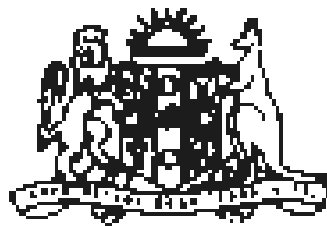


**INDEPENDENT PRICING AND
REGULATORY TRIBUNAL
OF NEW SOUTH WALES**



Annual Report 1995/96

**Independent Pricing and Regulatory Tribunal
of New South Wales**

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INDEPENDENT PRICING AND REGULATORY TRIBUNAL
OF NEW SOUTH WALES

28 October 1996

The Hon Robert Carr MP
Premier of New South Wales
Governor Macquarie Tower
1 Farrer Place
SYDNEY NSW 2000

Dear Premier

Independent Pricing and Regulatory Tribunal - Annual Report 1995-96

Pursuant to the Annual Reports (Statutory Bodies) Act 1984, we have pleasure in submitting the annual report of the Independent Pricing and Regulatory Tribunal for the year ended 30 June 1996.

Yours sincerely

Thomas G Parry
Chairman

James Cox
Member

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INDEPENDENT PRICING AND REGULATORY TRIBUNAL

Background

The Government Pricing Tribunal of New South Wales commenced operations on 1 July 1992 as an independent authority established by the Government Pricing Tribunal Act 1992 to regulate the prices for declared monopoly services supplied by NSW government agencies.

In January 1996 the legislation was substantially amended and expanded to provide a wider role for the Tribunal. In recognition of the wider role and the independence of its recommendations the name was changed to become the *Independent Pricing and Regulatory Tribunal of NSW*.

What does the Tribunal do?

The Tribunal operates under the Independent Pricing and Regulatory Tribunal Act 1992 - details of how this Act operates are shown in Appendix 1.

The Tribunal is not subject to the control or direction of the Government in respect of any determination or recommendation.

Price regulation

The main role of the Tribunal continues to be the regulation of prices of declared government monopoly services.

Reviews of matters of, pricing, industry or competition

The Tribunal can undertake reviews, referred by the Premier, covering issues affecting pricing, industry or competition.

Registration and arbitration of access agreements

As part of policy for the encouragement of competition third parties will be allowed access to use the assets of major and monopoly suppliers.

The Tribunal's role in access arrangements includes registration of agreements, with details available for public inspection. Where parties are unable to come to an agreement, the Tribunal provides arbitration facilities for the dispute. This can be from a panel of arbitrators or by the Tribunal itself.

OUR MISSION

To provide an acceptable balance between competing claims within the NSW community, and to promote an increasingly competitive environment, through price regulation, industry reviews and ensuring access to infrastructure facilities.

OUR VISION

To be highly respected by our key stakeholders for our independence, professionalism and competence

OUR CORPORATE OBJECTIVES

Our primary objectives are to:

- *achieve the best feasible pricing outcomes that balance the competing claims within the community*
- *provide high quality advice to government on industry issues*
- *achieve effective access to key public utility infrastructure services.*

Our supporting corporate objectives are to:

- *consult widely with our stakeholders*
- *achieve excellence in both organisation and staff performance.*

OUR CORPORATE VALUES

*Independence
Fairness
Consistency
Excellence
Continuous improvement
Teamwork
Responsiveness*

HIGHLIGHTS AND ACHIEVEMENTS DURING 1995–96

- A substantial broadening of the role and functions of the Tribunal through amendments to the Government Pricing Tribunal Act 1992 including:
 - * a name change to the *Independent Pricing and Regulatory Tribunal*
 - * new references covering issues of pricing, industry or competition
 - * a role in the registration of agreements regarding access to infrastructure by third parties
 - * arbitration of disputes over access agreements.
- Setting of medium term price paths for major urban water authorities — Sydney Water Corporation, Hunter Water Corporation, and Gosford and Wyong Councils.
- Following major restructuring of the NSW electricity industry, setting of medium term price paths for:
 - * electricity transmission by TransGrid
 - * wires and retail supply prices for electricity distributors.
- The final report of the inquiry into waste disposal pricing.
- Reviews of pricing policies for local water authorities and for the pricing of rural bulk water prices continued.
- First determination of bulk water prices.
- Provision of assistance to the Gas Council of NSW pending transfer of its economic and price regulatory functions to the Tribunal during July 1996.

CHAIRMAN'S REPORT

Achievements in 1995/96

The last year has continued to be one of both consolidation and growth. With amendments to the Independent Pricing and Regulatory Tribunal Act 1992 the Tribunal's name changed. So too, did some of our activities.

Of note, the Tribunal has taken over the economic regulatory work of the Gas Council of New South Wales, including tariff market price regulation and regulatory responsibility for access to the state's natural gas distribution networks.

More generally, the Tribunal now has responsibility as the access arbitrator for utility infrastructure assets that are subject to state regulation. This role extends to electricity transmission (moving to national regulation by the Australian Competition and Consumer Commission (ACCC) in 1999/2000), electricity distribution, natural gas distribution, and rail infrastructure. The Tribunal has developed sound links with the ACCC and other regulatory bodies, such as the Victorian Office of the Regulator General, in an attempt to ensure appropriate consistency in this new area of regulatory involvement.

The Tribunal's major work efforts during the year were directed to putting in place medium term price paths for urban water (Sydney and Hunter Water Corporations and Gosford and Wyong Councils), finalising the major Passenger Transport Inquiry, and commencing a major review of Bulk (irrigation) Water Pricing.

An Inquiry into Pricing Principles for the Waste Service of NSW was also completed and work neared completion on Pricing Principles for Country Town Water.

As well as taking over the Gas Council's major work program on the access regime for natural gas distribution, the Tribunal continued its on-going work program in electricity, as the NSW industry prepared itself for competition. The Tribunal expects to continue to play a role in regulating retail competition in parts of the market until contestability is fully established. The Tribunal's main on-going role will be regulating terms and conditions for access to the monopoly wires under the relevant provisions of the National Electricity Code. Details of these activities are provided elsewhere in this report.

Such a major work program is only possible with the highly professional efforts of the members of the Tribunal's Secretariat. Their excellence continues to underpin whatever success the Tribunal has in its activities.

Tribunal Membership

On a very sad note, one of the founding members of the Tribunal, Joan McClintock became ill during the course of the year. It is with great personal sadness that I report her death in September 1996.

Joan was a member of the Provisional Prices Tribunal from February 1992 and of the Government Pricing Tribunal (and IPART) from its inception. She provided not only remarkable intellectual input into the work of the Tribunal, but also a strong personal commitment to its goals. She will be missed but her wise counsel will continue to influence our work.

On a happier note, Jim Cox became a full-time member of the Tribunal, moving from his previous position as Principal Adviser with the Secretariat from the Tribunal's

Annual Report 1995/96

inception in 1992.

The valuable contributions of part-time Tribunal members, Robert Bruce and Warren Musgrave (Bulk Water), have added to our achievements.

The future

As I noted last year, one of the major challenges facing the Tribunal is to maintain the quality of its work despite an ever-increasing workload and the growing complexity of the issues that are dealt with. As our role expands, especially with new third party access responsibilities, the quality and enthusiasm of the Tribunal's Secretariat will continue to be critical to our ability to meet this challenge.

As our activities now extend directly to the private sector, with our involvement in access to natural gas distribution networks, it will be interesting to compare the way in which the different stakeholders in the private and public sectors respond.

Divergent and sometimes unrealistic expectations about what the Tribunal can and should deliver as a price regulator continues to be a major issue. Owners continue to expect prices to deliver "appropriate" and "commercial" levels of profitability. Customers expect the Tribunal to ensure that prices do not reflect any "abuse" of monopoly power but, rather, properly mirror market outcomes. Environment groups continue to expect prices to better reflect environmental

considerations which are often difficult to identify adequately and cost properly. Public interest and community groups also expect the Tribunal to take into account the "social impacts" of prices and of any changes in pricing structures.

Balancing the often competing interests of the different stakeholders is a clear requirement of the legislation under which the Tribunal operates. It continues to be the greatest challenge facing the Tribunal. Changes in legislation during the year further elaborated on the different stakeholder interests that need to be taken

into account in regulating monopoly GBEs and access to monopoly infrastructure. This was the main reason why the Tribunal was established. Nothing has really changed in these important issues over the last year.

The Tribunal endeavours to strike a balance between divergent stakeholder interests. In regulating activities which are not subject to normal competitive market influences we emphasise public involvement and transparent processes.

Ultimately, however, there is no simple, mechanistic way of replicating the market and balancing competing interests. In making its recommendations the Tribunal must apply judgement to the arguments and information presented.

Thomas G Parry
Chairman

"Balancing the often competing interests of the different stakeholders continues to be the greatest challenge facing the Tribunal. This is a clear requirement of the legislation under which the Tribunal operates. Changes in that legislation during the year further elaborated on the different stakeholder interests that need to be taken into account in regulating monopoly Government Business Enterprises and access to monopoly infrastructure."

THE TRIBUNAL

The Tribunal consists of three permanent members plus temporary members. All members are appointed by the Premier.

Permanent Members

Chairman

Professor Thomas Parry, BEc (Hons), MEc., PhD.

Former Dean of Commerce, University of Wollongong. Adjunct Professor of Economics, University of NSW.

Appointed for 5 years from 7 June 1995.

Full-time member

Mr James Cox, BSc (Econ) (Hons), MA (Econ)

Principal Adviser, Government Pricing Tribunal/IPART, 1992-96. . Consultant, NSW Cabinet Office, 1989-92. Principal Economist, Office of EPAC, 1986-89

Appointed for 5 years from 22 February 1996.

Member

Ms Joan McClintock, BLS, Dip SW.

Member, Administrative Appeals Tribunal, 1983-92. Secretary-General (1980-83) and Deputy Secretary-General (1968-80), Australian Council of Social Services.

Appointed for 5 years from 1 July 1992.

During 1995/96, the Tribunal held seventeen meetings and fourteen public hearings comprising nineteen sitting days. The Chairman was present on all occasions. Mr Cox was present for five meetings. Ms McClintock was absent from all meetings from 22 April 1996 due to ill health.

Temporary Members

Mr Robert Bruce, BE Hons (Civil Eng), BSc, MBA

Principal of Robert Bruce and Company, he is providing specialist advice on financial management and corporate strategy. Currently Visiting Fellow, Graduate School of Management, Macquarie University. Previously Vice-President, Citibank.

Appointed 22 February 1996 to 30 June 1997. Mr Bruce was a permanent member of the Tribunal from 1 July 1992 to 21 February 1996.

Professor Warren Musgrave, MSc, AGR, PhD

Emeritus Professor of Agricultural Economics at the University of New England, and Catchment Assessment Commissioner, 1995. Currently Special Adviser to the Premier's Department.

Appointed 22 February 1996 to 31 December 1996 to assist the Tribunal with the reviews of the pricing policies of local water authorities and the review of rural bulk water pricing.

It is with great sadness that the Tribunal reports the death of Ms Joan McClintock on 9 September 1996. Ms McClintock was a founding member of the Tribunal and a member of the preceding Provisional Prices Tribunal. She made a substantial contribution to the success of the Tribunal in its initial years. She was a good colleague and friend of all at the Tribunal and will be greatly missed by all who knew her.

A WIDER ROLE AND FUNCTIONS FOR THE TRIBUNAL

Substantial amendments to the Government Pricing Tribunal Act, 1992, came into force in January 1996. The new legislation extended the role of the Tribunal and made some changes to the previous provisions.

Name change

The most obvious change is the new name: the *Independent Pricing and Regulatory Tribunal of New South Wales*. This recognises both the wider role and the independence of the Tribunal's operations.

Changes to price regulation provisions

Three factors were added to the list of issues which the Tribunal is required to consider under Section 15 of its Act:

- the social impact of decisions
- the need to promote competition
- standards of quality, reliability and safety.

The Tribunal is now required to indicate in its pricing reports what consideration it has given to the various Section 15 issues.

Reviews of matters of pricing, industry or competition

The Premier can refer issues affecting pricing, industry or competition to the Tribunal for review. These industry reviews are not restricted to consideration of government monopoly services and can cover the private sector. These reviews are similar in scope to those carried out by the federal Productivity Commission.

Public access to information

The Tribunal may now, after considering the views of the information supplier, decide to release (fully or on a restricted basis) information that would otherwise be exempt from release under the Freedom of Information Act.

Registration and arbitration of access agreements

Under the Competition Principles Agreement 1995 all Australian governments agreed to implement a range of measures to promote

competition. This included provision for third parties to have access to major infrastructure.

Examples of access will include use by third parties of railway tracks and facilities, and the distribution of natural gas through existing natural gas pipelines.

The Tribunal is able to assist in the implementation of access regimes which have been established within the jurisdiction of the NSW Government. Where such a regime has been established, the Tribunal must be notified of all agreements being negotiated and may advise the Minister, if appropriate. All agreements must be registered with the Tribunal and some information must be available for public inspection.

The Tribunal may, in appropriate circumstances, provide arbitration facilities to resolve disputes about access. The Tribunal may itself decide to arbitrate disputes. Alternatively, arbitrators may be chosen from a panel approved by the Minister.

Assistance to other agencies

With the approval of the Premier, the Tribunal can now provide assistance to other bodies in carrying out activities that are within the Tribunal's field of expertise, provided that such activities do not adversely affect the Tribunal's normal work program.

User charges

The Tribunal may charge for any assistance that it may provide to other bodies and, through the provisions of the Commercial Arbitration Act, for arbitration services.

Further user charges may be allowed by regulation. They might include charges to government agencies to cover the cost of the price regulation of their monopoly services.

Tribunal membership

In addition to the three permanent members, temporary members may be appointed to assist the Tribunal with its increased workload.

SUMMARY OF MAXIMUM PRICE DETERMINATIONS

Water and related services

Sydney Water Corporation

- A four year price path from 1 July 1996 to 30 June 2000 was set with a mid term review in early 1998.
- Reduction of non-residential property-value based charges by \$20m per annum in each of the four years, 1996-2000.
- Increases in water charges to reflect the costs associated with higher drinking water quality.
- Overall periodic water, sewerage and drainage charges are to be reduced by 2.3% in real terms in 1996/97 and an average of 0.8% per annum in the subsequent three years.

Gosford City Council

- A three year price path was set from 1 July 1996 to 30 June 1999.
- A 6% nominal reduction in periodic water charges in 1996/97 and a 5% real reduction in each of the subsequent two years.
- A 12.5% nominal reduction in periodic sewerage charges in 1996/97 and a 1.5% real reduction in each of the subsequent two years.

Wyong Shire Council

- A three year price path was set from 1 July 1996 to 30 June 1999.
- Overall periodic water and sewerage charges to be reduced by 5% in nominal terms from 1 July 1996 and by 1.5% per annum in real terms in the subsequent two years.

Hunter Water Corporation

- A four year price path from 1 July 1996 to 30 June 2000 was set with a mid term review in early 1998.
- Lower service charges for water and increased water usage charges.
- Increased service charges but reduced usage charges for sewerage for residential customers.
- Overall periodic water, sewerage and drainage charges (excluding charges for the Hunter Sewerage Project) to be reduced by 2% per annum in real terms from 1996/97 to 1999/2000.
- Reduction in environmental improvement charge from \$78 to \$40 per annum.

Electricity

Electricity Transmission Authority - TransGrid

- A medium term price path from 1 March 1996 to 30 June 1999.
- TransGrid's annual revenue for monopoly transmission services to be capped at \$355m.
- The revenue cap formula for 1997/98 and 1998/99 to be adjusted on the basis of CPI-X. The X factor to be 3%.

Electricity distributors

- A medium term price path was set from 1 March 1996 to 30 June 1999.
- Average retail electricity prices reduced by 5% in nominal terms from 31 March 1996, or earlier.
- Revenues of the distributors to be capped on a CPI-X basis for the period to 1998/99. The X-factors set at between 3.5% and 0% reflecting varying capacities for efficiency gains and financial needs.

Public transport

State Rail Authority

- CityRail services

- Single cash fares increased by 20 cents for trips of less than 55 km. Fares for longer journeys increased by up to \$1 per journey. For very long distance journeys, fares decreased substantially.
- Price increases for rail weeklies limited to no more than \$1 for tickets used by the vast majority of passengers. The greatest increase was \$2 for weekly tickets used for longer distance journeys.
- Price increases for weekly TravelPasses limited to \$1.

State Transit Authority

- With the exception of the 22-27 section fare, cash fares on buses were frozen.
- TravelTen ticket increases ranged from 40 cents for 1-2 sections to \$1.60 for 16-21 sections. The 22-27 sections TravelTen was frozen.
- Decision to split the Inner Harbour ferry fare into two zones (1 & 2); Zone 1 applies to all services under 10 km. Zone 2 covers the remaining services. Single ferry fares to increase by 20 to 40 cents per journey. The single Inner Harbour Zone 1 fare to remain unchanged.
- Increases for FerryTen tickets ranged from 20 cents (for Inner Harbour Zone 1 services) to \$2 (for Manly, Rydalmere and Parramatta services).
- Increases for bus and ferry TravelPass fares of \$1.00 for the Blue and 2-Zone TravelPass and \$1.70 for Pittwater tickets.

Implementation of price determinations

Ministers are required by Section 18(1) of the Independent Pricing and Regulatory Tribunal Act to ensure that the Tribunal's determinations have been implemented. No specific action by the Tribunal is required. Nevertheless, the Tribunal monitors the implementation of its determinations by seeking information from agencies on the actual prices that are being charged.

All agencies are required under Section 18(2) to include in their annual reports details of how determinations have been implemented and statements of reasons why any determinations may not have been implemented.

The Tribunal advises agencies of these requirements and seeks details of the information contained in their annual reports.

Approval to fix prices below the maximum price determined by the Tribunal

Section 18(2) of the Act permits agencies, with the approval of the Treasurer, to fix prices below maximum prices determined by the Tribunal.

During 1995/96 it is understood that the Treasurer did not approve any lower prices.

STANDING REFERENCES

Water and related services

In 1995/96, the Tribunal:

- determined medium term price paths for water and related services for the major urban supply authorities;
- continued to implement pricing policies recommended in the major review of prices for water and related services.
- completed a review and made determinations for the pricing of developer charges
- convened a Water Demand Management Forum to develop a framework for assessing the cost-effectiveness of demand management options

Sydney Water Corporation

The Tribunal has been investigating pricing proposals and setting maximum prices for Sydney Water Corporation (and its predecessor, the Sydney Water Board) since 1992/93. Since that time, there have been a number of significant changes in the way in which Sydney Water does business and charges for its services.

The Tribunal believes that it is now appropriate to set a medium term price and revenue path for Sydney Water.

The four year price path, with a staged increase in the nominal price of water from the current 70 cents to 90 cents per kilolitre by the year 2000, strengthens demand management signals and provides clear incentives for customers to benefit financially from water conservation.

For "typical" households, increases in total bills over the four years will be kept within the CPI. The cross subsidy burden on the business sector of property value based charges will be reduced a further 57% or \$80m.

Peak environment groups argued that there is scope for efficient wastewater reuse to supplement Sydney Water's bulk water supplies. The Tribunal accepted that opportunities for reuse warrant further examination, and is to establish a "reuse forum" to explore opportunities and options.

Full details of this year's determination can be found in the Tribunal's publication, *Sydney Water Corporation, Prices of Water, Sewerage and Drainage Services from 1 July 1996*.

Gosford City Council

The Tribunal decided on a pricing structure based on the equivalent of a 12.5% nominal reduction in charges in 1996/97 and increases of CPI-1.5 in the subsequent two years. This will enable current consumers to benefit from Council's cost control programs by slowing the rate at which debt is eliminated and sharing the cost of infrastructure more equitably between the current and future generations.

Under proposals made by both Gosford and Wyong Councils and the Tribunal's determination the level of debt is substantially below that which would be expected in a commercial business.

The phased introduction of a cost reflective two part tariff for non-residential sewerage charges is to be continued.

Similarly, the process set in place in the June 1994 determination for moving residential assessments to a flat uniform sewerage charge is to continue.

All details of this year's determination can be found in the Tribunal's publication, *Gosford City Council, Prices of Water, Sewerage and Drainage Services from 1 July 1996*.

Wyong Shire Council

The Tribunal decided on a pricing structure based on a 5% nominal reduction in charges from 1 July 1996 and increases of CPI-1.5 in the subsequent two years. This enables current consumers to benefit from Council's cost control programs by slowing the rate at which debt is reduced and sharing the cost of infrastructure more equitably between current and future generations.

The phased introduction of a cost reflective two part tariff for non-residential sewerage charges, and cost reflective charges for the pump out of effluent from septic tanks and chemical closet removal services, will continue.

Sewerage charges for non-strata titled units will continue to increase to bring them to the same level as for strata units.

The maximum increase in charges for a single unit is to be limited to \$50 per annum. Sewerage charges to non-strata titled retirement villages will continue to be phased to 20% of the charge for a residential assessment.

Full details of this year's determination can be found in the Tribunal's publication, *Wyong Shire Council, Prices of Water, Sewerage and Drainage Services from 1 July 1996*.

Hunter Water Corporation

Hunter Water Corporation (HWC) led the move in NSW to greater reliance on actual usage of water in determining water bills. As a result, HWC has achieved significant reductions in average water consumption.

The four year price path established in this year's determination provides sufficient revenues to fund HWC's core business activities and meet its currently known and anticipated water and wastewater quality objectives. At the same time, it provides sufficient revenues to generate "appropriate" commercial returns and dividend payments to the owner.

The Tribunal noted the reduced costs of the Hunter Fringe Sewerage Backlog scheme. This

has enabled the benefits of the lower costs of the scheme to be passed on to all customers by way of a reduced environmental improvement charge (reduced from \$78 to \$40).

The lower costs of the fringe scheme have also allowed the Hunter Sewer Service Access Charge to be reduced from its projected 1996/97 level of \$3,221 to \$2,780. HWC proposed and the Tribunal accepted that a refund of \$441 plus accrued interest be paid to those who have already paid the (higher) access charge to reflect this adjustment.

Full details of this year's determination can be found in the Tribunal's publication, *Hunter Water Corporation, Prices of Water, Sewerage and Drainage Services from 1 July 1996*.

Developer charges

During the year a report was prepared by the Water Industry Forum to assist the Tribunal in the practical implementation of a net present value approach to calculating developer charges.

Constituted in June 1995, the Water Industry Forum is a consultative group comprised of representatives from the Tribunal Secretariat, the four metropolitan water agencies, government agencies, environment groups, and the housing development industry.

In 1995/96 the Tribunal made determinations for the four urban water supply agencies which implemented the net present value approach to calculating developer charges.

The determinations were made under Section 14A of the Independent Pricing and Regulatory Tribunal Act which provides for the determination of a methodology for fixing prices if the Tribunal is of the opinion that it is impracticable to fix prices in another manner.

The determination for *Sydney Water Corporation*, which took effect from 29 December 1995, included details of the Tribunal's methodology and guidelines for the calculation of the charges.

This information can be found in the Tribunal's publication, *Sydney Water Corporation, Prices of Developer Charges for Water, Sewerage and Drainage Services*

Determinations of developer charges for the other agencies were included with the determination of periodic charges from 1 July 1996 onwards.

For *Gosford Council* the new charges will generally imply an increase of approximately 25% over current charges.

For *Wyang Council* developer charges will be capped at 85 per cent of the charge calculated under the net present value methodology. This will generally imply an increase of approximately 30% over current charges.

For the *Hunter Water Corporation* the new developer charges will be phased in over the four year price control period.

The Forum will report periodically to the Tribunal on the implementation of the new approach.

Demand management

To develop a framework for assessing the cost-effectiveness of demand management options, the Tribunal convened a Water Demand Management Forum to bring together representatives of urban water agencies, government departments and community organisations.

The Forum agreed that the appropriate methodology for assessing demand management options is one which takes into account the costs and benefits to the water agency and the customers, and includes environmental, as well

as financial, costs and benefits.

The Forum developed a spreadsheet model to assess demand management options based on input data relating to potential savings, adoption rates and costs.

The Tribunal requested the water agencies to report on which, if any, demand management measures they found to be cost-effective after applying the framework, and how and when any such measures could be implemented.

Electricity

In 1995/96, the Tribunal:

- determined medium term revenue paths for electricity transmission and distribution
- facilitated introduction of a competitive electricity market through separate regulation of monopoly and potentially competitive aspects of electricity.

Determination of electricity prices from March 1996

This determination was made while major structural changes continued to be implemented within the electricity supply industry. Since the last electricity determination, Pacific Power has been split into three generation companies, the twenty-five distributors have been amalgamated into six and the Electricity Transmission Authority has commenced operations.

Regulation of TransGrid takes the form of a revenue cap. Maximum prices for Transgrid have been established within this revenue cap. There is scope for negotiation below these prices. The Tribunal is to issue guidelines for such negotiation.

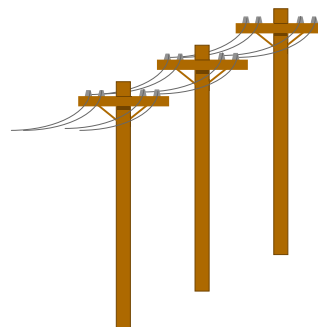
Average electricity bills fell from the end of March. This was the first change since July 1994. As a result, customers' bills will fall by \$200m per annum. On average, real electricity tariffs will be 12% lower in 1996/97 than two years ago.

The extent of price reductions for particular customers will vary between distributors, depending on the extent of pre-existing price distortions that need to be unwound.

Customers who have previously paid more than the costs of supply (such as many medium-to-small businesses) will benefit most from these reductions.

Revenue regulation, rather than price regulation, has been used to cap distributors' overall income in order to encourage demand management and energy efficient initiatives.

Full details of this year's determination can be found in the Tribunal's publication, *Electricity Prices from March 1996*.



Establishment of a competitive electricity market

In the March determination, the Tribunal put in place several regulatory elements essential for the establishment of a competitive electricity market:

- charges for the use of TransGrid's high voltage transmission system were set separately from the price for wholesale electricity
- the wires component of the distribution business is to be regulated separately from the retail function.

The non-competitive aspects of the retail supply businesses will continue to be regulated by the Tribunal. Each distributor's gross margin will be adjusted as additional retail competition is introduced.

The Tribunal included a number of side constraints in the March determination to ensure that those customers who may not have a choice of supplier initially are adequately protected.

Annual Report 1995/96**Public transport**

In 1995/96, the Tribunal:

- determined maximum fares for monopoly services in public transport
- released interim reports for its major inquiry into the pricing of the public passenger transport services of CityRail and the State Transit Authority.

Determination of public transport fares from 7 July 1996

The Tribunal decided to make a determination of fares for one year in preference to establishing a medium term pricing path.

In this determination, the Tribunal noted CityRail's proposal to rationalise its fare structure. The Tribunal supported CityRail's initiative but was concerned about the effects of the proposal on some customers. Side constraints were placed on individual fare increases to minimise any adverse impacts.

Importantly, CityRail's fares were restructured. There are fewer fare bands and off-peak fares now have a clear relationship to single journey fares.

The Tribunal allowed modest increases in a number of CityRail fares. This resulted in a weighted average increase in fares of 5.3%. This is in keeping with the Tribunal's reference series for inflation.

The Tribunal considered that there was no case for an overall real increase in fares for Sydney Buses.

For Sydney Ferries, the Tribunal proposed that STA look at a combination of increases in fares and reductions in costs. The Tribunal also considered that a time-based fare was worth trialing in Newcastle.

The overall weighted increase in STA fares was 3.5%.

Full details of this year's determination can be found in the Tribunal's publication, *Public Transport Fares from 7 July 1996*.

Major review of transport fares

The Tribunal is currently completing its inquiry into the pricing of public passenger transport services. A series of interim reports was released in March 1996. The reports examined all STA and CityRail services with a focus on the following major topics:

- government contributions to public transport and the principles for determining Community Service Obligations (CSOs), and targeted concessions for passenger transport
- principles for determining reasonable fare structures
- the nature of STA and CityRail operations
- fair structures and levels for STA and CityRail services — "fair" fares
- a context for considering the "transport pricing problem".

The Tribunal recognised that CityRail's cost recovery is low and many of the multi-trip and periodical tickets provide a very large discount on the equivalent distance cash fare. To reduce the gap between fare revenue and efficient operating costs, the Tribunal proposed real increases in CityRail fares of 15% over the next four years.

The Tribunal considered that there was substantial scope for the STA to increase efficiency and improve cost recovery from its bus and ferry operations. The Tribunal proposed setting fares which provide incentives for the STA to achieve such improvements.

The Tribunal wishes to encourage public discussion of the key issues. This will enable a better understanding of the issues, provide a broader range of inputs than is otherwise possible, and promote community acceptance of the final decision. The public consultation for the annual determination and the major transport review are important elements in this process.

IMPACT OF TRIBUNAL DETERMINATIONS

The Tribunal's price determinations affect both household expenditure and costs of businesses. The Tribunal has constructed an Index of Household Charges, which specifically measures the impact on an 'average' Sydney household of charges subject to maximum price regulation by the Tribunal. (An average household is one that uses electricity, water and public transport services according to the expenditure weights outlined in the 1993/94 Household Expenditure Survey.) The Index is based on Australian Bureau of Statistics data on household expenditures.

Impacts on households

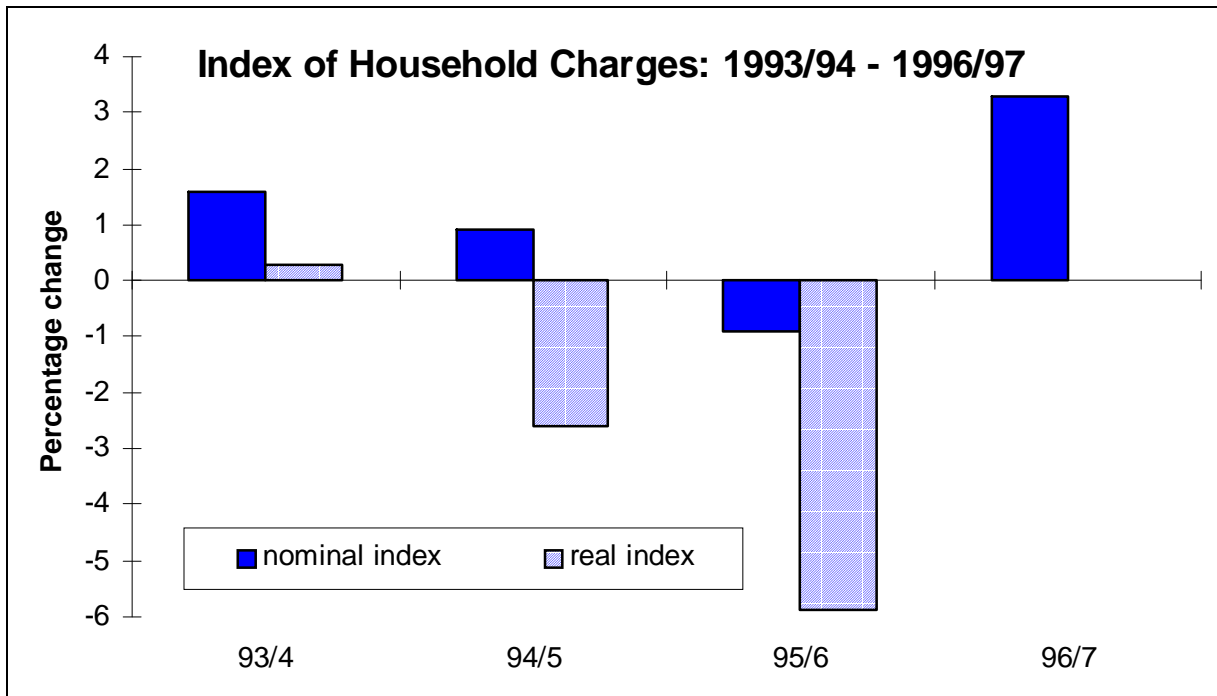
The Index of Household Charges (see below) shows that the prices of electricity, water and public transport services in Sydney will increase by an average amount of 3.3% in 1996/97. This equals the forecast average increase in 1996/97 of the cost of the total basket of goods measured by the national consumer price index (CPI), implying a zero real change in the index.

The Index of Household Charges (below) shows a return to a small nominal increase in charges. The Index increased by 1.6% in 1993/94 and 0.9%

in 1994/95, but decreased by 0.9% in 1995/96.

Water and sewerage bills fell in 1995/96 following the elimination of property rates based charges by Sydney Water and reform of charges for units and flats. However, they are expected to rise in 1996/97 as usage charges and a number of fixed charges increase.

Nominal electricity bills will be unchanged up to 1996/97.



Impacts on non-residential customers

Water

Property-value based charges for business customers have been reduced substantially. Table 1 indicates the effects of recent Tribunal determinations on non-residential customers serviced by the Sydney Water Corporation and Hunter Water Corporation.

Table 1. Reductions in non-residential charges in NSW water sector

Date of Change	Reduction in non-residential charges (\$m)	Nominal change (%)	Real change (%)
<i>Sydney Water Corporation</i>			
July 1993	63.8	- 10.7	- 11.9
July 1994	91.8	- 17.2	- 20.0
July 1995	52.8	- 12.0	- 16.1
July 1996	6.8	- 1.8	- 4.9
Cumulative 3 year total	215.2	- 36.1	- 43.8
<i>Hunter Water Corporation</i>			
July 1993	7.5	- 15.5	- 16.7
July 1994	7.0	- 17.1	- 19.9
July 1995	1.2	- 3.5	- 8.0
July 1995	- 0.5	1.5	- 1.7
Cumulative 3 year total	15.2	- 31.4	- 39.7
Total reduction (SWC + HWC)	230.4		

Tribunal determinations for 1996/97 mean that average bills for non-residential properties in Sydney and the Hunter will be about 36.1% and 31.4% (respectively) lower (about 43.8% and 39.7% real) than 1992/93 levels. Overall, water charges for the non-residential sector have fallen by \$230m since 1992/93.

Electricity

Table 2 indicates the effects of Tribunal determinations for non-residential electricity customers in NSW.

Table 2. Reductions in non-residential charges in the NSW electricity sector

Date of change	Reduction in non-residential charges (\$m)	Nominal change (%)	Real change (%)
July 1993	125	- 4.9	- 6.2
July 1994	260	- 10.7	- 13.7
Mar 1996	175	- 8.1	- 15.2
Cumulative 3 year total	560	- 22.0	- 31.4

Since 1 July 1993, Tribunal determinations have seen a cumulative reduction of \$560m in bills for non-residential electricity customers in NSW.

These reductions mean that, on average, non-residential bills have been reduced by 22% nominally, or about 31.4% in real terms over that period.

Overall effects

Overall, Tribunal determinations for NSW electricity and water prices will result in a reduction of about \$790m in charges paid by NSW non-residential customers over the four years to 1996/97. Taken in perspective, this reduction is equal to 26% of current payroll tax receipts in NSW.

MONOPOLY PRICING REFERENCES BY THE PREMIER

In addition to standing references, the Premier may refer matters to the Tribunal for a review of pricing policies and/or the determination of maximum prices.

Valuer General's charges to Councils

During the year the Tribunal made its second determination of prices to be charged by the Valuer General for providing valuation lists to Councils.

The Tribunal proposed no change in 1995/96 to the actual charges applied in 1994/95. These were: residential \$3.00 and non-residential \$5.95. The Tribunal determined increased maximum charges to apply from 1 July 1996: residential \$3.60 and non-residential \$7.90.

The Tribunal's preferred approach is to set cost-reflective charges based on the efficient cost levels for the provision of valuation services to Councils by the Valuer General's Office (VGO). The various cost streams of the respective associated services provided by the VGO should be unbundled to minimise, if not eliminate, major cross subsidies.

Additional work is still required by the VGO to develop a full job-costing system. Current limitations relate mainly to the identification and apportionment of costs attributable to the different valuation activities.

Review of pricing principles for local water authorities

In July 1994 the Premier referred pricing principles for water and related services provided by local authorities for review by the Tribunal. Following public comment on the draft terms of reference, the review was extended to cover county councils that supply water and electricity distributors which have water supply functions.

The terms of reference do not require the Tribunal to set maximum prices for these authorities.

The review included:

- the setting of general principles for pricing the water and waste water services of local water authorities, and stormwater services provided by those authorities in rural areas
- a study of the feasibility of developing a consistent set of pricing principles for the authorities
- evaluation of alternative pricing structures
- assessment of the impact of alternative environmental and quality standards on the costs and benefits of providing these services.

An issues paper was released in June 1995 and public hearings were held during February and March 1996. The Tribunal anticipates releasing its report in September 1996.

Review of pricing policies for waste disposal services

In May 1995 the Premier referred the pricing policies of the Waste Recycling and Processing Service of NSW for review by the Tribunal.

The review included:

- an assessment of the cost of providing landfills, including environmental protection and compensation costs
- estimation of the effect on pricing of landfill depletion and the future availability of landfill sites
- assessment of the implications of pricing policies for the site for the return on assets and for the Government as owner.

An issues paper was released in August 1995 and public hearings were held in November 1995. The Tribunal released its report in April 1996.

The review considered whether pricing policies could deal with the various problems related to solid waste management. The review suggested

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a number of principles that should be applied in setting prices. It concluded that prices should include all costs of landfill, including external environmental costs and the cost of replacing the landfill space used up. However, the evidence presented to the inquiry did not demonstrate that if all such costs were included, the price of landfill would be substantially higher than at present.

The review focused on landfill pricing which is at the end of the waste "pipe". Changing prices for landfill disposal are likely to have a relatively small impact on the amount of waste generated. However, introducing cost reflective pricing for waste collection, and incorporating disposal costs into purchase prices of products, where appropriate, are likely to have a greater impact on reducing the amount of waste generated at the beginning of the waste pipe.

Review of the pricing of bulk water services

In October 1995 the Tribunal was given a reference by the Premier to review the pricing of water services and to determine the maximum price for water services supplied by the Water Administration Ministerial Corporation.

The Tribunal considered both issues concurrently. An interim report for the pricing review is to be released in the second half of 1996. However to allow sufficient notice of prices for 1996/97 the Tribunal chose to release its determination ahead of the report.

Bulk water prices for 1996/97

The determination is for the period 1 July 1996 to 30 June 1997. The main features of the determination are:

- maximum charges for the 1996/97 year were limited to their 1995/96 levels. This includes the charges announced in the September 1995 Water Reform Package and some new charges, agreed between the Corporation and water user groups since September 1995.
- some other periodic fees and charges which are set by regulation (five yearly fees for authorisations, permits, bore licences and approvals for flood control works) were not covered by the determination because they were not examined during the public consultation process. They are to be reviewed during the Tribunal's public consultation process in 1996/97 and varied where necessary for the 1997/98 season onwards.

Review of bulk water pricing

The review includes:

- general principles for cost allocation and the pricing of water services provided by the Water Administration Ministerial Corporation
- a proposed sharing of costs between different users and other beneficiaries of services
- the evaluation of alternative pricing structures for water services, having regard to regional differences, impacts on user groups, and economic, environmental, social and regional development impacts
- assessment of the impact of alternative environmental and quality standards and the provision of environmental allocations on the costs and benefits of providing the services
- the determination of maximum price for water services provided by the Water Administration Ministerial Corporation.

An issues paper was released in December 1995 and public hearings were held during February and March 1996. The Tribunal anticipates releasing its interim report in October 1996.

ACCESS REGULATION

In August 1993 an Independent Committee of Inquiry chaired by Professor Fred Hilmer released a report on the establishment of a National Competition Policy. In February 1994 the Heads of Government agreed to in-principle implementation of the report's recommendations. At its April 1995 meeting the Council of Australian Governments (CoAG) agreed to a national competition reform package and signed three intergovernmental agreements to implement the reforms. One of these was the Competition Principles Agreement which, amongst other things, outlined the principles of a regime which would provide access to the services of essential infrastructure facilities.

An access regime provides businesses and/or individuals with a legal avenue to use the services of certain infrastructure owned and operated by other businesses. This removes the need for duplication of expensive infrastructure and promotes competition. Competition can provide substantial public benefits by forcing companies to improve their quality, to lower prices and to adapt quickly to market dynamics and technological change. However, it is important to note that access to infrastructure is a means to an end; it is not an end in itself.

The Hilmer model requires that, whenever possible, third party access should be on terms and conditions agreed between the owner of the facility and those seeking access. These need not be exactly the same for all users. Where negotiation fails, binding arbitration is available as an alternative.

The main benefits of third party access in NSW are likely to flow from competition between energy suppliers and from better use of the rail infrastructure.

Amendments made to the Independent Pricing and Regulatory Tribunal Act in January 1996 established the Tribunal as the regulator of access to public utilities. Central to this is a new arbitration role for the Tribunal which requires it to take account of the broader issues of the Competition Principles Agreement. As established commercial arbitration procedures were not adequate to effectively undertake this role, new procedures were commenced during 1995/96 and are nearing completion.

"An access regime provides businesses and/or individuals with a legal avenue to use the services of certain infrastructure owned and operated by other businesses. This removes the need for duplication of expensive infrastructure and promotes competition. Competition can provide substantial public benefits by forcing companies to improve their quality, lower prices and adapt quickly to market dynamics and technological change."

The Tribunal's access regulation role varies from industry to industry. The role set out in the IPART Act has been further defined in industry specific legislation subsequently enacted in 1996.

Although it is difficult to predict the level of future activity involving access issues, as an interim measure the Tribunal has established a small access group within its Secretariat. The group's primary functions will be to:

- support and advise the Tribunal on access arbitration
- maintain public registers of access agreements
- monitor all access agreements and advise the Tribunal on compliance by infrastructure owners
- provide regulatory policy advice on access issues
- provide advice as to whether access agreements should be approved.

Electricity

The NSW Electricity Supply Act, 1996 provides the legislative framework for the NSW electricity access regime. The Act requires the wholesale market and system operator to establish an access regime for NSW transmission and distribution networks. The NSW electricity code is the principle document establishing access for wholesale market participants. The NSW code will, in time, be superseded by the national electricity code.

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The NSW electricity code nominates the Tribunal as the pricing and access dispute regulator for distribution and transmission networks. Chapter 6 of the state code specifies that network prices of TransGrid and the six incumbent distributors will be regulated by the Tribunal in accordance with the IPART Act.

In March 1996, the Tribunal released the electricity prices determination. This established maximum reference prices for the transmission and distribution networks. The determination signalled the potential for customers to negotiate network prices with network owners. In the determination, the Tribunal indicated that it would release negotiation guidelines for network owners and customers.

The dispute resolution procedures set out in Chapter 8 of the NSW code require participants to refer access disputes to the Tribunal for resolution in accordance with Part 4A of the IPART Act.

The Tribunal has been participating in the code working group established by the NSW Electricity Reform Taskforce to provide input into the development of a national electricity market. The Tribunal's main focus is to provide advice on network pricing and access issues covered by the national code.

Gas

The Gas Supply Act 1996 makes the Tribunal responsible for economic and access regulation of gas distribution and provides the framework for third party access to gas distribution networks in NSW. It adopts a NSW Third Party Access Code for Gas Distribution Networks which is largely based on a National Exposure Draft for Third Party Access produced by CoAG's Working Party on Gas Reform. As with electricity, it is anticipated that when the National Code is approved by CoAG, it will supersede the NSW Code.

The Act requires network operators to establish Access Undertakings that provide access rights, cost reflective tariffs and detailed operational procedures for each

network consistent with the Act and the Access Code. Access Undertakings must be submitted to the Tribunal for approval after a public consultation period. AGL Gas Company (AGL)'s Access Undertaking is expected to be operational from 1 December 1996 and Albury Gas Company's shortly thereafter.

During 1995/96, Tribunal staff assisted the Department of Energy in developing:

- legislative proposals leading to enactment of the Gas Supply Act on 12 July 1996
- the NSW Access Code for Gas Distribution.

At a national level, the Tribunal contributed to the development of the Exposure Draft by the CoAG Task Force on Gas Reform.

The Tribunal also participated in an intensive period of consultation with AGL, gas users and other major industry stakeholders with the aim of developing a suitable Access Undertaking for the AGL network.

At the time of writing, AGL's proposed Access Undertaking had been released for public comment prior to hearings and finalisation.

Rail

The Transport Administration Amendment (Rail Corporatisation and Restructuring) Act 1996 requires market participants to refer access disputes to the Tribunal for resolution in accordance with Part 4A of the IPART Act and the NSW Rail Access Regime established by the Minister for Transport.

At time of writing, the Tribunal is in the midst of its first rail access arbitration. This is the first of its type in Australia under the new rules resulting from the Hilmer competition reform process.

The Tribunal's role is currently limited to the arbitration of access disputes, registration of agreements and provision of policy advice.

GAS REFORM ISSUES

Gas Council of NSW

During 1995 the Hon M R Egan MLC, Treasurer and Minister for Energy, announced his intention to abolish the Gas Council and to place pricing policies under the auspices of the (then) Government Pricing Tribunal. To facilitate an orderly transition to the new arrangements membership of the Council was changed on 1 September 1995.

Professor Tom Parry became Chairman and Ms Joan McClintock was appointed a Member of the Gas Council. Both were also members of the Government Pricing Tribunal. Mr Norman Watson, Director-General of the Department of Energy, was appointed as the third member.

Tragically, Mr Watson died suddenly prior to the new Council's first meeting and was replaced by the Department of Energy's Acting Director-General, Mr Robert Bosler.

To assist in the transfer of functions, the Gas Council's Secretariat was relocated to within the offices of the Tribunal's Secretariat and two Department of Energy officers were seconded to maintain the Council's routine functions. The Council was provided with administrative and policy support by the Tribunal's Secretariat, but continued to be funded by the Department of Energy. Details of the Gas Council's financial operations are contained in that Department's annual report.

Third party access

In November 1995 the Tribunal's staff assisted the Gas Council with an Inquiry into Access to the Natural Gas Distribution Networks of NSW. An issues paper was prepared and public submissions were sought. Public hearings were held on 8 and 9 November 1995.

Following the public consultation a major report was made to the Minister for Energy in January 1996. This provided a framework for the introduction of a third party access regime for the gas distribution networks of NSW during the latter part of 1996. The report's recommendations were largely adopted by the Government.

Gas Supply Act 1996

The Gas Supply Act 1996 was passed by Parliament during May 1996. The main provisions of the Act are to:

- abolish the Gas Council with the Independent Pricing and Regulatory Tribunal's taking responsibility for regulating pricing and access arrangements and the Department of Energy's having responsibility for licensing/authorisation of gas reticulators and technical and safety regulation
- encourage the development of a competitive gas market to promote the thermally efficient use of gas and to deliver a safe and reliable supply of gas in compliance with the principles of ecologically sustainable development in section 6 (2) of the *Protection of the Environment Administration Act 1991*
- regulate gas reticulation and gas supply to facilitate open access to gas reticulation systems and promote customer choice in relation to gas supply
- provide for the adoption of an access code in accordance with which the reticulation and supply of natural gas are to be regulated.

Under the terms of the Act the Minister, the Tribunal and any review panel constituted under the Act must:

- ensure that authorised reticulators and licensed distributors satisfy, so far as it is economical for them to do so, all reasonable demands for the conveyance of gas;
- take proper account of the business interests of such persons and their ability to finance the provision of gas reticulation services;
- consider the development and promotion of efficient and safe gas distribution systems;
- take proper account of the interests of gas users in respect of transportation tariffs and other terms of service.

The new access regime was established by the Gas Supply Act on 12 July 1996 and the Gas Council was abolished from that date.

COMMUNITY AND INDUSTRY CONSULTATION

Public participation

Public involvement in the Tribunal's processes is crucial. The Tribunal therefore:

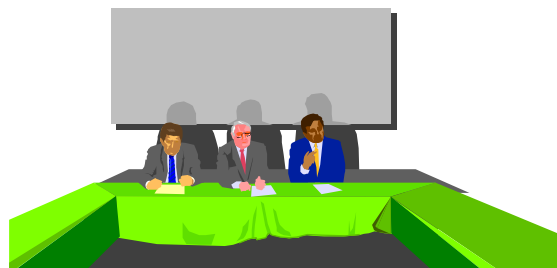
- advertises all investigations, invites public submissions and circulates these to known interested parties
- holds public hearings, with transcripts available for public inspection
- arranges public seminars and workshops
- seeks the views of the public through advertisements and surveys
- maintains a public register of material placed before it
- publishes issues and discussion papers and research reports
- explains its decisions in published reports.

In providing advice to the Tribunal, the Secretariat liaises extensively with other Government agencies, businesses, consumer, welfare, and private organisations, special interest groups, and individuals. As well as receiving a wide range of information from the Government agencies whose monopoly services are subject to review or price determination by the Tribunal, the Secretariat has received substantial input from various Government agencies whose operations or policy areas impinge on the business activities of those agencies.



Public hearings

The Tribunal is required to hold at least one public hearing for each investigation. Details of public hearings held during 1995/96 are shown in Appendix 2.



Access to the Tribunal's processes and information

Public access

Copies of all submissions that are not subject to commercial confidentiality are available for public inspection immediately following registration by the Tribunal. Copies may also be purchased. Statistics of submissions received during 1995/96 are shown in Appendix 2.

A transcription is made of the proceedings of all public hearings. Copies of transcriptions are available for public inspection and purchase in hard copy and on computer disk.

Copies of all submissions and transcriptions are available for inspection and purchase from the Tribunal's public access library located at Level 2, 44 Market Street, Sydney. Inquiries: telephone (02) 9290 8400, facsimile (02) 9290 2061.

Internet access

An Internet Home Page and Website is currently being developed for implementation before the end of 1996. The site will have information about the Tribunal, timetables, recent publications and releases (for downloading) and details of forthcoming public hearings.

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PUBLICATIONS

The following publications were issued by the Tribunal during 1995/96. A full list of all the Tribunal's publications appears in Appendix 6.

Determinations

Sep 95	1995/7	Valuer-General's Office - Charges to Councils from 1 July, 1995	no charge
Dec 95	1995/8	Public Transport Fares from 17 December 1995 - CityRail and STA Buses and Ferries	\$5
Dec 95	1995/9	Sydney Water Corporation Prices of Developer Charges for Water, Sewerage and Drainage Services	\$8
Mar 96	1996/1&2	Electricity Prices from March 1996	\$5
Jun 96	1996/3	Gosford City Council Prices for Water Supply, Sewerage and Drainage Services from 1 July 1996	\$5
Jun 96	1996/4	Wyong Shire Council Prices of Water Supply, Sewerage and Drainage Services from 1 July 1996	\$5
Jun 96	1996/5	HWC Prices of Water, Sewerage and Drainage Services from 1 July 1996	\$5
Jun 96	1996/6	SWC Prices of Water, Sewerage and Drainage Services from 1 July 1996	\$8
Jun 96	1996/7&8	Public Transport Fares - CityRail and STA Buses and Ferries from 7 July 1996	\$5
Jun 96	1996/9	Bulk Water Prices 1996/97	\$5

Discussion Papers

Aug 95	DP10	Pricing Policies of the Waste Recycling and Processing Service of NSW	no charge
Aug 95	DP11	Fair Fares - An Inquiry into Public Passenger Transport Services - The Issues	no charge
Aug 95	DP12	Pricing for Electricity Networks and Retail Supply	no charge
Dec 95	DP13	Pricing of Bulk Water Services in NSW	no charge
Nov 95	DP14	Water Industry Forum Report on Developer Charges for Water, Sewerage and Drainage Services	no charge
Jun 96	DP15	Pricing for Capital Contributions and Recoverable Works - An Issues Paper	no charge

Review Reports

Mar 96	-	Water Demand Management: A Framework for Option Assessment	no charge
Mar 96	1996/1	Transport Review Interim Report - Government Payments for Public Transport	no charge
Mar 96	1996/2	Transport Review Interim Report - CityRail	no charge
Mar 96	1996/3	Transport Review Interim Report - Buses and Ferries	no charge
Mar 96	1996/4	Transport Review Interim Report - Fare Structures for Public Transport	no charge
Mar 96	1996/5	Transport Review Interim Report - Framework for Public Transport Pricing	no charge
Mar 96	1996/6	Transport Review Interim Report - Fair Fares: An Overview	no charge
Apr 96	1996/7	Pricing Policies of the Waste Recycling and Processing Service of NSW	no charge

Research Papers

Sep 95	RP4	Road Pricing: Finding the Problem, ACIL Economics Pty Ltd	no charge
Dec 95	RP5	Review of Transmission Pricing for Electricity, Stephen King	no charge

ORGANISATION AND PERSONNEL

The Secretariat consists predominantly of highly experienced economists and financial/accounting analysts working in small teams on research and investigation, and providing skilled professional advice to the Tribunal. Additional consultant research resources are commissioned as required and staff of other government agencies are seconded to assist with particular investigations.

During the first three years of operation the Tribunal's Secretariat operated with a small team of about 15 staff. With the growth in workload due to increased activities and a wider role, staff numbers increased to 24 at 30 June 1996 and will continue to increase to over 30 during the coming year.

Tribunal Executive

Staff are employed under Section 8(2) of the Independent Pricing and Regulatory Tribunal Act 1992. Employment conditions are similar to general public sector conditions with access to all relevant State superannuation schemes. An enterprise agreement covers the employment conditions of non senior executive staff.

To accommodate the wider range of activities, and manage larger staff numbers, the previous specialist (economist/financial analyst) staff structure was reorganised during the year into an industry-based program structure, with a small central administrative support team.

The Tribunal's Executive, which reports directly to the Chairman, has three members:

General Manager, Secretariat

John Dulley, BA Hons

Secretary to the Tribunal, responsible for administering the Secretariat, ensuring legislative compliance, organising public access arrangements, providing information technology and ensuring the timely completion of Tribunal projects.

Chief Manager, Energy and Other Industries

Eric Groom, BEc Hons, MEc

Responsible for managing industry programs, providing specialist advice to the Tribunal, and preparing discussion papers and Tribunal reports.

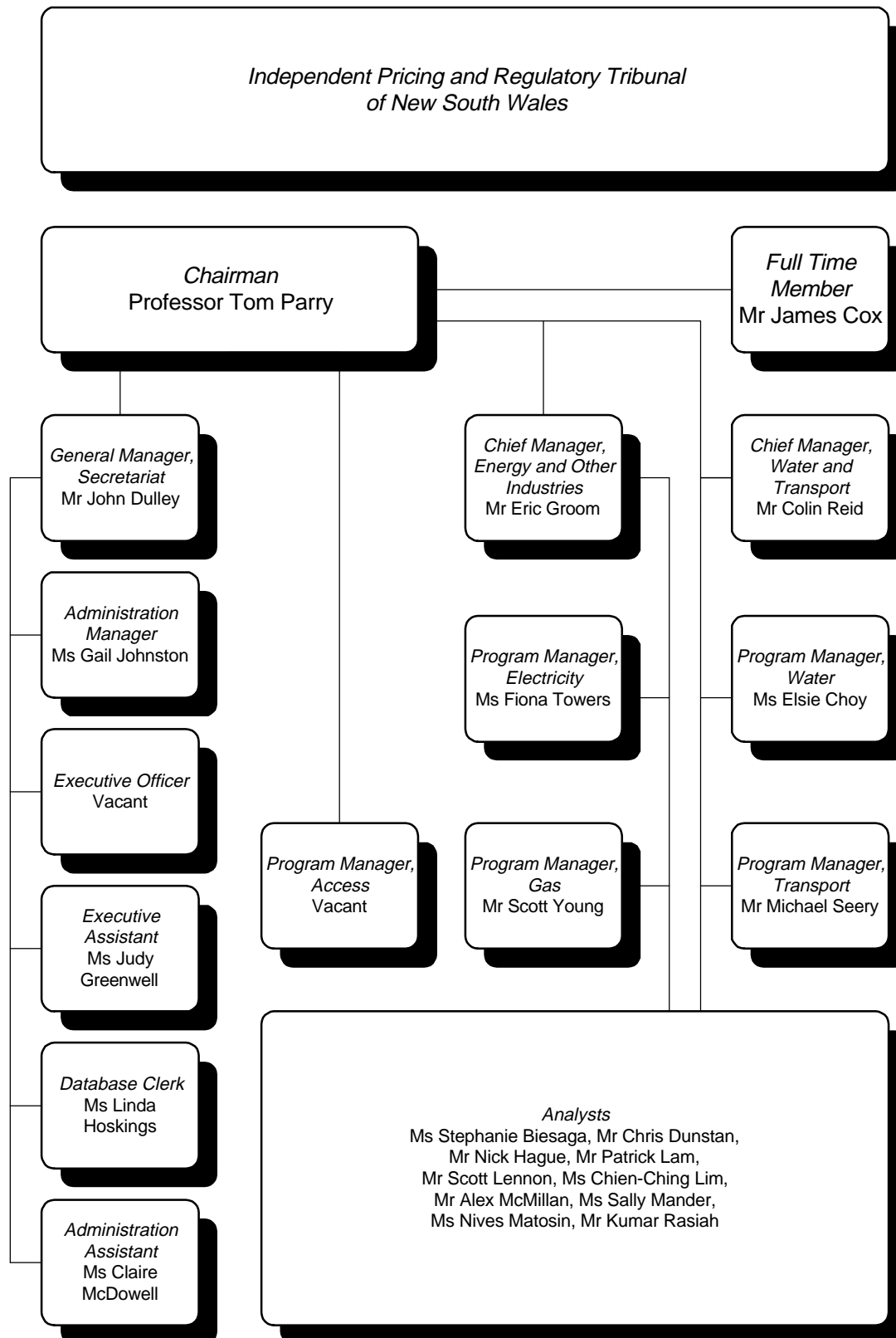
Chief Manager, Water and Transport

Colin Reid, BCom (Accounting), Dip SIA, Assoc ASCPA

Responsible for managing industry programs, providing specialist advice to the Tribunal, and preparing discussion papers and Tribunal reports.

IPART Organisation Chart

as at 30 June 1996



FINANCIAL STATEMENTS

For the year ended 30 June 1996

The following financial statements are included:

- v Auditor-General's opinion
- v Statement by Chairman of the Independent Pricing and Regulatory Tribunal
- v Operating statement
- v Statement of financial position
- v Statement of cash flows
- v Notes to and forming part of the financial statements for the year ended 30 June 1996.

Auditor-General's opinion

**Statement by Chairman of the Independent Pricing
and Regulatory Tribunal**

Pursuant to section 41C of the Public Finance and Audit Act 1983, I state that:

- (a) the accompanying financial statements have been prepared in accordance with the provisions of the Public Finance and Audit Act 1983, the Financial Reporting Code under Accrual Accounting for Inner Budget Sector Entities, the Public Finance and Audit (General) Regulation 1995 (as applicable) and Treasurer's Directions;
- (b) the statements exhibit a true and fair view of the financial position of the Independent Pricing and Regulatory Tribunal of New South Wales and transactions for the year then ended;
- (c) there are no circumstances which would render any particulars included in the financial statements to be misleading or inaccurate.

Thomas G Parry
Chairman
27 September 1996

Annual Report 1995/96

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

*Start of audited financial statements***Operating statement**

For the year ended 30 June 1996

	Notes	Actual 1996 \$'000	Budget 1996 \$'000	Actual 1995 \$'000
<i>Expenses</i>				
Operating expenses				
Employee related	4(a)	1,784	2,086	1,260
Other operating expenses	4(b)	1,335	1,092	681
Maintenance	4(c)	8	-	5
Depreciation	4(d)	82	40	38
Other Services	4(e)	11	-	-
<i>Total expenses</i>		3,220	3,218	1,984
<i>Revenues</i>				
User charges	5(a)	28	-	1
Other	5(b)	22	2	8
<i>Total revenues</i>		50	2	9
Net loss on disposal of property, plant and equipment		-	-	4
NET COST OF SERVICES	3	3,170	3,216	1,979
<i>Government contribution</i>				
Consolidated fund recurrent appropriation		3,072	2,953	1,972
Acceptance by the State of Tribunal liabilities		81	86	53
Surplus/ (deficit) for the year		(17)	(177)	46
Accumulated surplus at the beginning of the year		126	126	80
<i>Accumulated surplus at the end of the year</i>		109	(51)	126

The accompanying notes form part of the financial statements.

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INDEPENDENT PRICING AND REGULATORY TRIBUNAL

Statement of financial position

As at 30 June 1996

	Notes	Actual 1996 \$'000	Budget 1996 \$'000	Actual 1995 \$'000
<i>Current assets</i>				
Cash	6	71	1	237
Receivables	7	62	108	9
<i>Total current assets</i>		133	109	246
<i>Non-current assets</i>				
Property, plant and equipment	8	565	77	117
<i>Total non-current assets</i>		565	77	117
TOTAL ASSETS		698	186	363
<i>Current liabilities</i>				
Creditors	9	153	105	105
Employee entitlements	10	223	132	132
<i>Total current liabilities</i>		376	237	237
<i>Non current liabilities</i>				
Lease incentive	11	213	-	-
<i>Total non-current liabilities</i>		213	-	-
TOTAL LIABILITIES		589	237	237
NET ASSETS		109	(51)	126
<i>Equity</i>				
Accumulated surplus	12	109	(51)	126
TOTAL EQUITY		109	(51)	126

The accompanying notes form part of the financial statements.

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INDEPENDENT PRICING AND REGULATORY TRIBUNAL

Statement of cash flows

for the year ended 30 June 1996

	Notes	Actual 1996 \$'000	Budget 1996 \$'000	Actual 1995 \$'000
<i>Cashflow from operating activities</i>				
Payments				
Employee related		(1,614)	(2,000)	(1,161)
Other operating expenses		(1,388)	(1,092)	(605)
Maintenance		(8)	-	(5)
Other services		(11)	-	-
		(3,021)	(3,092)	(1,771)
Receipts				
User charges		28	-	1
Interest		10	-	2
Other		1	2	1
		39	2	4
<i>Net cash outflow from operating activities</i>	18(b)	(2,982)	(3,090)	(1,767)
<i>Cashflow from investing activities</i>				
Purchase of property, plant and equipment		(256)	-	(34)
<i>Net cash outflow from investing activities</i>		(256)	-	(34)
<i>Cash outflow from operating and investment activities</i>		(3,238)	(3,090)	(1,801)
<i>Government funding activities</i>				
Consolidated Fund recurrent appropriation		3,072	2,953	1,972
<i>Net cash provided by Government</i>		3,072	2,953	1,972
NET INCREASE/(DECREASE) IN CASH		(166)	(137)	171
Opening cash balance		237	237	66
CLOSING CASH BALANCE	6	71	100	237

The accompanying notes form part of the financial statements.

INDEPENDENT PRICING AND REGULATORY TRIBUNAL

Notes to and forming part of the financial statements.

1. Reporting entity

- (a) By Proclamation under section 5 of the Government Pricing Tribunal Act 1992, dated 26 June 1992, the Government Pricing Tribunal was established to regulate the prices of government monopoly services effective on and from 1 July 1992. The Tribunal is a body corporate responsible to the Premier. Following substantial amendments to the Act in January 1996 giving the Tribunal an expanded role, it was renamed the Independent Pricing and Regulatory Tribunal.

The Tribunal's initial and continuing core responsibilities involve setting maximum prices for government-owned electricity, water and urban public transport monopoly services.

Since its establishment, the Tribunal's work program has increased and now includes reviews of rural bulk water, waste and local water authorities. Following recent legislative amendments the Tribunal's role has been expanded to allow for references which are not restricted to government monopoly services, covering issues on pricing, industry and competition. The Tribunal also has a role in the registration of agreements for access to public infrastructure assets and for the arbitration of disputes on the creation of such agreements.

- (b) The Independent Pricing and Regulatory Tribunal is a single Program Organisational Unit. The Tribunal relies on the Premier's Department for administrative support. The cost of these services charged to the Tribunal during 1995/96 was \$34,000 (1994/95 \$34,000).

2. Summary of significant accounting policies

- (a) The Independent Pricing and Regulatory Tribunal's financial statements are general purpose statements which have been prepared in accordance with applicable Australian Accounting Standards, the requirements of the Public Finance and Audit Act and Regulations, Treasurer's Directions and the Financial Reporting Directives published in the Financial Reporting Code under Accrual Accounting for Inner Budget Sector Entities.

- (b) The Operating Statement and Statement of Financial Position are prepared on an accrual basis. The financial report is prepared in accordance with historical cost convention. The Statement of Cash Flows is prepared on a cash basis using the "direct" method. All the amounts are rounded to the nearest thousand dollars and are expressed in Australian currency.

- (i) Employee related expenses

The cost of employee entitlements to long service leave and superannuation are included in employee related expenses. However, as the Tribunal's liabilities for long service leave and superannuation are assumed by the State, the Tribunal accounts for the liability as having been extinguished resulting in non-monetary revenue described as "Acceptance by the State of Tribunal's liabilities".

The amounts expected to be paid to employees for their pro-rata entitlement to recreation leave are accrued annually at current salary levels.

Annual Report 1995/96**(ii) Government allocations**

Monetary and non-monetary resources which are allocated to the Tribunal by the government and which are controlled by the Tribunal are recognised as revenues of the financial period in which they are received. Non-monetary allocations are recognised at fair value.

(iii) Acquisition of assets

Assets acquired at the date of the Tribunal's formation were brought to account at valuation. Since that date the cost method of accounting has been used for all acquisitions. Cost is determined as the fair value of the assets given at the date of acquisition plus costs incidental to the acquisition.

(iv) Depreciation

Depreciation is provided for on a straight line basis against all depreciable assets having a value of \$5,000 or more at the date of acquisition, so as to write off the depreciable amount of each depreciable asset as it is consumed over its useful life as set out below.

Asset classification	Period of write-off
Computer equipment	4 years
Office machines	7 years
Other plant and equipment	7 years
Furniture and fittings	10 years
Leasehold improvements	The initial period of the lease

(v) Leases

Leasing transactions are operating leases of buildings and motor vehicles. Lease payments are recognised as expenses over the lease term.

During the year the Tribunal moved premises. The lessor contributed to the fitout costs of the Tribunal. The lease incentive has been treated in accordance with the Urgent Issues Group's recently issued ruling on "Lease Accounting for Lease Incentives under a Non-cancellable Operating Lease". This has resulted in a lease incentive liability and a lease fitout asset being established with a nil effect on net assets. (Refer notes 9 and 11)

(vi) Cash

The Independent Pricing and Regulatory Tribunal does not operate a bank account. All expenditure of the Tribunal is paid by cheque from the Premier's Department bank account. Similarly, Consolidated Fund appropriations are received into the bank account of the Premier's Department. As at 30 June 1996, \$70,076 was owed by the Premier's Department to the Tribunal.

3. Budget review

The actual net cost of services was lower than budget by \$46,000. This was mainly due to unexpected income from user charges (\$28,000) and lease incentive (\$15,000).

Annual Report 1995/96**4. Expenses**

	1996	1995
	\$'000	\$'000
(a) Employee related expenses included:		
♦ Salaries and wages	1,526	1,132
♦ Superannuation entitlements	59	31
♦ Payroll tax and fringe benefits tax	122	53
♦ Recreation leave	55	23
♦ Long service leave	22	21
	1,784	1,260
(b) Other operating expenses included:		
♦ Office accommodation expenses	241	113
♦ Administration expenses	425	222
♦ Corporate support expenses	34	34
♦ EDP expenses	40	15
♦ Travel expenses	88	65
♦ Training and development	23	26
♦ Consultancy fees	435	191
♦ Advertising	49	15
	1,335	681
(c) Maintenance expenses included:		
♦ Repairs and maintenance to non-current physical assets	8	5
(d) Depreciation and amortisation is charges as follows:		
♦ Computer equipment	57	32
♦ General plant and equipment	6	4
♦ Office fitout	4	2
♦ Leasehold improvements	15	-
	82	38
(e) Other services included:		
♦ User pays seminars	11	-

Annual Report 1995/96**5. Revenue**

	1996 \$'000	1995 \$'000
(a) User charges comprised the following items:		
♦ Seminars	26	-
♦ Publications	2	1
	28	1
(b) Other:		
♦ Interest	6	7
♦ Lease incentive	15	-
♦ Other	1	1
	22	8

6. Current assets - cash

	1996 \$'000	1995 \$'000
Cash on hand	1	1
Cash in Premier's Department Operating account - refer note 2(b)(iv)	70	236
	71	237

7. Current assets - receivables

	1996 \$'000	1995 \$'000
Sundry debtors	62	9

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8. Non current assets - property, plant and equipment

	Computer Equipment \$'000	General Plant and Equipment \$'000	Office Fitout \$'000	Leasehold Improvements \$'000	Total \$'000
<i>At Cost or Valuation</i>					
Balance 1 July, 1995	130	26	46	-	202
Additions	103	24	129	274	530
Disposals	-	-	-	-	-
Balance 30 June, 1996	233	50	175	274	732
<i>Accumulated Depreciation</i>					
Balance 1 July, 1995	75	5	5	-	85
Depreciation & amortisation	57	6	4	15	82
Write back on disposal	-	-	-	-	-
Transfer on revaluation	-	-	-	-	-
Balance 30 June, 1996	132	11	9	15	167
<i>Written Down Value</i>					
At 1 July, 1995	55	21	41	-	117
At 30 June, 1996	101	39	166	259	565

9. Current liabilities - creditors

	1996 \$'000	1995 \$'000
(a) Sundry creditors		
Other operating expenses	107	105
(b) Lease incentive	46	-
	153	105

Annual Report 1995/96**10. Current liabilities - employment entitlements**

	1996 \$'000	1995 \$'000
Accrued employee entitlements	80	44
The movement in the provision for employee recreation leave is as follows:		
Balance 1 July	88	65
Increases in provision	55	23
Balance 30 June	143	88
	223	132

The amount of recreation leave paid has been charged directly to the operating statement.

11. Non current liabilities - lease incentive

	1996 \$'000	1995 \$'000
Balance at commencement of lease	274	-
Less amortisation - current year	(15)	-
Less transfer to current liabilities	(46)	-
Balance 30 June	213	-

12. Equity - accumulated surplus

	1996 \$'000	1995 \$'000
Balance 1 July	126	46
Surplus/(deficit) for the year	(17)	80
Balance 30 June	109	126

13. Audit fees

Amounts received or due for audit services by the Audit Office of New South Wales.

	1996 \$'000	1995 \$'000
In respect of 1994/95	-	5
In respect of 1995/96	5	-
Balance 30 June	5	5

The auditors received no other benefits.

Annual Report 1995/96**14. Unclaimed monies**

No unclaimed amounts have been held in the accounts of the Tribunal in excess of two years.

15. Commitments for expenditure

The Tribunal has future operating lease rentals of office accommodation, not provided for in the financial statements and payable:

	1996 \$'000	1995 \$'000
<i>Lease commitments</i>		
Commitments in relation to a non-cancellable operating leases payable as follows:		
Not later than one year	243	115
Later than one year but not later than 2 years	243	58
Later than 2 years but not later than 5 years	783	-
Later than 5 years	174	-
	1,443	173

16. Contingent liabilities

The Tribunal is unaware of any contingent liabilities associated with its operations.

17. Consultancies

Expenditure on consultancies during 1995/96 by the Tribunal totalled \$434,473. This included \$208,170 for engagements more than \$30,000 and \$226,303 for engagements less than \$30,000.

18. Statement of cash flows**(a) Reconciliation of cash**

For the purposes of the statement of cash flows, cash includes cash on hand and in bank accounts. Cash at the end of the financial year shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

	1996 \$'000	1995 \$'000
Cash on hand	1	1
Cash held in Premier's Department operating account	70	236
	71	237

Annual Report 1995/96**(b) Reconciliation of net cash provided by operating activities to net cost of services**

	1996	1995
	\$'000	\$'000
Net cost of services	(3,170)	(1,979)
Adjustments for non-cash items		
Depreciation	82	38
Provision for recreational leave	55	23
Acceptance by the State of department liabilities	81	53
Asset adjustments	(274)	5
Loss/(gain) on sale of property, plant and equipment	-	4
	(3,226)	(1,856)
(Increase)/decrease in receivables	(53)	23
Increase/(decrease) in creditors	38	66
Increase/(decrease) in other liabilities	259	-
Total net cash outflow from operating activities	(2,982)	(1,767)

19. Subsequent events

On 1 July 1996 administrative support for the Tribunal previously provided by Premier's Department was transferred to the GMT Central Corporate Services Unit of the Department of Public Works and Services.

End of audited financial statements

APPENDIX 1 LEGISLATIVE PROVISIONS

Independent Pricing and Regulatory Tribunal Act 1996

The Tribunal takes its powers from the Independent Pricing and Regulatory Tribunal Act 1992 (the Act), which defines how the Tribunal operates and the ways of determining maximum prices.

The Act commenced in July 1992 as the Government Pricing Tribunal Act and was substantially amended and renamed in January 1996 as the Independent Pricing and Regulatory Tribunal Act.

The Tribunal has three major roles under this legislation:

- price regulation and pricing policy reviews of government monopoly services
- reviews of industry, pricing or competition
- registration and arbitration of access agreements.

Price regulation and pricing policy reviews of government monopoly services

Government monopoly services

The Tribunal's powers relate only to prices of government monopoly services supplied by NSW government agencies.

The prices of government services in competitive markets are not regulated by the Tribunal, nor is the Tribunal concerned with deciding State taxes.

The Tribunal has responsibility for setting prices only when the service has been declared by the Premier (as Minister responsible for the Act) to be a government monopoly service under Section 4 of the Act.

The criteria for declaring a monopoly service are:

- there are no other suppliers of the service to provide competition in that part of the market
- there is no potential competition in the short term in that part of the market.

Eight declarations are currently effective under Section 4 at 30 June 1996. They are:

- Water supply, sewerage, drainage and related services supplied by the Water Board, the Hunter Water Corporation Pty Ltd, Gosford City Council and Wyong Council (Gazette No. 105, 27 August 1992, page 6430).
- Government Pricing Tribunal (Passenger Transport Services) Order 1992, No 3 (Gazette No. 146, 18 December 1992, page 8893).
- Government Pricing Tribunal (Valuer-General's Services) Order 1993 (Gazette No. 89, 13 August 1993, page 4571).
- Government Pricing Tribunal (Electricity Services) Order 1993 (Gazette No. 124, 12 November 1993, page 6795).
- Government Pricing Tribunal (Local Water Authorities) Order 1994 (Gazette No. 99, 27 July 1994, page 3965).
- Government Pricing Tribunal (Waste Disposal Service) Order 1995 (Gazette No. 60, 19 May 1995, page 2466).
- Government Pricing Tribunal (Water Supply Schemes) Order 1995 (Gazette No. 60, 19 May 1995, page 2467).
- Certain services supplied by the Water Administration Ministerial Council 1995 (Gazette No. 122, 6 October 1995, page 7115).

Annual Report 1995/96**What the Tribunal can do**

For *declared government monopoly services*, the Tribunal is empowered to:

- determine maximum prices (Sections 11(1a) and 12(1a)); and/or
- carry out a periodic review of pricing policies (Sections 11(1b) and 12(1b)).

There are two main ways in which the Tribunal's investigations can be initiated.

(a) Standing references

Schedule 1 of the Act lists a number of government agencies for which the Tribunal has a standing reference (see list below). Under Section 11 the Tribunal may initiate investigations of declared services supplied by standing reference agencies without reference to the Minister.

(b) References by the Premier

Under Section 12 of the Act the Premier may require the Tribunal to determine the maximum price or carry out a review of any declared service, including those supplied by standing reference agencies.

The terms of any reference by the Premier must be advertised, and the final terms of reference must be settled with the Premier following consideration of public comments.

The Tribunal may ask the Premier to make a particular reference under these provisions.

Standing reference agencies

The following government agencies are currently listed as standing references in Schedule 1 of the Act:

- Electricity Transmission Authority
- All NSW electricity distributors
- Sydney Water Corporation Limited
- Hunter Water Corporation Limited
- Water supply authorities constituted under the Water Supply Authorities Act 1987 including Gosford and Wyong Councils

- County councils established for the supply of water*
- Administrators of the South-West Tablelands Water Supply and the Fish River Water Supply*
- State Rail Authority
- State Transit Authority
- Roads and Traffic Authority*
- Department of Housing*
- Ports Corporations

Even though an agency is on this list, *the Tribunal does not have authority to set prices or carry out a review until monopoly services supplied by the agency have been declared*. No declarations have been made for services supplied by the agencies marked with an asterisk (*).

Public participation and access to information

The Act contains a number of provisions to ensure that the Tribunal's activities are carried out through a public process. *The main requirement is that the Tribunal must hold at least one public hearing for each investigation*.

The Tribunal may seek public participation by:

- advertising public hearings (Section 21(3))
- seeking public comments on terms of reference (Section 13(2))
- providing public access to submissions (Section 22A(1))
- inviting public comment on issues and submissions
- holding public seminars and workshops (Section 21(2))
- releasing reports and determinations to the public (Section 19(1))
- public reporting of compliance by agencies (Section 18(4)).

The general assumption of the legislation (Section 22A) is that the public will have access

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to information provided to the Tribunal for its investigations. That Section also extends the possibility of public access by allowing the Tribunal to approve the release of information that would not otherwise be available under the Freedom of Information Act, following consultation with the supplier of the information.

While most Tribunal activities are public, the Tribunal may direct that evidence be considered in private and may restrict access to confidential documents.

Matters to be considered by the Tribunal

The Tribunal is required to consider a range of issues when making determinations and recommendations. The factors can be grouped as follows:

- Consumer protection
 - * prices, pricing policies and standards of service
 - * general price inflation
 - * social impact of decisions[#]
 - Economic efficiency
 - * greater efficiency in the supply of services
 - * impact of exercise of functions by some other body
 - * the need to promote competition[#]
 - Financial stability
 - * rate of return on public sector assets
 - * impact of borrowing, capital and dividend requirements
 - Environmental and other standards
 - * protection of environment by appropriate pricing policies
 - * considerations of demand management
 - * standards of quality, reliability and safety[#]
- [#] added January 1996

For each investigation the Tribunal is required to report on its assessment of each of these factors (Section 15(2)).

The Premier may also require the Tribunal to consider specific matters in its investigations (Section 13(a)).

How the Tribunal sets maximum prices

The Tribunal may fix maximum prices in either of two ways:

(a) Determining maximum prices

Maximum prices may be determined in any way the Tribunal considers appropriate (Section 14), including:

- setting specific prices for individual services
- increasing or decreasing prices for individual services or groups of services
- setting a rate of return on assets
- referring to the CPI.

(b) Establishing a methodology for determining maximum prices

If the Tribunal considers that it is impracticable to make a determination of maximum prices as in (a), it may determine under Section 14A a methodology to be used by the agency for fixing the maximum price. This provision was added during 1994/95.

Implementation of maximum prices

The agencies concerned are *required to fix prices so that they do not exceed the maximum price* determined by the Tribunal (Section 18(1A)).

Approval of the Treasurer is needed if an agency wishes to charge a price below the maximum price (Section 18(2)).

Compliance

In their annual reports, all agencies subject to the Tribunal's determinations must report (Section 18(4)) on how they have implemented the maximum prices. Information must also be provided on whether Tribunal recommendations made in pricing policy reviews have been implemented, and reasons must be given for any non-implementation.

Annual Report 1995/96**Release of reports and determinations**

The Tribunal submits its reports to the Premier. Any determination must be published in the Gazette as soon as possible (Section 17). All reports must be made available for public inspection and sale, tabled in Parliament and placed in the Parliamentary Library (Section 19).

Reviews of industry, pricing or competition

Section 12A of the Act allows the Premier to require the Tribunal to undertake reviews of matters covering industry, pricing or competition.

In contrast to the review provisions of Sections 11 and 12, these reviews are not restricted to the operation of government monopoly services and can cover both government and private industry issues.

In carrying out reviews under Section 12A, the Tribunal is not required to specifically have regard to the various issues listed in Section 15 of the Act.

Registration and arbitration of access agreements

Section 12B of the Act requires that the Tribunal be notified of access agreements that are being negotiated. The Tribunal may provide advice to the Premier on such agreements. The Tribunal is required to register all such agreements (Section 12D).

If the access regime under which the agreement is being negotiated provides for the operation of Part 4A of the Independent Pricing and Regulatory Tribunal Act, any disputes that occur are subject to arbitration by the Tribunal.

In carrying out these arbitration functions the Tribunal may appoint an arbitrator from a panel approved by the Premier or may undertake the arbitration itself (Section 24B).

The Tribunal's arbitration activities follow the provisions of the Commercial Arbitration Act, supplemented by any regulations made under Section 29 of the Independent Pricing and Regulatory Tribunal Act.

Gas Supply Act 1996

This Act provides for the abolition of the Gas Council of NSW, with economic and price regulation issues being the responsibility of the Independent Pricing and Regulatory Tribunal, and safety and other regulatory issues being the responsibility of the Department of Energy. These provisions were proclaimed from July 1996 onwards and will be covered in detail in future reports.

The Tribunal is also to be responsible for arranging third party access to gas networks in NSW and for arbitrating access disputes.

The pricing and access provisions are mostly carried out under similar provisions to those of the Independent Pricing and Regulatory Tribunal Act.

APPENDIX 3 ORGANISATION, STAFFING AND CONSULTANTS

Organisational changes

During the first three years of operation the Tribunal's organisation was based on a specialist structure (economists and financial analysts) supported by a small administrative team.

A program based management structure was introduced during the year to facilitate the management of larger staff numbers and to assist with the expanded workload and role of the Tribunal.

Details of the new structure are shown on page 25.

Senior Executive profile

All executive staff are employed under contract by the Tribunal under Section 8(2) of the Independent Pricing and Regulatory Tribunal Act. They are not formally members of the NSW Senior Executive Service (SES). Conditions of employment are similar to SES conditions, and remuneration has regard to determinations by the Statutory and Other Offices Remuneration Tribunal.

Three executive positions were filled at the end of the current financial year, none of which was at the level which requires an individual performance report to be shown in annual reports. None of these positions was filled by a woman.

Enterprise agreement

Non-executive staff of the Tribunal's Secretariat are covered by an enterprise agreement for staff employed under Section 8(2) of the Government Pricing Tribunal Act.

Staff members are paid in accordance with four overlapping salary ranges. The agreement is designed to cover all the major working conditions of Tribunal staff. It includes a range of flexible working conditions including flexitime and arrangements for working from home.

Equal opportunity statistics

At 30 June 1996, the Tribunal had 18 employees. No Aboriginal people were employed and there were no persons with a physical disability.

Representation of EEO target groups within levels at 30 June 1996

Grades	Total staff	Women	Non-English speaking background
Level 1	2	2	-
Level 2	5	3	-
Level 3	7	3	2
Level 4	4	2	1
Total staff	18	10	3
Total staff 30/6/95	10	6	3
Total staff 30/6/94	10	6	2

Consultants

Total expenditure from Tribunal funds on consultants during 1995/96 was \$434,473. The Tribunal engaged 15 consultants during 1995/96 for values less than \$30,000. Five consultancies had a value exceeding \$30,000:

- Institute of Transport Studies, Transport Survey - total cost \$87,000 (jointly funded with a \$40,000 contribution by the Department of Transport)
- AGB McNair, Energy Survey - total cost \$100,000 (jointly funded with contributions by Sydney Electricity [\$30,000], Integral Energy[\$30,000], Gas Council of NSW [\$20,000])
- Stewart Joy and Associates, Transport Review research and advisory services - total cost \$80,540.
- Symonds Travers Morgan, Efficiency Study, Waste Services NSW \$37,400;
- Sinclair Knight Merz - Capital Works Audit, Metropolitan Water Suppliers, \$51,110.

APPENDIX 4 CORPORATE PLAN

The expanded role of the Tribunal marks the beginning of a new era for the work of the Tribunal. In recognition of the challenges of greater responsibilities, the first corporate plan of the Independent Pricing and Regulatory Tribunal is being developed.

The top elements of the plan are shown on page 1 of this report - the Mission, Vision, Objectives and Corporate Values statements.

The new plan is based on an assessment of all the factors likely to influence existing and future operations. It will provide a framework to help the Tribunal to:

- meet the requirements of the enabling legislation
- effectively communicate plans and activities to our stakeholders and staff members
- deal efficiently with emerging issues and changing operating environment.

The plan is being developed in consultation with all staff members. It identifies strategic issues and sets out future directions for 1996/97 and subsequent years.

The Tribunal must be responsive to the needs of the community and must adapt to the continuously changing environment.

We are committed to delivering balanced decisions to encourage a more efficient, competitive and responsive economy.

Our success will be judged by the community and our stakeholders and will be the product of our independence, professionalism and competence.

Operating environment

The Tribunal performs its functions in an environment of change and the conflicting demands and growing expectations of its stakeholders. (Details of stakeholders are shown

on the following page).

The NSW government will continue its strong commitment to economic reforms to improve the standard and efficiency of public services, and the financial performance of government business enterprises.

The Tribunal's approach to price regulation should encourage public monopolies to implement price reforms and to conduct their businesses in the most cost efficient manner. This is to be achieved with due recognition of the social impacts of the Tribunal's pricing decisions.

There is continued emphasis on promoting competition. Key elements of reforms are the National Competition Policy and the Competition Principles Agreement of the Council of Australian Governments (CoAG).

The Tribunal is to play a vital role in the implementation of access regimes which allow third party access to significant infrastructure facilities.

The community is becoming increasingly aware of customer protection, environment protection and the importance of promoting ecologically sustainable development. These factors must be carefully considered in the Tribunal's investigations and determinations.

Social, economic, financial and environmental considerations play an important part in the Tribunal's regulatory functions. The challenge for the Tribunal is to reconcile these demands for the sustainable benefit of the community.

Information technology improvements will continue to drive change in work practices and communications.

Our internal enterprise agreement provides staff with the opportunities to balance their work and private commitments through more flexible working arrangements.

OUR MISSION

As an economic regulator, to provide an acceptable balance between competing claims within the NSW community, and to promote an increasingly competitive environment, through price regulation, industry reviews and ensuring access to infrastructure facilities.

OUR VISION

To be highly respected by our key stakeholders for our independence, professionalism and competence.

OUR CORPORATE VALUES

- *Independence*
- *Fairness*
- *Consistency*
- *Excellence*
- *Continuous improvement*
- *Teamwork*
- *Responsiveness*

OUR CORPORATE OBJECTIVES

Primary objectives

- *To achieve the best feasible pricing outcomes that balance the competing claims within the community*
- *To provide high quality advice to government on industry issues*
- *To achieve effective access to key public utility infrastructure services*

Supporting objectives

- *To consult widely with our stakeholders*
- *To achieve excellence in both organisation and staff performance*

Annual Report 1995/96**Stakeholders**

IPART stakeholders are people and organisations with some vested interest in the way the Tribunal operates. The needs and expectations of key stakeholders are critical factors that must be considered. IPART stakeholders and their expectations are many and varied. Key stakeholder expectations are outlined below.

Stakeholders	Expectations
Government	* balanced regulation * timely completion of investigations and industry reviews
The Treasurer <i>(on behalf of NSW community)</i>	* commercial return from Government Trading Enterprises
"Regulated" enterprises	* consistency and transparency of price regulation * timely price determinations
Customers of "regulated" enterprises	* efficient cost of services * lower prices * high standards and quality of services * customer protection
Community Interest groups <i>(including industry, environmental and welfare groups)</i>	* consultation and liaison * access to public information * safety net arrangements * decisions to support ecologically sustainable development objectives
Third parties <i>(those seeking access to infrastructure facilities)</i>	* fair terms and conditions for access * timely and fair decisions in the arbitration of disputes
Other jurisdictions	* a more competitive environment
Our staff	* job satisfaction * good working conditions * recognition * training development * career opportunities

The Tribunal's standards of service delivery

Through its Guarantee of Service, the Tribunal is committed to monitoring service standards and reporting against these standards in its annual report.

In 1995/96:

- All requests for assistance were met directly or by assisting the person or organisation to obtain appropriate support from another source.
- Information provided was accurate, well researched and up-to-date.
- A contact name was provided in all correspondence and telephone inquiries.
- Tribunal events (public hearings, public seminars etc) were advertised in major newspapers.
- Public access was available to all submissions made to the Tribunal (subject to commercial confidentiality).

The Tribunal aims to ensure that all correspondence is either responded to immediately or acknowledged within ten working days. Where feasible, the acknowledgment provides a time frame for response. The Tribunal considers that this standard is being attained consistently.

The Tribunal ensures that at all times its staff are trained and developed to provide a professional and competent service.

APPENDIX 5 OTHER ISSUES

Committees

Tribunal Executive Meetings

The Tribunal's Executive, consisting of the Chairman; Full-time Member; General Manager, Secretariat; Chief Manager, Water and Transport; and the Chief Manager, Energy and other industries, met regularly at approximately two week intervals throughout the year. The Executive Meeting reviewed the current work program of the Secretariat and ensured that the Tribunal was adequately briefed on all relevant issues.

Overseas visits

Mr James Cox, now a Full-time Member of the Tribunal, visited the United States, Norway and Japan during November and December 1995 in his then capacity as Principal Adviser, to discuss issues relating to access to electricity, gas and transport networks with members of regulatory institutions and commentators. The cost of the visit was \$12,286.

External presentations



During the year, the following external presentations on the role and work of the Tribunal or on the specific topics shown were made by the Tribunal Chairman and Secretariat staff:

Professor Tom Parry

Developments in Competition Policy,
Trade Practices Conference - CCH
August 1995.

Key Note Address, Electricity Supply Engineers' Conference, August 1995.

Presentation of Tribunal's Major Review of Public Transport, NCOSS Seminar on Public Transport, September 1995.

Presentation on Competition Policy and Access in NSW, Tribunal Workshop on Competition Policy and Access, November 1995.

Presentation at WSROC/DUAP Conference *Impact on Local Government of the CoAG Agreement on Competition Principles*, November 1995.

The Optimal Pace of Economic Restructuring, University of New South Wales Conference, December 1995.

Presentation on Access Regimes, Gilbert and Tobin Odyssey Forum, May 1996.

NSW State of Play, Gas Industry Reform Conference, May 1996.

Regulating for Competition, University of Melbourne, May 1996.

Mr Eric Groom

How to Account for Environmental Values in Project Decisions, Munro Centre Forum, Faculty of Engineering, University of NSW, July 1995.

Access Regimes in NSW, Industry Commission Workshop on Access Regimes and Competition, July 1995.

Competition, Prices and the Environment, Australian Energy Institute Symposium, October 1995.

Optimal Pace of Economic Restructuring, Chair of Session and Commentator, Conference on Microeconomic Reform, Economics Society of Australia, December 1995.

Electricity Regulation at State Level - the NSW Approach - ABARE Outlook 1996, AGPS, February 1996.

Moving Towards a Competitive NSW Market, Australian Gas Association Conference, April 1996.

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Regulation of Electricity Prices in NSW, Electricity Association of Australia Conference, May 1996.

Competition Principles Agreement - Development of State Access Regimes, IIR Conference on National Competition Policy, May 1996.

Ms Fiona Towers

Identifying Cost Drivers of NSW Electricity Distributors - 24th Conference of Economists, 27 September 1995.

Mr Michael Seery

Distributional Impact of Water Pricing, presentation to Department of Environment Sports and Territories seminar on equity and the environment, 13 July 1995.

Interim Reports for the Inquiry into Urban Public Passenger Transport Services, presentation to the Western Sydney Transport Forum, 29 March 1996.

Computing facilities

The computing needs of the Tribunal's Secretariat are met by a Novell 4.1 based PC network operating in a Windows 3.1 software environment. All staff members use 486 and Pentium based PCs.

The computing facilities are used extensively by the Secretariat's specialist staff for financial analysis and modelling and for the preparation of reports with limited clerical support.

An integrated database (ASSIST) manages the Tribunal's mailing lists and submissions registers. As well as providing search and mailing facilities, the system stores images of all major documents and submissions, which can be retrieved and read by all staff on their PCs.

Complaints

No complaints were received during the year concerning the operations of the Tribunal.

The Tribunal received letters from time to time that commented critically on determinations made by the Tribunal. These representations were acknowledged and, where appropriate, were registered as submissions to the relevant investigation.

Other representations were made to the Tribunal concerning pricing practices or activities of the government agencies that it regulates. If appropriate, these representations were referred to the relevant agencies.

Risk management and insurance

Comprehensive coverage for workers' compensation, motor vehicle, property and liability insurance is provided through the NSW Treasury Managed Fund. The major risks are those relating to motor vehicle damage.

Exposure to theft of property is limited by the installation of a security access system for the Tribunal's office accommodation. This controls access to the Tribunal's work areas during the day and provides security outside office hours. This system also provides security for sensitive business and financial information provided by Tribunal respondents.

Duplexed server disk facilities, daily back-up, offsite tape storage and uninterruptable power supply are used to reduce risks arising from computer system breakdowns.

Report on account payment performance

Accounts payments for the Tribunal are made by the Accounting and Budget Division of the Premier's Department. The Tribunal maintains its own records, and accounts are sent for payment without delay.

APPENDIX 6 PUBLICATIONS ISSUED BY THE TRIBUNAL

Determinations

Feb 93	1992/1	1993 Water Prices for Gosford	\$2
Feb 93	1992/2	1993 Water Prices for Wyong	\$2
Mar 93	1993/1	Electricity Prices 1993/94	\$5
May 93	1993/2	Hunter Water Corporation 1993/94: Prices of Water, Sewerage and Drainage Services	\$5
May 93	1993/3 1993/4	Public Transport Fares 1993/94: CityRail and STA Buses and Ferries	\$5
Jul 93	1993/5	Water Board 1993/94: Prices of Water, Sewerage and Drainage Services	\$5
Aug 93	1993/6	Miscellaneous Electricity Charges: Sydney and Shortland	\$2
Dec 93	1993/7	Water Board Prices for Supply of Water, Sewerage and Drainage Services for the Rouse Hill Development Area	\$5
Dec 93	1993/8	Valuer-General's Office - Charges to Councils	na
May 94	1994/1	Electricity Prices from 1 July 1994	\$5
May 94	1994/2	Water Board Prices of Water, Sewerage and Drainage Services from 1 July 1994	\$5
May 94	1994/3	Hunter Water Corporation Prices of Water, Sewerage and Drainage Services from 1 July 1994	\$5
May 94	1994/4 1994/5	Public Transport Fares from 3 July 1994 for CityRail and STA Buses and Ferries	\$5
Jun 94	1994/6	Gosford City Council Prices of Water, Sewerage and Drainage Services from 1 July 1994	\$5
Jun 94	1994/7	Wyong Council Prices of Water, Sewerage and Drainage Services from 1 July 1994	\$5
Jun 95	1995/1	Gosford City Council Prices of Water, Sewerage and Drainage Services from 1 July 1995	\$5
Jun 95	1995/2	Wyong Council Prices of Water, Sewerage and Drainage Services from 1 July 1995	\$5
Jun 95	1995/3	Hunter Water Corporation Prices of Water, Sewerage and Drainage Services from 1 July 1995	\$5
Jun 95	1995/4	Sydney Water Corporation Prices of Water, Sewerage and Drainage Services from 1 July 1995	\$5
Jun 95	1995/5 1995/6	Public Transport Fares from 2 July 1995 for CityRail and STA Buses and Ferries	\$5
Sep 95	1995/7	Valuer-General's Office - Charges to Councils from 1 July 1995	no charge
Dec 95	1995/8	Public Transport Fares from 17 December 1995 for CityRail and STA Buses and Ferries	\$5

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Dec 95	1995/9	Sydney Water Corporation Prices of Developer Charges for Water, Sewerage and Drainage Services	\$8
Mar 96	1996/1	Electricity Prices from March 1996	\$5
	1996/2		
Jun 96	1996/3	Gosford City Council Prices of Water Supply, Sewerage and Drainage Services from 1 July 1996	\$5
Jun 96	1996/4	Wyong Shire Council Prices of Water Supply, Sewerage and Drainage Services from 1 July 1996	\$5
Jun 96	1996/5	HWC Prices of Water, Sewerage and Drainage Services from 1 July 1996	\$5
Jun 96	1996/6	SWC Prices of Water, Sewerage and Drainage Services from 1 July 1996	\$8
Jun 96	1996/7	Public Transport Fares from 7 July 1996 for CityRail and STA Buses and Ferries	\$5
	1996/8		
Jun 96	1996/9	Bulk Water Prices 1996/97	\$5
Discussion Papers			
Nov 92	DP1	Water - an Issues Paper	no charge
Dec 92	DP2	What Price Water?	no charge
May 93	DP3	Regulation of the Water Industry in New South Wales - a Discussion Paper	no charge
Sep 93	DP4	Efficiency and Financial Performance of the Electricity Industry in New South Wales	na
Sep 93	DP5	Paying for Electricity - an Issues Paper	no charge
Mar 94	DP6	Asset Revaluation - Report Reviewing the Application of the Recoverable Amount Test by the Electricity Industry in NSW	no charge
Sep 94	DP7	Price Regulation and Demand Management incorporating Revenue Regulation for Electricity Distributors: Questions and Answers	no charge
Sep 94	DP8	Developer Charges in the NSW Water Industry	no charge
Jun 95	DP9	Pricing Principles for Local Water Authorities - An Issues Paper	no charge
Aug 95	DP10	Pricing Policies of the Waste Recycling and Processing Service of NSW	no charge
Aug 95	DP11	Fair Fares - An Inquiry into Public Passenger Transport Services - The Issues	no charge
Aug 95	DP12	Pricing for Electricity Networks and Retail Supply	no charge
Dec 95	DP13	Pricing of Bulk Water Services in NSW	no charge
Nov 95	DP14	Water Industry Forum Report on Developer Charges for Water, Sewerage and Drainage Services	no charge
Jun 96	DP15	Pricing for Capital Contributions and Recoverable Works - Issues Paper	no charge
Jul 96	DP16	Review of Regulation and Licensing of Air Service Operators in NSW - Issues Paper	no charge

Annual Report 1995/96**Review Reports**

May 93	1993/1.1	Water - Interim Report, Volume 1	na
May 93	1993/1.2	Water - Interim Report, Volume 2 - Attachments	na
May 93	1993/1.3	Water - Interim Report - Summary	no charge
Oct 93	1993/2	Inquiry into Water and Related Services	\$12
Oct 94	1994/1.1	Paying for Electricity - Interim Report, Volume 1	\$12
Oct 94	1994/1.2	Paying for Electricity An Interim Report, Volume 2 - Appendices	\$12
Oct 94	1994/1.3	Paying for Electricity An Interim Report - Summary	na
Mar 96	1996/1	Transport Review Interim Report - Government Payments for Public Transport	no charge
Mar 96	1996/2	Transport Review Interim Report - CityRail	no charge
Mar 96	1996/3	Transport Review Interim Report - Buses and Ferries	no charge
Mar 96	1996/4	Transport Review Interim Report - Fare Structures for Public Transport	no charge
Mar 96	1996/5	Transport Review Interim Report - Framework for Public Transport Pricing	no charge
Mar 96	1996/6	Transport Review Interim Report - Fair Fares: An Overview	no charge
Mar 96	-	Water Demand Management: A Framework for Option Assessment	no charge
Apr 96	1996/7	Pricing Policies of the Waste Recycling and Processing Service of NSW	no charge

Research Papers

May 93	RP1	Changes in the Pricing of Water and Related Services in the Sydney Water Board Region: Distributional Impacts and Competition Policies - King and Bradbury	no charge
May 93	RP2	Developer Charges and Urban Development Water and Related Services - David Brett	no charge
Feb 95	RP3	Access Pricing - Stephen King	no charge
Sep 95	RP4	Road Pricing: Finding the Problem. A report to the Government Pricing Tribunal by ACIL Economics & Policy Pty Ltd	no charge
Dec 95	RP5	Review of Transmission Pricing for Electricity by Stephen King	no charge

APPENDIX 7 FREEDOM OF INFORMATION

Statement of affairs

Under the Freedom of Information Act 1989, every NSW government department or agency is required to publish an annual statement of affairs. The statement describes the structure and functions of the agency and lists categories of documents that are held by the agency.

The structure and functions of the Independent Pricing and Regulatory Tribunal of NSW are described in detail in the main section of this annual report.

Effect of the agency's functions on members of the public

The determinations of the Tribunal affect most members of the public in NSW, both directly and indirectly, through prices charged for government monopoly services, especially for electricity, water and public transport fares.

The Tribunal has undertaken a rolling program of reviews of pricing policies for the major monopoly services as follows:

- *Water, sewerage and drainage services* - completed during 1993-94.
- *Electricity services* - following delays during the major restructuring of NSW electricity agencies, a final report will be released in by the end of 1996.
- *Public transport* (CityRail and STA bus and ferry services) - draft reports were released in February 1996 and a final report is expected to be released in October 1996.

These reviews considered longer-term price paths for the services concerned, with medium-term price paths for water and electricity services being determined during the first half of 1996.

The Tribunal also conducts investigations which are referred to it by the Premier. At 30 June 1996 the Tribunal was undertaking a review of pricing policies of local water authorities and a review and determination of the pricing of rural bulk water services.

Arrangements for public participation in policy formulation

The Act requires considerable public participation during the Tribunal's investigation processes. Public hearings are held and public submissions invited for every investigation. The hearings are advertised several weeks ahead. Public comment is sought on the terms of reference for some inquiries.

Public hearings are informal and witnesses are invited by the Tribunal to participate. Transcripts are made and are available for public inspection and/or purchase.

Reports and price determinations are sent directly to the Premier. These determinations must be gazetted as soon as practicable, tabled in Parliament within five sitting days, and sent to the Parliamentary Library.

Similarly, copies of the reports are made available promptly for public inspection at the Tribunal's offices during ordinary hours of business, and are sent free of charge to those registered on the Tribunal's mailing list for the investigation. Copies of all reports may be purchased through the Government Information Service.

Provisions of the Independent Pricing and Regulatory Tribunal Act affecting FOI requests

Section 22A of the Independent Pricing and Regulatory Tribunal Act 1992 contains provisions for the Tribunal to review the release of information that would otherwise be exempt from release under the Freedom of Information Act. After having regard to the views of the information supplier the Tribunal may agree to the release of information, in full or in part, on a general or restricted basis.

Description of the kinds of documents held by the Tribunal

Submissions to Tribunal inquiries

The Tribunal has established a public access library, which contains copies of all submissions to its investigations and reviews (excepting those where the authors claim that public release might expose them to commercial disadvantage and where the Tribunal has given directions prohibiting release under Section 21(5)(b) of Independent Pricing and Regulatory Tribunal Act 1992). The library contains transcripts of public hearings, and reports and determinations. Minutes of meetings of the Tribunal are included.

Publications issued

The Tribunal publishes discussion and research papers, background papers on price determinations and reports of pricing reviews. Details of these documents and their costs are shown in Appendix 6 of this report. All documents are available for purchase at the NSW Government Information Service, Goodsell Building, Chifley Square, Sydney and 130 George Street, Parramatta.

Hard copy files

The Tribunal maintains a general filing system for internal management purposes. It has four sections:

- General and administrative files (grey cover).
- Agency files (grey cover) relating to liaison with standing reference agencies and other organisations that have regular contact with the Tribunal.
- Agency and personal files (red cover) containing information where the agency or organisation concerned has claimed that public release might expose them to commercial disadvantage, and any other personal or confidential information.
- Inquiry and determination files (grey cover) containing documents and correspondence relating to specific Tribunal investigations.

Tribunal papers

The Tribunal prepares agendas, minutes and other papers in for its meetings.

Access arrangements

Copies of all documents in the Tribunal's public access library are available for public inspection and/or purchase (at 30 cents per A4 sheet) at the Tribunal's offices, Level 2, 44 Market Street, Sydney 2000, from 8.45 am to 5.15 pm Monday to Friday (inquiries (02) 9290 8400). Some documents (notably transcripts of public hearings) may also be purchased on disk.

FOI procedures

For access to Independent Pricing and Regulatory Tribunal documents other than those identified above as available, application must be made in writing under the Freedom of Information Act.

Since many documents are readily accessible through the Tribunal's public access arrangements, it is advisable to check the general availability of the document before making an application under the Freedom of Information Act.

FOI applications must be accompanied by a \$30 application fee and directed to:

The FOI Co-ordinator
Independent Pricing and Regulatory Tribunal
PO Box Q290
QVB Post Office
Sydney NSW 1230

Arrangements to inspect or obtain copies of documents can be made by contacting the FOI Co-ordinator.

Telephone inquiries: (02) 9290 8484

FOI requests in 1995–96

During the year, no requests for documents were made to the Independent Pricing and Regulatory Tribunal under the Freedom of Information Act.

APPENDIX 8 PUBLIC ACCESS, ANNUAL REPORT DETAILS

Access

The addresses, telephone and facsimile numbers of the Independent Pricing and Regulatory Tribunal are as follows:

Location	Level 2 44 Market Street Sydney NSW 2000
Postal address	PO Box Q290 QVB Post Office Sydney NSW 1230
Office hours	Monday–Friday 8.45 am to 5.15 pm
Telephone	(02) 9290 8400
Facsimile	(02) 9290 2061/8466

Details of annual report production

1300 copies of this report have been printed on recycled paper at an average cost of \$5.65 per copy. Extra copies may be purchased from the NSW Government Information Service Bookshop.

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