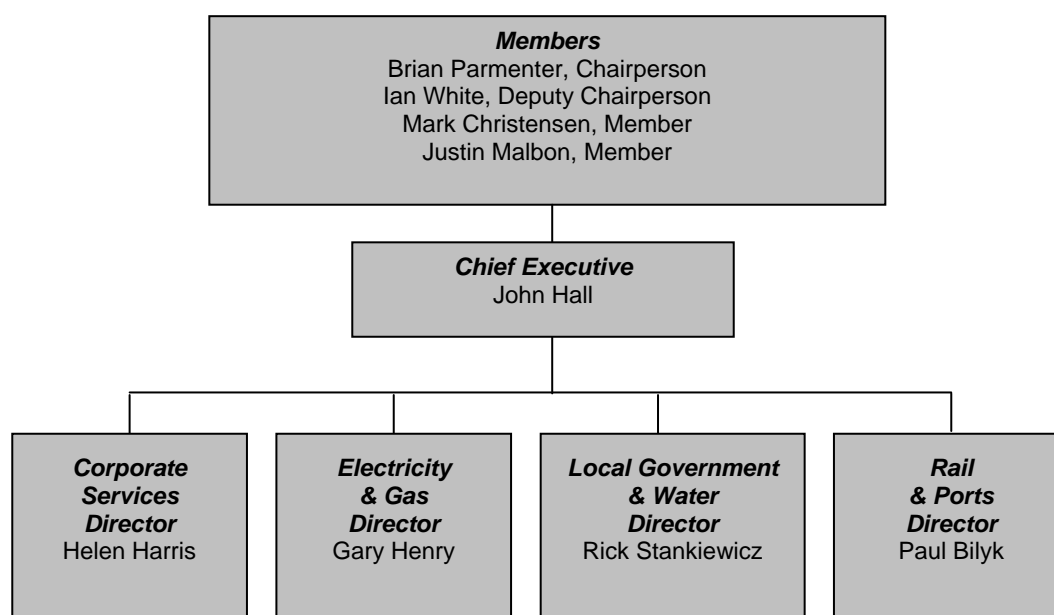
Mr Gary Henry, BCom(Econ)

Director - 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

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 2006



Summary for the Year

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

Competitive Neutrality	2
Electricity	4
Gas	8
Rail	4
Ports	1
Water	0
Local Government	5
Other	4
Total	28

Submissions Received

Competitive Neutrality	0
Electricity	0
Gas	10
Rail	19
Ports	16
Water	0
Local Government	110
Other	0
Total	155

Ports

In Brief

The Dalrymple Bay Coal Terminal (DBCT) has been 'declared' for third party access under the QCA Act, which allows for the determination of fair and reasonable terms and conditions of access to the terminal.

The Authority approved the 2006 DBCT access undertaking submitted by DBCT Management.

The undertaking applies to coal handling services at DBCT.

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.

In April 2005, the Authority published its decision to refuse to approve an initial access undertaking submitted by DBCT Management. Following this, DBCT Management and the terminal's users engaged in discussions to resolve the outstanding matters in relation to the access undertaking.

Due to concerns about the time being taken to finalise the discussions, on 21 October 2005 the Authority issued DBCT Management with a notice requiring it to submit a revised draft access undertaking by 19 January 2006.

On 4 January 2006, DBCT Management resubmitted a revised access undertaking to the Authority. On 9 January 2006, the Authority sought submissions from stakeholders on the revised access undertaking. Five submissions were received, with a further 11 submissions being received in response to supplementary requests for comments.

On 15 June 2006, the Authority published its decision to approve the access undertaking. The 2006 access undertaking provides for, inter alia:

- terminal capacity to be allocated among access seekers based on the dates on which they made binding commitments for additional capacity;
- the Authority to assess capacity expansions during the regulatory period to reduce concerns regarding regulatory risk;

- measures to allow DBCT Management to manage the creditworthiness risk of terminal users;
- protections to the rights of terminal users in the event of changes to terminal regulations;
- a detailed standard access agreement to provide DBCT Management and access seekers with greater certainty about their rights and obligations; and
- public reporting of indicators on the terminal's operations and service quality.

The undertaking will expire on 31 December 2009 or when the terminal is no longer operated by DBCT Pty Ltd.

Price Review Arbitration

DBCT Management and the existing users of the terminal are in dispute over the prices that apply under existing user agreements. The arbitration of the disputes has been formally referred to the Authority for resolution. However, at the request of the parties, the arbitration was placed on hold pending finalisation of the access undertaking.

While the undertaking does not apply to current user agreements, it may facilitate the resolution of the disputes, as it provides a pricing framework which has been broadly agreed with users. Accordingly, the parties have recently reaffirmed that the arbitrations should remain on hold pending the outcome of ongoing negotiations between them.

The Year Ahead

Over the course of 2006-07, it is anticipated the DBCT Management will commission the 'short gain' expansion works to increase terminal capacity to 59 million tonnes per annum and will continue on works to increase terminal capacity to 85 million tonnes per annum.

In line with this expansion program, the Authority expects DBCT Management will submit a draft amending access undertaking seeking to vary its revenue cap to take account of the 'short gain' expansion.

The Authority also anticipates that DBCT Management will seek the Authority's approval for various aspects of major expansion works, including approval of: the scope of the works; DBCT Management's processes for awarding and managing its capital works program; and the standards and specifications of individual contracts.

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 in 2001. On 29 June 2006, the Authority approved a replacement access undertaking that expires on 30 June 2009.

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

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

The Full Picture

The Authority's work for 2005-06 focused heavily on the evaluation of QR's 2005 and 2006 draft access undertakings. A large part of this process was dedicated to public consultation on the draft access undertakings and on discussion with QR and the Queensland Resources Council (QRC) following the judicial review process instigated against the Authority in response to the Authority's final decision issued in December 2005.

QR's 2001 Access Undertaking

Arbitrations

The Authority finalised arbitrations relating to three disputes brought to the Authority in October 2004 by Pacific National Pty Limited under the access undertaking's dispute resolution provisions. At its request, the Authority agreed that Toll North Pty Ltd could also become party to the arbitrations.

Following its draft determination of 29 June 2005, the Authority issued parties with its final determinations in relation to each of these matters on 3 October 2005.

The Authority found that the disputed track at each location was not part of the service declared for access under the QCA Act and, therefore, the relevant provisions of the QCA Act and QR's access undertaking did not apply.

In accordance with s127 of the QCA Act, the Authority has included details of each access determination on the Authority's Register of Access determinations.

Ring-fencing

As a vertically-integrated provider of both above-rail and below-rail services, the ring-fencing arrangements in QR's access undertaking limit the movement of staff and transfer of confidential information within QR. Consistent with these arrangements, the Authority required independent review of QR's compliance with its ring-fencing obligations. The audit report for the 2004-05 financial year was completed in April 2006. This audit found that QR had complied in all material respects with its obligations. However, the Audit found that there was insufficient evidence to confirm that QR was appropriately debriefing employees in relation to the management of confidential information. The Authority published the audit report in June 2006.

QR's 2005 Draft Access Undertaking

QR submitted a replacement draft access undertaking in April 2004 in accordance with an initial undertaking notice issued by the Authority. The Authority released a request for comments paper in July 2004 inviting interested parties to make submissions on the draft undertaking.

Submissions were received from nine interested parties, and a further five submissions were received in November 2004 as responses to the original submissions.

The Authority issued its draft decision on QR's draft access undertaking on 7 July 2005.

Subsequently, the Authority issued its final decision rejecting QR's draft access undertaking on 12 December 2005.

Judicial Review

In January 2006, QR initiated a Supreme Court application for judicial review of the Authority's December 2005 decision. QR also sought, and was granted, a stay of the Authority's final decision until the judicial review application was determined. At its request, the QRC was joined as a party to the proceedings.

Competitive Neutrality

QR's 2006 Draft Access Undertaking

Following discussions with the Authority and the QRC, QR withdrew its judicial review application and, on 9 June 2006 lodged a voluntary draft access agreement (DAU) under s136 of the QCA Act 1997.

The Authority released a paper outlining its preliminary position on QR's 2006 DAU for public consultation and requested submissions from interested parties.

In response, the Authority received seven submissions from interested stakeholders.

Based on its assessment of the 2006 DAU and comments received during public consultation the Authority approved QR's DAU on 29 June 2006. QR's new access undertaking will apply until 30 June 2009.

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 QR undertaking including arbitrating any disputes and assessing reference tariffs for new lines or new coal mines.

The undertaking provides for a review of the mechanisms to manage QR's volume risk in central Queensland during 2006-07. Under these arrangements, QR will consult with relevant stakeholders and then submit a proposed amendment to the access undertaking to the Authority for approval in accordance with the provisions of the QCA Act.

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 2006, 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.

In August 2005, the Authority decided to review a decision by Kilkivan Shire Council to accept a recommendation by its competitive neutrality referee that certain activities related to the supply of road-making materials did not breach the principle of competitive neutrality.

Upon initial investigation, the Authority found that it was not able to proceed to consider the issues raised as the allegations did not relate to a roads business activity as defined under the *Local Government Act 1993*. A Report was provided to Council.

As none of the other complaints received were within the bounds of the Authority's legislated responsibilities, there were no formal investigations 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 the number of investigations that can be reasonably anticipated over the coming year.

Electricity

In Brief

Energex Ltd and Ergon Energy Corporation Ltd are the sole distributors of electricity in their supply areas. Since customers cannot choose an alternate supplier, prices for these services are regulated to ensure they are fair and reasonable. In addition, the quality of the services provided is monitored so that customers have the information necessary to assess whether they are receiving an appropriate standard of service.

The 2005 Final Determination on the Regulation of Electricity Distribution, approved in April 2005, established regulatory arrangements applying to the electricity distribution businesses of both Energex and Ergon Energy from 1 July 2005 to 30 June 2010.

The Full Picture

Final Determination Follow-up

The 2005 Final Determination identified several issues to be addressed during 2005-06.

Service Quality Reporting

Service Quality Reporting Guidelines needed to be revised to strengthen the reporting arrangements and to facilitate nationally consistent reporting. These matters were addressed in a revised version of the Guidelines, released in August 2005.

Cost Reflective Price Paths

Some customers were still facing prices below the cost of supply and the side constraints on price increases prevented these customers from paying cost reflective prices for some time. The Authority required the distributors to produce price paths for these customers that would move their prices to cost reflectivity by 2009-10. These price paths were submitted to, and approved by, the Authority. The period in which cost reflectivity was to be achieved was extended for some Ergon Energy customers to 2014-15 to avoid unacceptable price shocks.

Medium-Term Pricing

Energex and Ergon Energy were encouraged to consider a number of medium-term pricing issues and to submit proposals to address these issues

during 2005-06. The distributors submitted their initial proposals in late 2005. The Authority engaged a consultant to review these and to provide a broader perspective on contemporary network pricing issues. The report was provided to the distributors. Final medium-term pricing strategies are to be published by the distributors by the end of 2006.

Ongoing Processes

The 2005 Final Determination provided for the continuation of processes established by the Authority's 2001 Final Determination.

Price Approvals

The Authority approved revised Pricing Principles Statements submitted by Energex and Ergon Energy. Energex revised its capital contributions policy and noted its intention to introduce kVA prices in the medium-term. Ergon Energy revised its Transmission Use of System (TUOS) charges pass-through method in order to provide greater price stability and consistency across customers.

The Authority approved distribution prices for 2006-07. The Authority required the distributors to publish prices for non-contestable customers, from December 2005, in anticipation of full retail competition from 1 July 2007.

Regulatory Reporting Statements

Energex and Ergon submitted their final sets of regulatory accounts under the 2001 Final Determination. In its 2005 Final Determination, the Authority noted its concern with the quality of information being reported during the previous regulatory period, which prevented meaningful assessment of performance across the regulatory period.

The Authority revised its Regulatory Reporting Guidelines and these were locked-in for the current regulatory period. The Authority also approved revised Cost Allocation Methods and Procedures that the distributors are required to follow in preparing their Regulatory Reporting Statements. Changes to the Cost Allocation Methods and Procedures will be limited to exceptional circumstances and require the Authority's prior approval.

Service Quality Reports

The distributors provide data to the Authority on a range of service quality measures, covering

reliability, quality of supply and customer service measures on a quarterly and annual basis in accordance with the Authority's Service Quality Reporting Guidelines. During the year the Authority published the quarterly data provided by the distributors with a brief accompanying overview from the Authority. The Authority also prepared a comprehensive annual financial and service quality performance report for each of the distributors which was released in early 2006.

Ring-fencing

The distributors' 2004-05 Ring-fencing Compliance Reports were submitted to the Authority in October 2005. Neither distributor was able to demonstrate compliance with all aspects of the Ring-fencing Guidelines.

With the Government's announcement of the intended sale of the retail activities of both energy companies prior to the introduction of full retail competition, ring-fencing should become a less critical issue in future. Reflecting this change, the Authority limited its approval of the distributors' ring-fencing protocols, which provide a more flexible ring-fencing process than is required under the full guidelines, to 30 June 2007. Following that date, and unless other arrangements are agreed, the distributors will be required to comply with the full ring-fencing guidelines.

Distribution Loss Factors

The Authority is required to approve annual Distribution Loss Factors for each distributor. Some important refinements to the distributors' load flow calculations and methods were identified and approved during the approval process for 2006-07.

The Year Ahead

As for gas, the Australian Energy Regulator (AER) is to become the relevant regulator for Queensland's electricity distribution networks from 1 January 2007. At the time of preparing this report, it was unclear how the transition from the Authority to the AER would proceed and how this might impact on the work of the Authority. 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 2006-07 at least.

The 2005 Final Determination included a number of matters that will need to be addressed during

2006-07. The 2005 Final Determination provided Energex and Ergon Energy with the opportunity to seek increases in their forecast capital expenditure, with the Authority agreeing to consider passing-through the resulting impact on their revenue caps during the current regulatory period, subject to a number of identified conditions being met.

In preparing Ergon Energy's asset valuation for the 2005 Final Determination, it was found that significant sections of Ergon's asset register were incomplete, requiring estimation of missing data. The Authority committed to re-estimating Ergon's revenue caps once Ergon's asset register has been finalised.

The Government's planned changes to the structure of the Queensland electricity industry and the introduction of full retail competition into the market from 1 July 2007 will require the distributors' Ring-Fencing Protocols and Cost Allocation Methods and Procedures to be reviewed.

The Regulatory Reporting Statements and Ring-fencing Compliance Reports provided by the distributors will be analysed along with the quarterly and annual Service Quality Reports. The Authority will again publish its assessment of the financial and service quality performance of the distributors based on this information.

The Authority will work with both distributors to finalise the medium-term pricing policies that are to be published by the distributors before the end of 2006.

The 2005 Final Determination included a number of ongoing responsibilities that the Authority will address. For example, the Authority will determine any adjustments to future revenue caps to correct for any under or over recovery of revenue. The Authority will also approve distribution prices, the pass-through of transmission costs and Distribution Loss Factors during the course of the year.

In addition, there are indications that the introduction of full retail competition may result in an expanded role for the Authority, although no final decision has been made by government and the details of any expanded role are not yet certain.

Gas

In Brief

Under the National Gas Code (the Code), the Authority is responsible for the economic regulation of the Queensland gas distribution networks owned by Allgas Energy Ltd and Envestra Ltd.

The aim of this regulation is to ensure that the infrastructure owners provide access on fair and reasonable terms, avoiding unproductive duplication of facilities while creating the potential to increase competition in upstream or downstream markets and improve economic outcomes.

The previous access arrangements for the natural gas distribution networks of Allgas Energy Ltd (Allgas) and Envestra Ltd (Envestra) expired on 30 June 2006. Revised access arrangements for the period 1 July 2006 to 30 June 2011 were submitted by both service providers in September 2005 and were approved by the Authority in June 2006.

The Full Picture

2006 Review of Access Arrangements

In 2005-06, the Authority's primary task in relation to gas distribution was the assessment of new regulatory arrangements to apply for the five year period commencing on 1 July 2006.

On 30 September 2005, Allgas and Envestra submitted revised access arrangements as required by the Code and their current access arrangements. The Authority released the revised access arrangements and invited submissions from stakeholders by 11 November 2005. Two submissions were received.

The Authority released separate Draft Decisions on each of the service providers' revised access arrangements in December 2005. The Draft Decisions did not approve the revised access arrangements and required a number of amendments to be made before approval could be given.

The Authority received submissions on its Draft Decisions from the service providers and a number of interested parties, including gas retailers. Allgas also submitted a further revised

access arrangement, which incorporated a number of the required amendments.

The Authority released its Final Decisions in May 2006. The Authority did not approve the revised access arrangements of either service provider. In accordance with the Code, the Authority required both service providers to submit amended versions of their revised access arrangements and access arrangement information incorporating the amendments required by the Final Decisions by 5 June 2006.

Allgas adopted all of the amendments as required by the Authority's Final Decision. Envestra adopted all but three of the required amendments. However, Envestra addressed the remaining three required amendments by proposing alternatives that the Authority accepted as satisfying the requirements of the Code. As a result, the Authority accepted the final versions of the revised access arrangements submitted by the service providers and released its Final Approvals in late June 2006.

The 2006 review of access arrangements was completed within nine months, consistent with the timetable determined by the Authority in consultation with the service providers.

Ongoing Processes

Ring-fencing

The Ring-fencing Guidelines issued by the Authority in 2003 are designed to assist service providers with the preparation of their ring-fencing compliance reports in a manner which meets the service providers' reporting obligations under the Code.

Both service providers submitted their 2004-05 Ring-fencing Compliance Reports to the Authority as required. Following an assessment of these reports, the Authority formed the view that Envestra had demonstrated compliance with its ring-fencing obligations under the Code. While Allgas is yet to demonstrate full compliance with its ring-fencing obligations, the Authority noted the further progress that Allgas had made in the past year towards achieving compliance with the Code. As a consequence, the Authority decided not to take any further action at this time.

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.

A cost allocation manual describes the method of allocating operating costs, revenue, costs associated with the use of shared assets, and assets and liabilities, to the covered network when preparing regulatory accounting statements. For 2004-05 regulatory accounting purposes, the Authority approved Allgas' and Envestra's cost allocation manuals as fulfilling their obligations under the Code.

Demand Triggers

The gas access arrangements approved in December 2001 required service providers to report to the Authority each year on actual demand against forecast for the previous financial year, to determine whether the demand trigger in the access arrangements had been activated.

For 2004-05, the demand trigger was activated for Allgas' large customer class. However, Allgas did not wish to initiate a review, as provided for in its access arrangement. The Authority also decided not to instigate a review of Allgas' access arrangement as Allgas, not customers, was bearing the cost of the shortfall in demand. The demand triggers for Envestra were not activated.

Demand triggers are not a feature of the revised access arrangements that were recently approved by the Authority.

Service Quality

In June 2003, the Authority established a set of annual service quality reporting requirements. The Authority requires the service providers to collect and report on a number of performance measures that relate to reliability, customer service and operational attributes, such as customer numbers and network extensions.

The annual service quality reports (covering the period 2004-05) were submitted to the Authority in September 2005. These reports were reviewed by the Authority and subsequently published in November 2005 with an accompanying overview. This was only the second year of service quality reporting to the Authority. As data is accumulated under the reporting arrangements, it

will be possible to gain more insight into the service providers' performance.

The Year Ahead

As in past years, service providers 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.

The Australian Energy Regulator (AER) is expected to become the relevant regulator for Queensland's gas distribution networks from 1 January 2007, as determined by the Ministerial Council on Energy. At the time this report was prepared, it was unclear whether all tasks relating to the regulation of the networks would transfer to the AER immediately from 1 January 2007 or at some later date. 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 2006-07 at least.

Early in 2007, the service providers will submit revised tariffs to apply in 2007-08. The Authority will assess whether the proposed new tariffs have been varied in accordance with the price paths included in the revised access arrangements. The revised tariffs will be published around May 2007.

The introduction of full retail competition (FRC) is due to commence from 1 July 2007 and is expected to be accompanied by applications from service providers for the pass-through of related costs. When the revised access arrangements were approved, the potential cost of implementing FRC was unclear. Consequently, the Authority agreed to allow FRC costs to be passed through once the costs are known.

Local Government

In Brief

The Authority is responsible for reporting to Government on the implementation of competition reform by Local Government businesses, including reform of their water supply businesses.

A key element in this process has been \$154.5 million in funding provided by the Government to local government to encourage reform.

Overall compliance by councils with competitive neutrality and CoAG water reforms has been assessed at 84.5% and 93.4% respectively and payments totalling \$150.2 million have been recommended by the Authority.

The Full Picture

In July 1998, the Authority was directed to annually examine and report 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) over a five year period.

Under the Scheme, the State Government allocated to local government a total of \$141.5 million (in 1994-95 terms) of the competition payments anticipated from the Commonwealth Government. After adjustments for indexation of, and reductions in, competition payments from the Commonwealth, \$154.5 million was available for payment to councils.

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

The competition reforms require the application of competitive neutrality and the strategic water reform framework established by the Council of Australian Governments (CoAG). Qualifying competitive neutrality reforms include corporatisation, commercialisation, full cost pricing or adoption of the Code of Competitive Conduct. CoAG water reform implementation

requires the application of full cost recovery and consumption based water charges, introduction of two part tariffs where cost effective and disclosures relating to cross-subsidies between consumer classes, community service obligations, and subsidies to consumer classes.

Of the funds available, 85% was provided for competitive neutrality reforms, 10% for CoAG water reforms and the remaining 5% for associated broad competition reforms (termed "flagfall" payments).

While the 5 year scheme came to an end on 30 June 2002, the Government:

- approved a one year extension to 30 June 2003 for those business activities where councils resolved, by 31 March 2002, to implement the reforms by 30 June 2003;
- requested a report on further progress in the implementation of reforms during 2003-04 and, in particular, on further progress by certain smaller councils in areas such as water charging, full cost recovery and cross subsidies; and
- requested a Supplementary Report in 2006 on the distribution of any unexpended funds, based on reforms which go beyond the requirements of the Scheme.

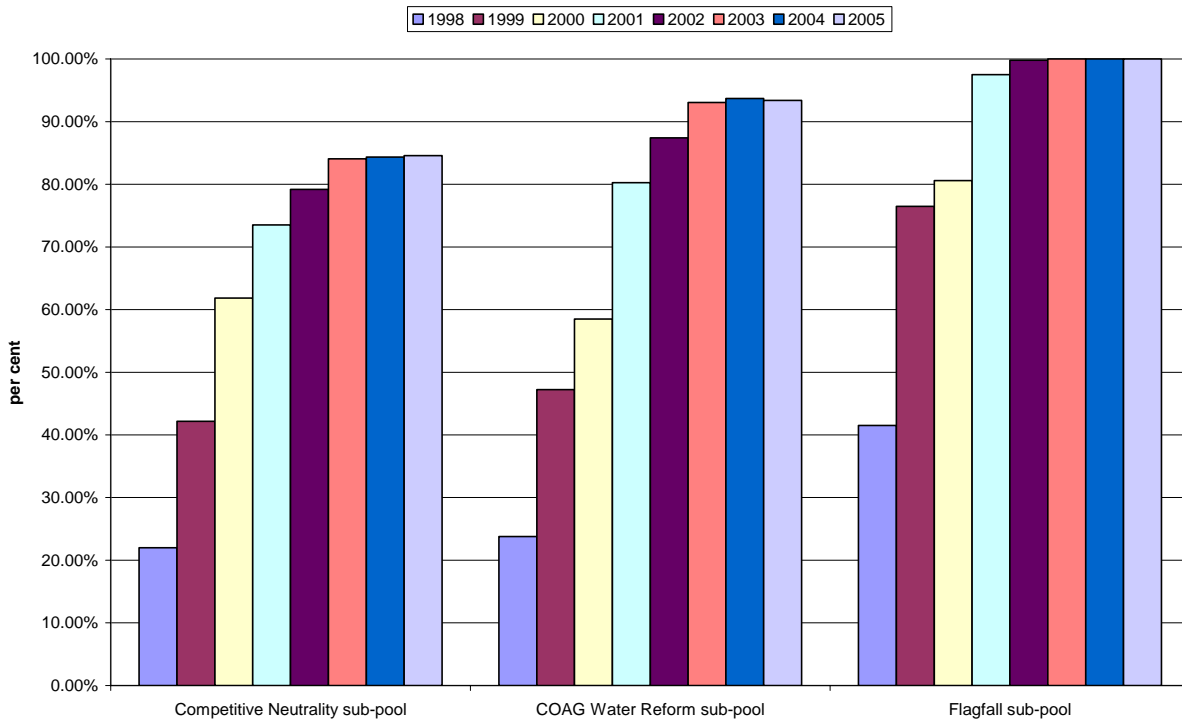
As in the previous year, the Authority:

- prepared and distributed Information Returns to all councils;
- visited councils (101 during 2005-06) to collect and verify relevant information;
- reviewed detailed returns from councils for their relevant business activities; and
- provided councils with a detailed assessment of all nominated business activities.

The Authority submitted its Supplementary Report to the Government in June 2006.

Of the \$154.5 million available for payment, recommendations totalling \$150.2 million have been made by the Authority. The progress achieved by all councils against the assessment criteria for each reform category for each year of the Scheme is shown in the graph below.

Cumulative Compliance by All Councils



* This summary of compliance has been weighted by total funding caps allocated to councils.

The Year Ahead

While the Scheme has expired, the States have recently 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.

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.

The Authority's prices oversight responsibilities for public sector water suppliers are recommendatory only and the Authority may undertake an investigation only in response to a Ministerial reference.

During 2005-06, the Ministers approved the Authority's recommendations regarding the pricing practices of the Gladstone Area Water Board and the Authority contributed to various forums associated with the National Water Initiative.

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 April 2004, the Government referred the pricing practices of GAWB to the Authority for investigation. After consideration of issues raised in submissions received, the Authority's Final Report of recommendations regarding GAWB's pricing practices was provided to the Ministers in March 2005.

On 21 July 2005, the Ministers accepted without qualification 44 of the Authority's 48 recommendations. The remaining four recommendations were accepted with qualifications.

One of the recommendations accepted was that GAWB annually publish a report on service quality against contractual standards and submit the report to the Authority. The first service quality report is expected in September 2006.

Other Matters

There has been an increased national focus on the pricing and management of water resources. The National Water Initiative (NWI), agreed to by most States and Territories (including Queensland) in June 2004, sets out a detailed agenda for continuing water reform through to 2010 and beyond. The reforms cover pricing and performance benchmarking as well as initiatives for further efficiency in water use. 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 benchmarking and performance monitoring, pricing principles for recycled water, stormwater and trade waste, institutional arrangements and general pricing policy going forward.

The Year Ahead

The ongoing national debate in relation to the NWI can be expected to have implications for the future workload of the Authority.

Given the importance of water prices to customers, and ongoing water scarcity issues, there continues to be potential for further disputes over prices and pricing practices which the Authority may be directed to investigate.

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

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 as part of a rolling system of appraisal.

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 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 \$6.1 million compared with \$6.7 million in the previous year. The major items of expenditure were salaries (\$3.3 million) and specialist services (\$1.35 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 2005-06, these fees amounted to some 42.7% of total income.

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 can be passed directly 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.

Staffing Levels

The number of staff employed by the Authority as at 30 June 2006 was 33. 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.

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 2006

	Total Staff	Male	Female	NESB ^(a)	A&TSI ^(b)
Chief Executive	1	1	0	0	0
Directors	4	3	1	1	0
Technical Staff	21	16	5	0	0
Support Staff	7	1	6	0	0
Total	33	21	12	1	0
Full-time Staff	29	21	8	1	0
Part-time Staff	3	0	3	0	0
Casual	1	0	1	0	0
Age 15-24	1	0	0	0	0
25-34	13	7	7	0	0
35-44	9	6	3	0	0
45 +	10	8	2	1	0
	33	21	12	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. However, the Authority's offices are zoned in an attempt to minimise out of hours consumption.

Freedom of Information

The Authority is subject to the provisions of Freedom of Information (FOI) legislation. No FOI requests were received during the 2005-06 financial year.

Publications

During 2005-06, 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 2005	Draft Decision: QR's 2005 Draft Access Undertaking
August 2005	Report: Electricity Distribution - Service Quality Reporting Guidelines
October 2005	Report: Assessment of Gas Delivery Against Review Triggers – 2004-05
October 2005	2004-05 Annual Report
November 2005	Report: Gas Distribution – Service Quality Performance for the Year Ending 30 June 2005
November 2006	Report: Electricity Distribution: Regulatory Reporting Guidelines
December 2005	Draft Decision: Revised Access Arrangement for Gas Distribution Networks - Allgas Energy
December 2005	Draft Decision: Revised Access Arrangement for Gas Distribution Networks - Envestra
December 2005	Decision: QR's 2005 Draft Access Undertaking
March 2006	Report: Ergon Energy's Financial and Service Quality Performance Report 2004-05
March 2006	Report: Energex's Financial and Service Quality Performance Report 2004-05
May 2006	Final Decision: Revised Access Arrangement for Gas Distribution Networks - Allgas Energy
May 2006	Final Decision: Revised Access Arrangement for Gas Distribution Networks - Envestra
June 2006	Position Paper: QR's 2006 Draft Access Undertaking
June 2006	Final Approval: Revised Access Arrangement for Gas Distribution Networks - Allgas Energy
June 2006	Final Approval: Revised Access Arrangement for Gas Distribution Networks – Envestra
June 2006	Decision: Dalrymple Bay Coal Terminal - 2006 Draft Access Undertaking
June 2006	Final Approval: QR's 2006 Draft Access Undertaking

Reports to Government (not publicly available)

<i>Release Date</i>	<i>Title</i>
December 2005	Draft Report: Review of Brisbane City Council's PBA of Brisbane CityWorks
June 2006	Report to Government: Local Government Financial Incentive Payments Scheme - Supplementary Report Volume 1, including Final Report on review of Brisbane City Council's PBA of Brisbane CityWorks
June 2006	Report to Government: Local Government Financial Incentive Payments Scheme - Supplementary Report Volume 2
June 2006	Report to Government: Local Government Financial Incentive Payments Scheme - Supplementary Report Volume 3

Private Reports

<i>Release Date</i>	<i>Title</i>
October 2005	Access Determination: QR and PN Ltd - The Assignment of Infrastructure at Ingham
October 2005	Access Determination: QR and PN Ltd - The Assignment of Infrastructure at Bowen
October 2005	Access Determination: QR and PN Ltd - The Assignment of Infrastructure at Hewitt
November 2005	Draft Report: Complaint Against Kilkivan Shire Council's Roads Business Activity
December 2005	Final Report: Complaint Against Kilkivan Shire Council's Roads Business Activity
June 2006	Draft Report: Mount Morgan Shire Council - Two-Part Tariff Assessment.

Financial Statements

INCOME STATEMENT

for the year ended 30 June 2006

	Notes	2006 \$	2005 \$
Income			
<i>Revenue</i>			
Government Grant		4,000,000	4,000,000
Regulatory Service Fees		3,015,000	2,844,000
Arbitration and Mediation Fees		137,463	-
<i>Other Income</i>			
Other Income	3	234,361	198,156
Total Income		7,386,824	7,042,156
Expenses			
Members Costs	4	207,685	205,916
Staff and Related Costs	5	3,716,683	3,621,734
Operating Costs	6	2,163,961	2,902,235
Total Expenses		6,088,329	6,729,885
Operating Surplus/(Deficit)		1,298,495	312,271

The accompanying notes form part of these financial statements

BALANCE SHEET

as at 30 June 2006

	Notes	2006 \$	2005 \$
Current Assets			
Cash Assets	7	4,352,482	3,243,043
Receivables	8	205,064	3,753
Other	9	84,036	69,393
Total Current Assets		4,641,582	3,316,189
Non Current Assets			
Plant and Equipment	11	315,854	424,340
Total Non Current Assets		315,854	424,340
Total Assets		4,957,436	3,740,529
Current Liabilities			
Payables	12	207,082	330,008
Accrued Employee Benefits	13	349,424	331,903
Other Liabilities	14	30,000	30,000
Total Current Liabilities		586,506	691,911
Non Current Liabilities			
Accrued Employee Benefits	13	221,601	167,783
Other Liabilities	14	18,904	48,904
Total Non Current Liabilities		240,505	216,687
Total Liabilities		827,011	908,599
Net Assets		4,130,425	2,831,930
Equity			
Contributed Equity		1,579,027	1,579,027
Retained Surpluses		2,551,398	1,252,903
Total Equity		4,130,425	2,831,930

The accompanying notes form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2006

	Retained Surpluses		Contributed Equity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Balance 1 July	1,252,903	940,632	1,579,027 *	1,579,027
Operating Surplus/(Deficit)	1,298,495	312,271	-	-
Balance 30 June	2,551,398	1,252,903	1,579,027	1,579,027

* Inclusive of Contributed Assets on establishment

CASH FLOW STATEMENT

for the year ended 30 June 2006

	Notes	2006 \$	2005 \$
Cash flows from operating activities			
<i>Inflows:</i>			
Government Grant		4,000,000	4,000,000
Regulatory Service Fees		2,813,425	2,910,000
Arbitration and Mediation Fees		137,463	-
Interest		233,233	192,169
Miscellaneous Income		24,232	6,932
GST collected on goods and services provided		301,593	284,657
GST refunded by ATO		239,200	336,789
		7,749,146	7,730,547
<i>Outflows:</i>			
Members Costs		(207,685)	(205,916)
Staff Related Expenses		(3,688,330)	(3,569,402)
Operating Costs		(2,138,894)	(3,258,674)
GST paid on acquisitions		(224,551)	(349,781)
GST paid to ATO		(301,506)	(284,745)
		(6,560,966)	(7,668,518)
Net cash provided by / (used in) operating activities	15	1,188,180	62,029
Cash flows from investing activities			
<i>Inflows:</i>			
Proceeds from disposal of plant and equipment		250	333
<i>Outflows:</i>			
Plant and Equipment		(48,990)	(19,258)
Net cash provided by / (used in) investing activities		(48,740)	(18,925)
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		1,109,439	13,105
Cash at beginning of reporting period		3,243,043	3,229,939
Cash at end of reporting period	7	4,352,482	3,243,043

The accompanying notes form part of these financial statements

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

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) for the first time. The disclosures required by AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* concerning the transition from previous Generally Accepted Accounting Principles (GAAP) to AeIFRS are provided in Note 20 to Note 22.

This financial report is a general purpose financial report.

In particular, the financial statements comply with AAS29 *Financial Reporting by Government Departments*, as well as the Treasurer's Minimum Reporting Requirements for the year ending 30 June 2006, and other authoritative pronouncements.

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 2006

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.

In accordance with AASB 1, *First Time Adoption of Australian Equivalents to International Financial Reporting Standards*, the changes to asset thresholds have been recognised in the opening balance sheet prepared at 1 July 2004 for the adoption of AIFRS. Refer to Notes 20 to 22 for the financial impact of these changes in policy.

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%

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.

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 the benefits 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 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.

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.

i) 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.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

Note 3:	2006	2005
Other Income	\$	\$
Interest	233,497	190,891
Miscellaneous Income	614	7,265
Gains on sale of Plant and Equipment	250	-
Total	234,361	198,156

Note 4:	2006	2005
Members Costs	\$	\$
Members Cost including Members' remuneration, travel and training	207,685	205,916

Members Fees

Members fees are determined by the Governor in Council.

Number of Members whose remuneration falls within the following bands:

	2006	2005
\$30,000 - \$39,999	3	4
\$70,000 - \$79,999	1	1

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

Note 5:	2006	2005
Staff and Related Costs	\$	\$
Salaries and Related Costs	3,301,465	3,390,274
Accrued Employee Benefits Expensed	197,062	94,083
Staff Recruitment Costs	80,288	61,017
Staff Training Costs	79,459	25,633
Long Service Leave Central Scheme Levy	51,164	43,669
Other Staff Costs	7,245	7,058
Total	3,716,683	3,621,734

Note 6:	2006	2005
Operating Costs	\$	\$
Specialist Services	1,349,498	2,061,998
Occupancy Costs (including operating lease rentals)	371,956	361,806
Depreciation and Amortisation	132,078	131,361
Information Technology Costs	89,439	108,299
Travel and Accommodation Costs	44,275	56,671
Auditors Remuneration	12,535	12,760
General Administration Costs	67,477	70,571
Other Expenses	96,703	98,769
Total	2,163,961	2,902,235

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

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

	2006	2005
	\$	\$
Cash at Bank	52,897	151,189
Cash on Hand	300	300
Cash with QTC	4,299,285	3,091,554
Total	4,352,482	3,243,043

Note 8:

Receivables

Current

	2006	2005
	\$	\$
Trade Debtors	201,575	1,357
Other	3,489	2,396
Total	205,064	3,753

Note 9:

Other

Current

	2006	2005
	\$	\$
Prepayments	84,036	69,393
Total	84,036	69,393

Note 10:

Net GST Receivable

	2006	2005
	\$	\$
GST Receivable	24,192	38,841
GST Payable	(87)	-
Total	24,105	38,841

Note 11:

Plant and Equipment

	2006	2005
	\$	\$
At Cost	1,225,847	1,227,869
Less: Accumulated Depreciation	(909,993)	(803,529)
Total Plant and Equipment	315,854	424,340

Statement of Movement

	Opening WDV 01/07/2005	Additions	Disposals at WDV	Depreciation	Closing WDV 30/6/2006
	\$	\$	\$	\$	\$
Plant and Equipment	424,340	47,211	(23,619)	(132,078)	315,854
Total	424,340	47,211	(23,619)	(132,078)	315,854

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

Note 12:	2006	2005
Payables	\$	\$
Accrued Expenses	136,211	102,981
Creditors	54,614	215,267
Audit Fees Payable	12,000	11,760
Other Payables	4,257	-
Total	207,082	330,008

Note 13:	2006	2005
Accrued Employee Benefits	\$	\$
Current		
Employee Benefits	289,231	284,984
Salaries Payable	60,193	46,919
	349,424	331,903
Non-Current		
Employee Benefits	221,601	167,783

Note 14:	2006	2005
Other Liabilities	\$	\$
Current		
Lease Incentive Liability	30,000	30,000
Non-Current		
Lease Incentive Liability	18,904	48,904

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

Note 15:	2006	2005
Notes to the Cash Flow Statement	\$	\$
Reconciliation of Operating Surplus to Net Cash Provided by / (Used in) Operating Activities		
Operating surplus/(deficit)	1,298,495	312,271
Depreciation expense	132,078	51,943
Loss on disposal of plant and equipment	23,618	50,780
Gain on sale of plant and equipment	(250)	-
Changes in Assets and Liabilities		
Decrease/(increase) in receivables	(201,311)	62,743
Decrease/(increase) in prepayments/other	(14,643)	(3,140)
Increase/(decrease) in accrued employee benefits	71,339	57,776
Increase/(decrease) in payables and accruals	(121,146)	(470,344)
Net Cash Provided by / (Used in) Operating Activities	1,188,180	62,029

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

Note 16:

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:

	2006 \$	2005 \$
Not later than one year (inclusive of GST)	409,846	394,083
Later than one year but not later than five years (inclusive of GST)	264,674	674,520
Total Commitments	674,520	1,068,603
Lease rentals, including lease incentives, included in the determination of the operating result (exclusive of GST)	325,907	312,218

Note 17:

Contingencies

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

Note 18:

Financial Instruments

(a) Interest Rate Risk

Financial Assets

Cash Assets:- Effective Interest Rates

	2006	2005
Cash at Bank	5.16%	4.68%
Cash with QTC	6.14%	5.76%

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 Balance Sheet.

(c) Net Fair Value

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

Note 19:

Remuneration

The superannuable salary range of the Chief Executive's remuneration (that is, the salary on which QSuper defined benefits would be calculated).

	2006 \$	2005 \$
	200,000 -209,999	190,000 -199,999

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

Note 20:

Reconciliation of Adjustments for Changes in Accounting Policy and Adjustments from previous GAAP to Australian Equivalents to International Financial Reporting Standards (AeIFRS) as at 1 July 2004

		Previous GAAP 1-Jul-04 \$	Effect of Transition to AeIFRS \$	AeIFRS 1-Jul-04 \$
Current Assets				
Cash Assets		3,229,939	-	3,229,939
Receivables		66,496	-	66,496
Other		66,253	-	66,253
Total Current Assets		3,362,688	-	3,362,688
Non Current Assets				
Plant and Equipment	(a)	827,560	(271,860)	555,700
Intangible Assets	(b)	101,112	(101,112)	-
Total Non Current Assets		928,672	(372,972)	555,700
Total Assets		4,291,360	(372,972)	3,918,388
Current Liabilities				
Payables		887,045	-	887,045
Provisions		254,137	(254,137)	-
Accrued Employee Benefits		-	254,137	254,137
Other Liabilities		30,000	-	30,000
Total Current Liabilities		1,171,182	-	1,171,182
Non Current Liabilities				
Provisions		141,500	(141,500)	-
Accrued Employee Benefits		-	148,643	148,643
Other Liabilities		78,904	-	78,904
Total Non Current Liabilities	(c)	220,404	7,143	227,547
Total Liabilities		1,391,586	7,143	1,398,729
Net Assets		2,899,774	(380,115)	2,519,659
Equity				
Contributed Equity		1,579,027	-	1,579,027
Retained Surpluses	(d)	1,320,747	(380,115)	940,632
Total Equity		2,899,774	(380,115)	2,519,659

Notes to Reconciliation

(a) Write-off of previously capitalised assets below new asset recognition thresholds - Ref Note 2(d)	(271,860)
Adjustment to Plant and Equipment	(271,860)
(b) Write-off of previously capitalised assets below new asset recognition thresholds - Ref Note 2(d)	(101,112)
Adjustment to Intangible Assets	(101,112)
(c) Change in measurement to estimated future cash outflows	7,143
Adjustment to Non-Current Accrued Employee Benefits	7,143
(d) The adjustments to Retained Surpluses are as follows:	
Write-off of previously capitalised assets below new asset recognition threshold (Ref 20a)	(271,860)
Write-off of previously intangible assets below new asset recognition threshold (Ref 20b)	(101,112)
Change in measurement to estimated future cash outflows (Ref 20c)	(7,143)
Adjustment to Retained Surpluses	(380,115)

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

Note 21:

Reconciliation of Adjustments for Changes in Accounting Policy and Adjustments from previous GAAP to Australian Equivalents to International Financial Reporting Standards (AeIFRS) as at 1 July 2005

Note	Effect of Transition to AeIFRS			AeIFRS 1-Jul-05 \$
	Previous GAAP 1-Jul-05 \$	Opening Adjustments 1-Jul-04 \$	2004-2005 Adjustments \$	
Current Assets				
	3,243,043	-	-	3,243,043
	3,753	-	-	3,753
	69,393	-	-	69,393
Total Current Assets	3,316,189	-	-	3,316,189
Non Current Assets				
(a)	614,334	(271,860)	81,866	424,340
(b)	106,165	(101,112)	(5,054)	-
Total Non Current Assets	720,499	(372,972)	76,812	424,340
Total Assets	4,036,688	(372,972)	76,812	3,740,529
Current Liabilities				
	330,008	-	-	330,008
	331,903	(254,137)	(77,766)	-
	-	254,137	77,766	331,903
	30,000	-	-	30,000
Total Current Liabilities	691,911	-	-	691,911
Non Current Liabilities				
	156,956	(141,500)	(15,456)	-
	-	148,643	19,140	167,783
	48,904	-	-	48,904
Total Non Current Liabilities	205,860	7,143	3,684	216,687
Total Liabilities	897,771	7,143	3,684	908,599
Net Assets	3,138,917	(380,115)	73,128	2,831,930
Equity				
	1,579,027	-	-	1,579,027
(d)	1,559,890	(380,115)	73,128	1,252,903
Total Equity	3,138,917	(380,115)	73,128	2,831,930

Notes to Reconciliation

(a)	Reversing depreciation on assets derecognised as at 1 July 2004 below new asset thresholds	81,866
	Adjustment to Plant and Equipment	81,866
(b)	Write-off of previously capitalised assets below new asset recognition thresholds - Ref Note 2(d)	(5,054)
	Adjustment to Intangible Assets	(5,054)
(c)	Change in measurement to estimated future cash outflows	3,684
	Adjustment to Non-Current Accrued Employee Benefits	3,684
(d)	The adjustments to Retained Surpluses are as follows:	
	Write-off of previously capitalised assets below new asset recognition threshold (Ref 21a)	81,866
	Write-off of previously intangible assets below new asset recognition threshold (Ref 21b)	(5,054)
	Change in measurement to estimated future cash outflows (Ref 21c)	(3,684)
	Adjustment to Retained Surpluses	73,128

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

Note 22:

Reconciliation of Adjustments for Changes in Accounting Policy and Adjustments from previous GAAP to Australian Equivalents to International Financial Reporting Standards (AeIFRS) as at 1 July 2005

		Previous GAAP 1-Jul-05 \$	Effect of Transition to AeIFRS \$	AeIFRS 1-Jul-05 \$
Income				
Revenue				
		4,000,000	-	4,000,000
		2,844,000	-	2,844,000
		-	-	-
Other Income				
	(a)	197,507	649	198,156
Total Income		7,041,507	649	7,042,156
Expenses				
		205,916	-	205,916
	(b)	3,618,050	3,684	3,621,734
	(c)	2,978,398	(76,163)	2,902,235
Total Expenses		6,802,364	(72,479)	6,729,885
Operating Surplus/(Deficit)		239,143	73,128	312,271

Notes to Reconciliation

(a)	Loss on Disposal previously capitalised assets below new asset recognition threshold - Ref note 2(d)	649
	Adjustment to Other Income	649
(b)	Change in measurement to estimated future cash outflows	3,684
	Adjustment to Staff and Related Costs	3,684
(c)	Reversing depreciation on assets derecognised as at 1 July 2004 below new asset thresholds	(76,163)
	Adjustment to Operating Costs	(76,163)

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 2006 and of the financial position of the Authority at the end of that year.

.....
Chairperson
Brian Parmenter

14 September 2006

.....
Chief Executive
EJ Hall

14 September 2006

INDEPENDENT AUDIT REPORT

To the Board of 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 (the Authority) for the financial year ended 30 June 2006 included on the Authority's web site. Management are responsible for the integrity of the Authority's web site. We have not been engaged to report on the integrity of the 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 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.

Scope

The Financial Report

The financial report of the Queensland Competition Authority consists of the Income Statement, Balance Sheet, Statement of Changes in Equity, Cash Flow Statement, notes to and forming part of the financial report and certificates given by the Board and officer responsible for the financial administration of the Authority, for the year ended 30 June 2006.

The Board's Responsibility

The Board is responsible for the preparation and true and fair presentation of the financial report, the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

As required by law, an independent audit was conducted in accordance with *QAO Auditing Standards*, which incorporate the *Australian Auditing Standards*, to enable me to provide an independent opinion whether in all material respects the financial report is presented fairly, in accordance with the prescribed requirements, including any mandatory financial reporting requirements as approved by the Treasurer for application in Queensland.

Audit procedures included –

- examining information on a test/sample basis to provide evidence supporting the amounts and disclosures in the financial report;
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the Board;
- obtaining written confirmation regarding the material representations made in conjunction with the audit; and
- reviewing the overall presentation of information in the financial report.

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 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.

Audit 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 Authority for the financial year 1 July 2005 to 30 June 2006 and of the financial position as at the end of that year.

B G GANLY CPA
Audit Manager
(as Delegate of the Auditor-General of Queensland)



Queensland Audit Office
Brisbane

Appendices

Staff List

as at 30 June 2006

Team Leaders

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

Technical

Cath Barker BA BEcon **
Adam Bedi BCom BEcon(Hons)
Scott Bertram BEcon
Michael Blake BSc(Math.Econ) BA(Hist) MPubPol PhD(Econ)
Ralph Donnet BAgEcon GradDipFinMgt
Emma Green BCom(Econ)
Sean Greenup BEcon BBus (Hons)
Les Godfrey BE BEcon MBA(Adv) MFM Cert IV in AWT FIEAust CPEng ASA
Dominic L'Huillier BEcon BCom(Hons) MEconSt
Ann Jones BEcon MCom(Econ)(Hons) **
Michelle Kelly BEcon BBus
Charles Millstead BA BEcon(Hons)
Lisa Newton BEcon BEcon(Emet)(Hons) PhD(Emet)
Ravi Prasad BEcon(Hons) LLB
Tyson Self BCom BEcon
Paul Smith BAppSci (App Biol)
Russell Thomas BA BEcon(Hons)
Michael Wydeveld BCom(Econ) MCom(Econ)(Hons)

Support

Natasha Bree
David Walsh
Sabina O'Donoghue
Sharryn Porter BBus(HRM)
Tamra Simpson #
Helen Wood BCom(Acct) CPA
Katrina Wood BA(Mgt) **

** *part-time*
temporary or casual appointment

Specialist Services

Total expenditure on specialist services during 2005-06 was \$1,349,498.

<i>Specialist Services by Category in 2005-06</i>	<i>\$</i>
Management	0
Finance/Accounting	0
Professional/Technical	1,349,498
<i>Total</i>	<i>1,349,498</i>

<i>Specialist Services Awarded in 2005-06 by Value</i>	<i>No. of Consultants</i>
Less than \$20,000	14
\$20,001 - \$100,000	15
More than \$100,000	1
<i>Total</i>	<i>30</i>

Other Issues

Overseas Visits

No overseas travel was undertaken by the Authority during 2005-06.

Meetings of the Authority

Sixteen meetings of the Authority were held during 2005-06.

	<i>Scheduled Meetings</i>		<i>Special Meetings</i>	
	<i>Held</i>	<i>Attended</i>	<i>Held</i>	<i>Attended</i>
Brian Parmenter	9	8	4	4
Ian White	11	11	5	5
Justin Malbon	11	10	5	4
Mark Christensen	9	8	4	4
Darryl McDonough	6	6	1	1
Sue Palmer	2	2	1	1
John Quiggin	2	2	1	1

Details of Annual Report Production

200 copies of this report have been printed at an average cost of \$11.84 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.