



Independent Pricing and Regulatory Tribunal



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The Hon. Kristina Keneally MP
Premier of New South Wales
Level 40
Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

Dear Premier,

**INDEPENDENT PRICING AND REGULATORY TRIBUNAL ANNUAL REPORT
2009/10**

As required by the Annual Reports (Statutory Bodies Act) 1984, I am pleased to submit the annual report of the Independent Pricing and Regulatory Tribunal for the year ended 30 June 2010.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Rod Sims'.

Rod Sims
Chairman

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A note from the incoming Chairman

As my appointment as Chairman of IPART began from 26 July 2010 my tenure lies outside the 2009-2010 year which is the subject of this Annual Report. It seems appropriate, however, to write a brief introduction.

I am delighted to be joining IPART at this time. Not only does IPART have an excellent reputation Australia-wide, but it has an exciting opportunity to further its contribution to sound regulation and policy formulation in NSW.

There are many regulatory challenges to be faced in all of the sectors regulated by IPART. For example, the electricity sector sees a growing number of greenhouse-related schemes which will affect the sector, and IPART's work on local government rates is effectively just beginning.

On the policy side there is a growing recognition of increasing challenges both in our cities and in regional areas. Continuing population growth, difficult transport choices and housing affordability are clear examples of issues facing our cities in particular.

I would like to thank Jim Cox for his guidance as acting Chairman. Jim has played a significant role over many years in shaping IPART to be the strong organisation that it is today.

I look forward to working with the Tribunal and IPART staff, and with our wide range of direct and indirect stakeholders for the benefit of the people of NSW.



Rod Sims

Chairman

The Acting Chairman's and Chief Executive Officer's Report

The year 2009/10 was interesting and challenging for IPART and me personally, since I fulfilled the roles of Chairman and CEO for most of the year. This was the first complete year during which we were the administrators of the NSW Government's Energy Savings Scheme. In June 2010 the Premier announced that IPART would, in future, undertake new responsibilities in determining changes in local government rates each year.

We made a number of important determinations during the year for the prices of government monopoly services. These include price determinations for Hunter Water Corporation, State Water Corporation, regulated retail prices in electricity and retail pricing in gas. Some of these determinations resulted in substantial price increases for customers. These were required largely to fund the costs of large capital expenditure programs in electricity and water. We continued to develop our role as the NSW Government's policy and economic think tank. Despite a more difficult environment, IPART's stakeholder survey that was undertaken in early 2010 demonstrates that IPART's stakeholders continue to have confidence in the quality of IPART's decision-making and consultative processes.

There were some notable developments in price regulation during the year. For the first time IPART determined prices for County Energy's water services in Broken Hill. This required us to consider how our approach to price regulation should be modified to cater for the circumstances of a rural water authority with a limited number of customers. In determining pricing for State Water's services we developed a new approach to demand forecasting to address what may well prove to be a shift to a drier climate in much of New South Wales. We also developed a new approach to share the risks arising from the variation in State Water's sales from year to year equitably between State Water and its customers.

In determining retail prices for electricity we were required to consider the extent to which the increased costs of electricity generation arising from the Commonwealth Government's proposed Carbon Pollution Reduction Scheme would be passed on to electricity customers. We also developed a new approach to determining the retail margin of an energy business that makes good use of all the available information. In determining retail pricing for gas we were required to consider how a light handed approach to regulation (through Voluntary Transitional Pricing Agreements) can be combined with a careful assessment of the costs of the standard retailers for gas.

We continued our work as a policy adviser to the NSW government during 2009/10. As in previous years, IPART's consultative and evidence-based processes have proven to be particularly useful during the early stages of policy development when government is able to consider a range of inputs.

IPART publicly released the report of its review of NSW Climate Change Mitigation measures in July 2009. As noted last year, this report provides a framework which the NSW government will use to assess existing and proposed climate change measures. Our review helped the NSW Government to streamline and re-design existing programs to ensure that they complement national policy measures to reduce greenhouse gas emissions.

We also published the draft report of the inquiry into the revenue framework for local government in July 2009. This report proposed alternative options for regulating the increase in councils' rate revenue – Option A and Option B. Option A is the default regulatory mechanism for all councils under the recommended framework. It maintains the general rate pegging approach, but provides for greater transparency, rigour and independence in the process for setting regulated rate increases and assessing applications for variations in these increases. It also provides councils with a medium term focus for their revenue and expenditure planning.

Option B is an adjunct to Option A rather than a standalone regulatory mechanism. It provides an opportunity for councils to gain greater autonomy in setting rates. Councils must meet specified minimum performance requirements before they will be eligible to apply to operate under Option B. They must clearly demonstrate a community mandate for their proposed 4-year revenue and expenditure plans before they will be granted approval by the Minister.

IPART subsequently provided its final report to the Government. This was released publicly in September 2010. Following consideration of these reports the government decided to implement a modified version of IPART's Option A. On 4 June 2010, the NSW Government announced that IPART would in future be responsible for:

- > Establishing a Local Government Cost Index.
- > Setting the maximum allowable percentage increase in Local Government general revenue.
- > Reviewing applications for special variations and determining special variations.
- > Reviewing Councils' capital contributions plans.

During 2009/10 we also commenced important studies into the costs and outcomes of treatment for selected NSW hospitals and the productivity of State-owned Corporations.

We undertook a number of activities during 2009/10 to improve and better explain IPART's regulatory approach. We are working with key stakeholders to examine whether we can make our approach to determining water prices more effective and less costly. During the year we commissioned and published a consultant's review of IPART's approach to incentive-based regulation. This report compares IPART's approach to that of other Australian and overseas regulators and raises a number of issues for our consideration. We published 5 other papers on IPART's approach to regulation, including a comparison of the financial models used by IPART and the Australian Energy Regulator. We participated actively in the work of the Utility Regulators' Forum to share experiences and discuss issues of common concern with other Australian regulators. We commenced a series of seminars to inform key stakeholders about IPART's approach to regulation. IPART held a successful conference on current regulatory issues in May 2010.

Price Outcomes of IPART's decisions

As discussed in detail later in this report the prices of the services that IPART regulates have increased substantially in 2008/09 and 2009/10. These increases have been particularly rapid in electricity and water.

We calculate an index to represent the average change in the prices that we regulate. This index shows that the average of the charges that IPART regulates increased by less than the rate of inflation during the period from 1992/93 to 1999/00 and by approximately the rate of inflation between 2000/01 to 2003/04. Prices regulated by IPART have increased by more than the rate of inflation since 2004/05. These prices increased by 5.4% more than the rate of inflation in 2008/09 and by 11.8% more than the rate of inflation in 2009/10.

These rising prices are placing pressure on household budgets. Expenditure on services that are regulated by IPART decreased from 4.4% of household income in 1992 to 3.4% in 2006. By 2010 the share was 4.1%.

The main reason for rising prices is that the electricity and water businesses, in particular, have been undertaking large capital expenditure programs. Depreciation and a return on the capital employed in making these investments are recovered in the prices that customers pay. Some of this capital investment is required to maintain or replace ageing assets or to cater for growth. Other capital investments are required to meet Government standards for improved quality, reliability and environmental impacts. In the case of electricity, the increased investment has largely been on networks. Network charges are determined by the Australian Energy Regulator and passed through to retail prices by IPART. However, there was a large increase in 2008/09 in the allowance we make to enable retailers to recover the cost of purchasing electricity. This ultimately reflects the increasing capital and operating costs of new power stations. Higher water prices have been determined by IPART to pass on the costs of increased investment to meet requirements to build a desalination plant and improve sewage treatment.

If the utilities that provide essential services are to remain financially viable, economic regulators must pass on to customers the rising costs of services that result from improved standards. However, there is evidence to suggest that the increases in utility prices over the past 2 years have caused difficulties for some customers. We consider, therefore, that the Government should consider most carefully any further initiatives that place upward pressure on prices to ensure that the benefits of these policies to society exceed the costs.

During the year IPART took a number of actions to address affordability issues for particular groups. Where appropriate, we made recommendations to the Government that pensioner rebates and other assistance measures should be improved. Our electricity and gas determinations contain protections in relation to non-tariff retail fees and charges. We reviewed and improved the protection available to water customers in financial difficulty as part of our review of Sydney Water's Operating Licence. We commenced work on a model to better understand the distributional consequences of price changes and changes in concession policies. And we also started working on a website that will enable customers to compare regulated electricity prices with the prices that are available in the competitive market.

IPART's 2010 Stakeholder Survey

During the first half of 2010 IPART undertook its fifth survey of stakeholders. Overall, stakeholders were very positive about IPART in 2010 with a very high proportion providing positive responses across all the areas investigated in the survey. For example:

- > 93% of respondents either agree or tend to agree that IPART staff demonstrate a high level of professionalism
- > 88% of respondents either agree or tend to agree that IPART's consultative processes are of high quality
- > 85% of respondents either agree or tend to agree that IPART's regulatory reports are of high quality
- > 82% of respondents either agree or tend to agree that IPART's Tribunal members demonstrate leadership.

There was a slight decrease in stakeholder satisfaction with IPART between the previous survey undertaken in 2008 and the 2010 survey. According to ARTD Pty Ltd, who undertook the survey, this may reflect increasing expectations by stakeholders regarding IPART's performance and a more difficult and challenging regulatory environment during the 2 years to 2010 than in the previous 2 years. A number of areas were identified by stakeholders as being extremely important to them. They appear below in the order of frequency with which they were mentioned:

- > Maintaining IPART's independence.
- > Separating regulatory and advisory activities.
- > Valuing agency and public input.
- > Relying more on empirical evidence in decision-making.
- > Specifying reasons for decisions and providing more information on the modelling which is used to provide the basis for decisions.

The Tribunal and the Secretariat's Core Executive will pay particular attention to making further progress in these areas.

IPART's Capabilities

As noted in previous years' annual reports, IPART needs a range of capabilities to undertake its responsibilities successfully. These include:

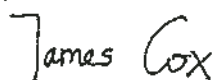
- > Experienced and impartial decision-makers.
- > Adherence to administrative law principles regarding natural justice, fairness and the avoidance of bias.
- > The ability and willingness to undertake extensive consultation.
- > The ability and willingness to maintain a professional and mutually respectful relationship with stakeholders, especially where there are areas of disagreement.
- > An expert Secretariat which, supplemented by the use of consultants where necessary, can draw on a range of skills.
- > Administrative systems that can store and retain large amounts of data and provide Tribunal members with the information required for decision-making.

- > High quality human resources, information technology and office accommodation.
- > A corporate culture that is open, mutually respectful and which rewards efficiency and achievement.
- > An emphasis on identifying and managing risks to IPART's continuing success.

During 2009/10 IPART made a number of changes to improve its capabilities. These include:

- > IPART has commenced the redesign of its website. A new structure will be developed to best meet users' needs, including the on-line submission of information. During 2009/10 IPART selected the design team to assist in the design of the website and the content management system to manage information in the website.
- > IPART's Audit and Risk Management Committee, which includes an independent Chair and independent Member is now well established in undertaking its task of developing and monitoring IPART's audit and risk management program. As a result we were able to provide Treasury with the required assurance that IPART's processes comply with the core requirements set out in Treasury circular NSW TC 09/08.
- > With the valuable assistance of a staff working party, IPART's Professional Standards and Behaviour Policy, our code of conduct, was extensively revised and provided to staff to reinforce and encourage our high standards of professionalism.
- > IPART has received a rising level of complaints and queries from members of the public because of higher electricity prices arising from IPART's recent determination of electricity prices. In response we have documented our complaints resolution policy, prepared detailed guidelines for our staff and provided in house training to assist staff in responding to queries on complaints. Although complaints about higher electricity costs could not always be resolved to the callers' satisfaction, we were able to explain the reasons for the increases and improve public awareness of our consultative and decision making process.
- > As part of a whole of government initiative IPART planned to introduce a new information system (SAP) for finance and human resources. This new system will combine information that was previously held in separate systems, improve procurement controls and enhance information on commitments.

In concluding, I would like to thank my fellow Tribunal member, Ms Sibylle Krieger for wise counsel and participation in decision making during the year. I would also like to thank Mr Peter Egger, Mr Eric Groom and Dr Brian Spalding for their valuable work on IPART's Committees during the year. In addition, I would like to thank IPART's Secretariat for excellent professional advice and assistance.



James Cox

Acting Chairman and Chief Executive Officer

What we do

IPART is an independent body that oversees regulation in the water, gas, electricity and public transport industries in NSW. When it was established by the NSW government in 1992, its primary purpose was to regulate the maximum prices charged for monopoly services by government utilities and other monopoly businesses. Since then, its responsibilities have increased significantly.

Functions

IPART now has 7 key functions, which are conferred by legislation, codes and access regimes established by legislation. These functions are to:

- > set maximum prices for monopoly services provided by government agencies in NSW (including water and public transport) and monitor compliance with determinations
- > administer licensing or authorisation of water, electricity and gas businesses, and monitor compliance with licence conditions
- > administer the Greenhouse Gas Reduction Scheme and Energy Savings Scheme, and associated Register of abatement certificates
- > advise the NSW Government or its agencies on issues such as pricing, efficiency, industry structure and competition
- > register agreements for access to public infrastructure assets and arbitrate disputes about these agreements
- > investigate complaints about competitive neutrality referred by the Government
- > assist other Australian regulators and government bodies on a fee for service basis.

IPART provides an integrated system of economic regulation and licence regulation in NSW that covers pricing for water and public transport, retail pricing for electricity and gas and monitoring licence compliance for water, electricity and gas.

The legislation under which IPART is constituted stipulates that in relation to the content of its determinations and recommendations, it is not subject to the control or direction of any government minister. This provision ensures that IPART is able to pursue these goals through rational, objective processes and that its decisions are not influenced by political interests.

Principal Achievements in 2009/10

Completed

Metropolitan Water Pricing

- > Released final price determination for Hunter Water Corporation for the period to 30 June 2013
- > Released draft and final price determinations for Country Energy for water services provided in Broken Hill and surrounds for the period to 30 June 2013
- > Monitored compliance with price determinations by metropolitan water utilities
- > Liaised with key stakeholders on how regulatory processes may be improved

Bulk Water Pricing

- > Released draft and final price determinations for bulk water services provided by State Water Corporation for the period to 30 June 2014

Water Licensing (public water utilities)

- > Audited and reported on compliance for 2008/09 with the operating licences held by:
 - > State Water Corporation
 - > Sydney Water Corporation
 - > Sydney Catchment Authority
 - > Hunter Water Corporation
- > Collected and audited performance indicators on behalf of the National Water Commission
- > Completed end of term review of Sydney Water Corporation's operating licence
- > Completed review of system performance standards and targets for:
 - > Sydney Water Corporation
 - > Hunter Water Corporation

Water Industry Competition Act 2006 (WICA)

- > Made recommendations to Minister for Water Utilities on licence applications
- > Maintained registers and web based fact sheets
- > Monitored and reported licence compliance

Rail access

- > Review of rail infrastructure compliance with the NSW rail access undertaking for 2007/08 for Australian Rail Track Corporation and Rail Corporation of NSW
- > Review of rate of return and mine life under the NSW rail access undertaking

Transport fares

- > Review of metropolitan and outer metropolitan bus fares - from January 2010
- > Review of taxi fares – from 1 July 2010
- > Review of fares for rural and regional buses – from January 2010
- > Review of private ferries fares – from December 2009
- > Review of compliance by CityRail with IPART's determination

Energy Pricing

- > Review of electricity regulated retail tariffs for small retail customers for 2010 to 2013
- > Review of gas VTPAs for 2010 to 2013

Energy Licensing

- > Published energy distribution and retail licence compliance report
- > Processed applications for granting of new licences and cancelling of existing licences
- > Reported network operators' and energy retailers' performance
- > Conducted licence compliance audits of retailers and network operators
- > Audited operations of Electricity Tariff Equalisation Fund
- > Published retail price disclosure guidelines

Section 9 and other referrals

- > Review of NSW Climate Change Mitigation Measures (publicly released July 2009)
- > Review of the revenue framework for local government

Analysis and Policy Development

- > Various cross-sectoral economic research projects to assist IPART in its analysis and consideration of issues
- > Review of IPART's approach to incentive-based regulation

Greenhouse Gas Reduction Scheme

- > Process applications for accreditation and manage compliance of liable parties
- > Assist in clarifying the transitional arrangements from GGAS to the Commonwealth Government's Carbon Pollution Reduction Scheme

Energy Savings Scheme

- > Implement the NSW Energy Savings Scheme
- > Assist companies currently accredited under GGAS to transition to the ESS
- > Manage introduction of new methodologies under the ESS

In Progress at 30 June

Metropolitan Water Pricing

- > Reviewing opportunities to standardise the approaches to pricing of common services (eg, recycled water, services to multi-occupancy dwellings and sewerage)

Bulk Water Pricing

- > Determining maximum prices for bulk water services provided by the Water Administration Ministerial Corporation

Rail Access

- > Review of rail infrastructure compliance with the NSW rail access undertaking for 2008/09 for Australian Rail Track Corporation and Rail Corporation of NSW

Rail Access

- Review of rail infrastructure compliance with the NSW rail access undertaking for 2008/09 for Australian Rail Track Corporation and Rail Corporation of NSW

Water Industry Competition Act 2006 (WICA)

- Assisting New South Wales Office of Water in their reviews of exemptions; supplier of last resort arrangements; marketing and transfer codes

Section 9 and other referrals

- Review of the productivity of State-owned corporations
- NSW Health costs and outcomes study for selected NSW hospitals
- Energy price comparison tool on website

Analysis and Policy Development

- 2009/10 Household Survey of electricity, water and gas usage in the Sydney, Blue Mountains and Illawarra regions



Management and Structure

IPART is headed by a Tribunal that comprises 3 permanent members, plus temporary members, who are appointed by the Premier. The Tribunal is supported by a Secretariat that provides research and advisory services.

The Tribunal

Permanent members



CHAIRMAN to 11 September 2009

Dr Michael Keating *AC, FASSA, FIPA, BCom (Hons), PhD, D.Univ (Honorary)*

Appointed for 5 years from 17 December 2004. Visiting Fellow in the Economics Program in the Research School of Social Sciences at the Australian National University. Formerly Head of the Australian Public Service and Secretary to the Department of Prime Minister and Cabinet (1991–1996). Head of the Department of Finance (1986–1991) and Head of the Department of Employment and Industrial Relations (1983–1986).



CHAIRMAN from 26 July 2010

Mr Rod Sims *BCom (Hons), MA (Econ)*

Appointed for 5 years from 26 July 2010. Chairman of Singapore-based InfraCo Asia Development, Director of Port Jackson Partners Limited and Ingeus Limited, a Commissioner on the National Competition Council and a Member of the Research and Policy Council of the Committee for Economic Development of Australia. Formerly Chairman of Rail Infrastructure Corporation and the State Rail Authority in NSW, and Deputy Secretary in the Commonwealth Departments of Prime Minister and Cabinet and Transport and Communications.



ACTING CHAIRMAN 11 September 2009 to 25 July 2010

CHIEF EXECUTIVE OFFICER AND FULL TIME MEMBER

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

Appointed for 5 years from 22 February 1996. Reappointed for an additional 5-year term from 22 February 2001. Reappointed for an additional 5-year term from 22 February 2006. Former Principal Adviser, Government Pricing Tribunal/IPART, 1992–96. Consultant, NSW Cabinet Office, 1989–92. Principal Economist, Office of EPAC, 1986–89.



PART-TIME MEMBER

Ms Sibylle Krieger *LLB (Hons), LLM, GAICD, MBA*

Appointed for 3 years from 25 July 2006. Reappointed for 3 years from 1 July 2009. For 29 years a commercial lawyer in private practice with wide-ranging experience including commercial advisory and administrative law. Partner in 2 major commercial law firms for 22 years before leaving practice in 2008 to establish a portfolio career. Non-executive director of Sydney Ports Corporation 2002–2005, and of Allconnex Water in South East Queensland from 2010. Member of the AER's Dispute Resolution Panel pool for the National Electricity Market and the National Gas Market.

Temporary members

There were no temporary members during 2009/10.

Meeting frequency and attendance

Throughout the year, the Tribunal held 44 meetings and 44 Delegated meetings, and hosted a number of public hearings, forums and workshops. More detail about these meetings and each member's attendance is provided in Appendix C.

The IPART Act allows the Tribunal to delegate its functions to a Committee comprising a Tribunal Member and other persons if required. The Tribunal has delegated certain functions to a Committee convened by the Chief Executive Officer / Full Time Member to enable the delegate to make decisions on more routine issues.

There is a regular meeting of delegated matters (16 in 2009/10) convened by the Chief Executive Officer / Full Time Member. A formal instrument of delegation was approved by the Tribunal.

Similarly, the Tribunal has delegated its responsibilities regarding its administration of the Greenhouse Gas Reduction Scheme to a Committee and the administration of the Energy Savings Scheme to a separate Committee, by written instrument. The Minister for Energy has approved these delegations. The Chief Executive Officer / Full Time Member chaired 12 Greenhouse Gas Reduction Scheme Tribunal Meetings and 16 Energy Savings Scheme Tribunal Meetings.

The Secretariat

IPART's Secretariat assists the Tribunal in its work, by providing research and advisory services, and supporting investigations and public processes.

Most of the professional staff members are highly experienced economists and financial/accounting analysts, although IPART has increased the diversity of skills to include engineering and financial modelling capabilities. Staff work in industry-based teams, undertaking research, investigation and analysis to provide professional advice to the Tribunal. General Counsel and legal staff provide legal advice on the increasingly complex regulations governing utility operations.

The Secretariat also includes a support services team that provides information technology, general administrative, and personnel support to the operational areas. This team also manages IPART's processes, including the public registry, submissions, and the preparation and publication of reports and the website.

With most investigations, the Secretariat also needs to commission consultants to undertake additional research and provide the Tribunal with the highest quality advice on often complex topics. If necessary, it can also second staff from other government agencies to assist with particular investigations.

Senior Managers

The Secretariat is headed by senior managers, who report to the Chief Executive:



DIRECTOR ENERGY AND TRANSPORT

Fiona Towers *BCom (Accounting and Finance), MCom (Economics and Econometrics)*

Responsible for managing energy and transport industry programs.



DIRECTOR WATER

Colin Reid *BCom (Accounting), F Fin, CPA*

Responsible for managing water industry programs and utility regulation.



GENERAL MANAGER SUPPORT SERVICES

Meryl McCracken *BA, Dip Lib, Dip PSM*

Responsible for providing support services including human resources, office services, finance and information technology.



DIRECTOR, ANALYSIS AND POLICY DEVELOPMENT

Steve Lyndon *BA (Econ)*

Responsible for managing the analysis and policy development programs.



PRINCIPAL ADVISER

Eric Groom *BEC (Hons), MEd*

Responsible for maintaining the intellectual rigour of the approach to regulation and ensuring the consistency of reviews



LEGAL COUNSEL

Pamela Soon *LLB, B Comm, LLM*

Responsible for the provision of legal advice to the Tribunal and the management of the legal team.



ACTING DIRECTOR, LOCAL GOVERNMENT

Alison Milne *B Ec (Hons)*

Responsible for managing the Local Government team and functions.

Internal Committees

IPART's Core Executive consists of the Tribunal's Chief Executive Officer and Full Time Member plus the senior managers. Throughout the year, this group met regularly, at approximately 2 week intervals. Other Managers attended meetings as required. The purpose of these meetings was to review the Secretariat's current work program and ensure that the Chief Executive was adequately briefed on all relevant issues.

External Committees

As part of IPART's role in managing the Energy Savings Scheme, Margaret Sniffin, the Executive Manager, contributed to the NSW Energy Efficiency Strategy Working Group.

Bob Burford sits on the National Water Commission inter government committee to report on urban water utility performance and also sits on the National Water Commission inter government committee to report on rural water utility performance.

Meryl McCracken represents small agencies on the Treasury Managed Fund Advisory Council and contributes to the University of Sydney's Faculty of Economics and Business Employer Advisory Board.

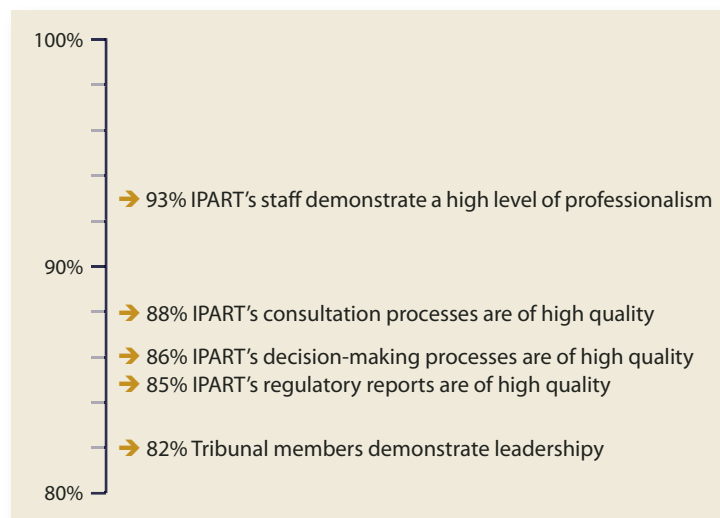
Management Issues – new function in Local Government

On 4 June 2010, the Premier announced new functions for IPART relating to local government. These functions require IPART to review Councils' development contributions plans under the *Environmental Planning and Assessment Act 1979* and determine the rate peg and Councils' applications for special variations under the *Local Government Act 1993*.

Stakeholder Survey 2010

Overall, stakeholders were very positive about IPART in 2010, with a very high proportion providing positive ratings across all the main areas investigated in the survey (see following table).

Overall stakeholder perceptions of quality (proportion of stakeholders who rated the overall questions agree or tend to agree).

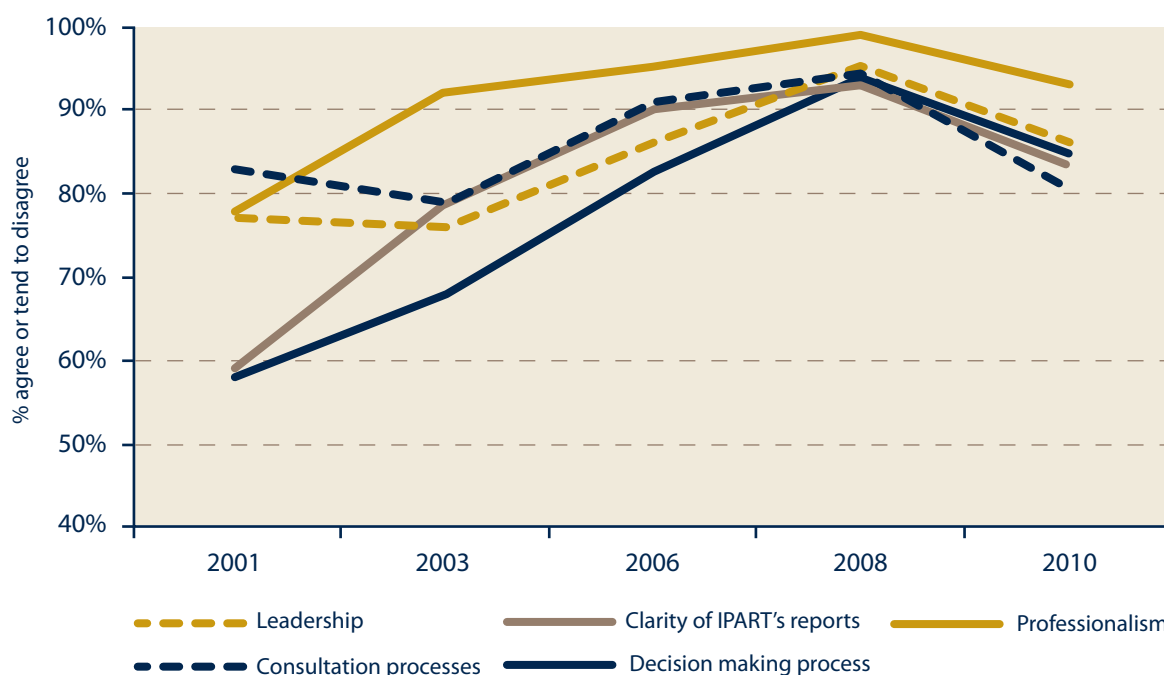


Changes over time

The first time the IPART survey was implemented, satisfaction among stakeholders varied considerably between the 5 areas measured in the survey. In response to these early findings, IPART implemented a range of measures to improve satisfaction. The following 3 surveys saw both a steady improvement in satisfaction, and a convergence in the 5 areas measured. This trend meant that by 2008, almost all stakeholders were positive in all areas.

This level of satisfaction was always going to be difficult to maintain, particularly as it is subject to changing expectations and the general regulatory environment. In 2010, slightly lower levels of satisfaction levels were achieved in all areas, although they were still very high and quite uniform across the 5 measured areas. The proportion of stakeholders who agree or tend to agree in each of the survey modules is shown in the following graph.

Overall stakeholder satisfaction by survey module and year (proportion of stakeholders who rated agree or tend to agree).

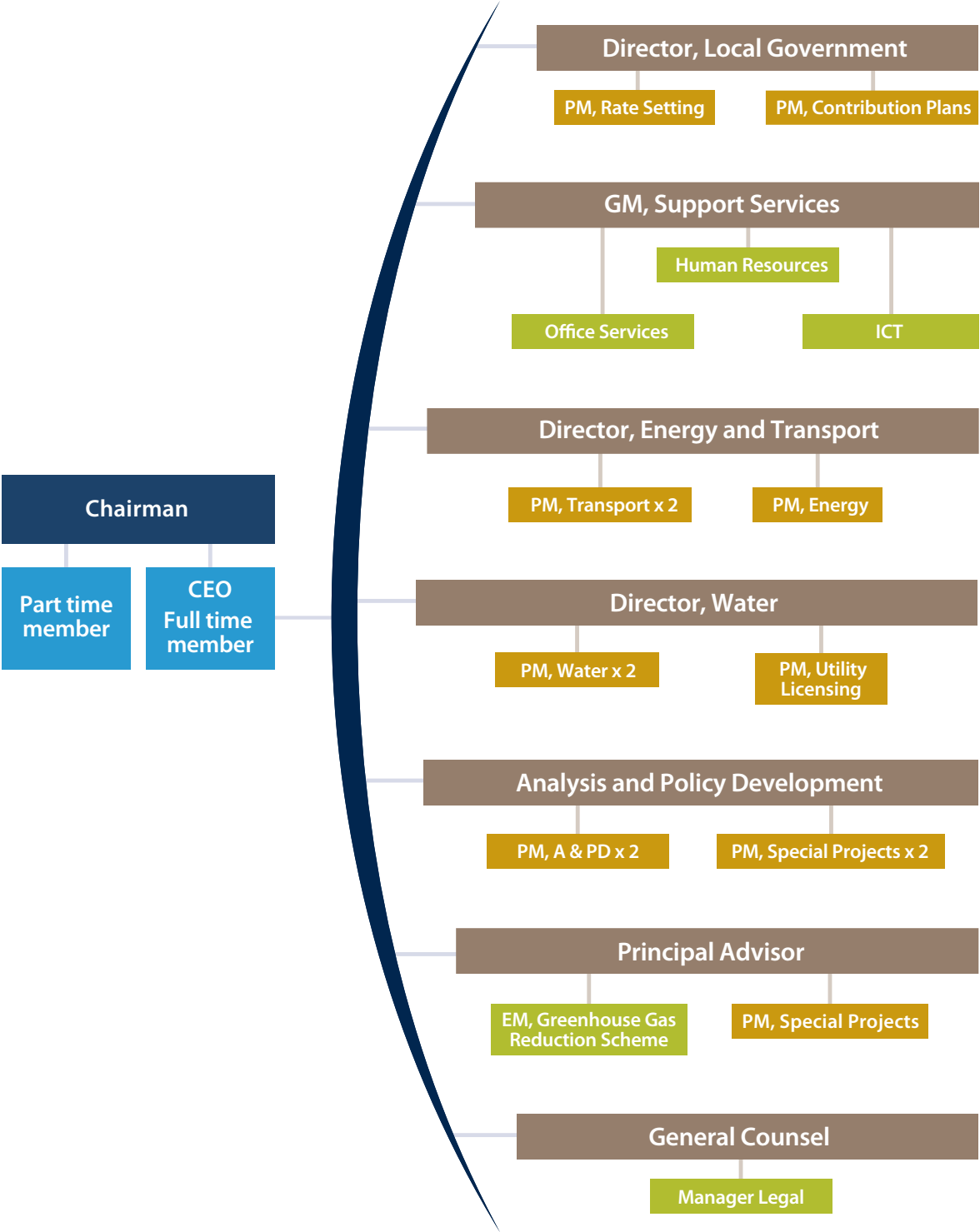


The reasons for the slightly (and uniformly) lower satisfaction are difficult to discern as no consistent pattern was evident in stakeholder comments. It is always possible that by achieving very high levels of satisfaction among stakeholders (as in the 2008 survey), stakeholders' expectations shift, making it difficult to maintain these levels. It is also possible that the regulatory environment has changed, which makes IPART's role more difficult. In particular, the difficult recent IPART electricity price determination may have affected results, although this determination did not feature strongly in stakeholder comments. One stakeholder commented that "IPART does a good job in difficult circumstances". It may be that the circumstances have been more difficult in the last 2 years compared with the 2 before the 2008 survey.

Stakeholder comments

Overall, the stakeholder comments were consistent with the survey responses. Although many respondents provided constructive feedback about the particular subjects covered in the survey, these were usually associated with fairly positive ratings. The full stakeholder survey report is available on IPART's website.

Organisation Chart



Our Corporate Plan

Purpose and objectives

IPART's purpose is to provide independent regulatory decisions and advice to enhance the economic, social and environmental well being of the people and state of NSW.

Our specific purpose varies with different activities and functions we are asked to perform across a range of industries. However, in everything we do, we strive to achieve the following goals:

- > in the areas of our expertise be recognised as a key economic think-tank and source of quality advice to the NSW Government
- > promote competition (or simulate its effects) in regulated industries
- > protect consumers by monitoring the quality and reliability of regulated services and by considering the social impacts of its decisions
- > promote secure and sustainable energy and water supplies by monitoring the way utilities comply with their license obligations
- > encourage economic prosperity and prudent and efficient investment in utility infrastructure
- > encourage environmental sustainability
- > promote an innovative regulatory environment.

Service philosophy

In pursuing our purpose and goals, IPART is guided by a set of principles based on our philosophy of regulation and understanding of best practice regulation:

Thinking Independently

We maintain independence of our decisions from government and all other stakeholders.

Being Transparent

Our processes are visible and we explain our decisions.

Fostering Innovation

We explore new and better approaches.

Consulting Widely

We consult extensively and effectively with all stakeholders.

Delivering Fair and Balanced Outcomes

We seek equitable outcomes by balancing the interests of the regulated entity, its customers and other stakeholders in alignment with NSW State priorities.

Being Practical

We aim for pragmatic outcomes that can be achieved without significant operational difficulties.

Driving Excellence

We promote processes and decisions which are predictable, consistent and adhere to the highest professional standards, and use resources effectively and efficiently.

Performance against Corporate Objectives

Throughout this financial year, IPART particularly focussed on meeting 5 core objectives:

1. Demonstrating a fair and transparent process.
2. Applying a rigorous and credible approach to our work.
3. Reaching a reasonable, balanced answer.
4. Pursuing excellence and fostering innovation in our operations.
5. Applying resources to deliver a robust, well run organisation.

A summary of key actions and progress towards meeting these objectives is provided below.

1. Demonstrating a fair and transparent process

IPART recognises that open and effective consultation with all its stakeholders, to explain the regulatory process and encourage debate about industry outcomes and regulatory methods, is critical to its credibility and relevance.

Progress in following strategies to improve processes in 2009/10 include:

| STRATEGY | ACTION | PROGRESS TO 30 JUNE 2010 |
|---|--|---|
| Hold regular meetings with key stakeholders | <ul style="list-style-type: none"> > Establish and implement program for meeting with key stakeholder groups | <ul style="list-style-type: none"> > Regular meetings held with water agencies to review progress against operating licence standards and key expenditure and sales assumptions underlying current price determinations. > Established working groups with metropolitan water agencies to develop a consistent approach to common pricing issues and eliminate unnecessary duplication in data collection. > Regular meetings held with stakeholders during the various transport reviews. > Regular meetings held with energy retailers and other stakeholders as part of the electricity and gas retail reviews. > Regular meetings held with stakeholders during the reviews relating to local government, complementary climate change measures and cross-sectoral research projects. |

| STRATEGY | ACTION | PROGRESS TO 30 JUNE 2010 |
|---|---|--|
| <p>Hold regular meetings with key stakeholders <i>continued</i></p> | | <ul style="list-style-type: none"> > Periodic meetings with community, business, and environment groups as well as government agencies on IPART's work program. |
| <p>Encourage and facilitate stakeholder involvement</p> | <ul style="list-style-type: none"> > Adopt technology and processes to make participation in reviews easier > Publish timetables for reviews and release discussion papers and draft determinations > Promote timeliness by identifying where the delays occur and minimising the areas of uncertainty for stakeholders | <ul style="list-style-type: none"> > Issues papers encourage stakeholders to email submissions to IPART investigations. > On the IPART website, stakeholders can nominate to receive electronic alerts following the release of IPART material relevant to their area of interest. > Issue papers, timetables, roundtable papers, draft and final reports are published for all regulatory reviews and the great majority of Section 9 referrals. > Current timetables maintained on website. > Timetables clearly state due dates for submissions, public hearings and release of reports. > The various transport reviews and the Broken Hill and bulk water price investigations were advertised in local papers. Articles were published in the Land newspaper and the Barrier Daily Truth Newspaper explaining the key issues for the investigations and encouraging stakeholder participation. > 'Stop the clock provisions' were invoked for the review of bulk water prices for services supplied by the Water Administration Ministerial Corporation. Reasons were published and additional time provided for stakeholders to comment on additional material made public. |

| STRATEGY | ACTION | PROGRESS TO 30 JUNE 2010 |
|--|--|---|
| <p>Encourage and facilitate stakeholder involvement <i>continued</i></p> | <ul style="list-style-type: none"> > Measure timeliness by adopting the Council Of Australian Government's proposal of a 6 month timeframe for regulatory decisions, where practicable > Continue to hold public workshops, roundtables and hearings > Review ways of taking our message to rural areas > Develop 'fact sheets' to communicate key decisions in a more accessible form | <ul style="list-style-type: none"> > The operating licence for Hunter Water nominates a due date for completion of the annual audit. This same timetable was adopted for all public authority operating licence audits. > The Water Industry Competition Act 2006 nominates allowed times for Tribunal actions. When these time limits are likely to be breached the Tribunal is required to inform the Minister and other stakeholders of delay with explanation of causes for delay. > Timeliness KPI now included in the service delivery performance indicators, including for internally initiated projects. > Public hearings/workshops/roundtables held for all investigations in 2009/10. > Public hearings held in rural areas for bulk water; the supply of water services to Broken Hill and surrounds; and the review of the revenue framework for local government. Consultation with the Southern Area Health Service for the review of the framework for performance improvement of health. > Release of issues papers for investigations affecting rural communities advertised in rural press. Press releases were issued for the local government review workshops. > The State Water determination requires State Water to regularly report against the determination by valley to local customer service committees. > Fact sheets are available on the IPART website for all current IPART price determinations and for other IPART reviews. |

| STRATEGY | ACTION | PROGRESS TO 30 JUNE 2010 |
|--|---|---|
| <p>Encourage and facilitate stakeholder involvement <i>continued</i></p> | <ul style="list-style-type: none"> > Articulate the information IPART requires from businesses and agencies it regulates > Seek the views of the "average" customer | <ul style="list-style-type: none"> > The GGAS website includes a wide range of detailed Guides to assist businesses applying for accreditation. > The new ESS website included Guides and Fact Sheets setting out information requirements for new participants. > Published timetables for all investigations and regularly updated timetables on website. > Early written advice given to regulated agencies on the nature of information required for pricing reviews, the timetable, and the desired format in which key data should be provided. > IPART financial models provided to regulated agencies to standardise data requests and formulae used in financial analysis. > A generic financial model was released on IPART's website to assist interested parties to understand how IPART's cost and pricing models typically work. > Public hearings/workshops were held for all IPART pricing investigations with time set aside for comments from individual members of the public. > IPART undertakes regular surveys of household use of energy, water and some transport services. |
| <p>Explain IPART's decision making processes and its rationale for decisions</p> | <ul style="list-style-type: none"> > Explain decision-making processes through issues papers and reports | <ul style="list-style-type: none"> > Issues papers and reports undergo quality assurance, legal review and editing to ensure that they are accurate, comply with the law and clearly explain the Tribunal's decisions with supporting reasons. > Decision-making process was explained in issues papers and reports. |

| STRATEGY | ACTION | PROGRESS TO 30 JUNE 2010 |
|---|---|---|
| Explain IPART's decision making processes and its rationale for decisions <i>continued</i> | <ul style="list-style-type: none"> > Undertake stakeholder briefing sessions for consumer, welfare and environmental groups as well as government agencies. | <ul style="list-style-type: none"> > Held 2 briefing sessions as well as planning a new program of training sessions to explain specific aspects of IPART's operations. |
| Seek feedback on stakeholder perceptions of IPART's integrity, processes, and quality of work | <ul style="list-style-type: none"> > Survey stakeholder perceptions every 2 years | <ul style="list-style-type: none"> > The stakeholder survey was repeated in 2010. |

2. Applying a rigorous and credible approach to our work

IPART's focus on enhancing the quality of its work and the rigour of its processes was reinforced by the latest survey which improved on already satisfactory ratings. The 2010 survey indicated that stakeholders have a high level of respect for the professionalism of IPART's staff.

These highlights from 2009/10 illustrate the strategies being followed in this area:

| STRATEGY | ACTION | PROGRESS TO 30 JUNE 2010 |
|--|---|---|
| Continually improve internal processes | <ul style="list-style-type: none"> > Implement information management strategy > Document a 'whole-of-organisation' work program to identify peaks in resource demand to assist in planning > Avoid matters returning to the Tribunal by establishing issues and principles early > Consider QA controls early in the review process > Continue cross-sectoral research program to improve consistency and quality of analysis > Maintain a designated QA manager | <ul style="list-style-type: none"> > Developed and implementing enhanced project management processes to ensure that Tribunal has 'big picture' up front. > Forward Tribunal agendas and report release dates provide a detailed program for the year ahead. > At commencement of a review, the Tribunal reviews a project scoping brief which advises a proposed timetable and major issues for decision to enable the Tribunal to assign priorities and indicate information required for decision making. > The details of proposed QA checks are established at commencement of a review. > Cross-sectoral program has been embedded into IPART's core business. All projects are monitored by Tribunal. > Program manager given designated QA role. > QA undertaken for all reviews. |

| STRATEGY | ACTION | PROGRESS TO 30 JUNE 2010 |
|--|--|--|
| <p>Continually improve internal processes <i>continued</i></p> | <ul style="list-style-type: none"> > Hold peer reviews regularly > Subject all major projects to post-completion review > Develop library/information supply service | <ul style="list-style-type: none"> > Increased frequency of peer reviews. > All major projects are subject to post-completion reviews by the Tribunal. > IPART committed to new on-line subscription services and invested in additional reference texts. |
| <p>Partner with appropriate external experts</p> | <ul style="list-style-type: none"> > Employ external resources for supplementary specialist skills (eg, engineering) and manage peaks in workload > Make better use of consultants by encouraging knowledge transfer during the engagement | <ul style="list-style-type: none"> > Engineering specialists engaged for operating licence audits. Economic consultants engaged to assist with work peaks and specialist knowledge. > Consultants worked closely with IPART staff and project teams for the purpose of knowledge transfer. > IPART staff participated in meetings between consultants and agencies in the audit of performance against operating licences as part of the process of skilling IPART staff to take a more hands-on, proactive audit role. > Expert advice on energy wholesale and retail markets was obtained. |
| <p>Apply high standards of ethical and professional work standards</p> | <ul style="list-style-type: none"> > Ensure protection of confidential data consistent with statutory requirements > Promote professional standards and behaviour policy | <ul style="list-style-type: none"> > Personal contact details removed from public submissions prior to publishing. Commercial in confidence status was assigned to data where requested by stakeholders, subject to IPART Act, FOI Act and GIPPA Act. > The policy on standards of behaviour were substantially revised in consultation with staff and promoted on the Intranet. Managers are required to model professional standards and behaviour at all times and address any inconsistencies. |
| <p>Improve internal analytical capacity through recruitment and development practices</p> | <ul style="list-style-type: none"> > Recruit suitable graduates to support IPART's work program | <ul style="list-style-type: none"> > The agency undertook a recruitment drive for new graduates. During 2009/10 IPART recruited a total of 5 graduates. |

| STRATEGY | ACTION | PROGRESS TO 30 JUNE 2010 |
|---|--|--|
| Improve internal analytical capacity through recruitment and development practices <i>continued</i> | <ul style="list-style-type: none"> > Broaden the skills base > Promote staff development | <ul style="list-style-type: none"> > Skills development is identified through the performance management system and further defined by individual agreed development plan for the period. > Training and work assignments take account of these identified development needs. > Employees are encouraged to build on their existing skill levels for organisational and personal advancement. This may include secondment opportunities to public sector and non public sector agencies. |

3. Reaching a reasonable, balanced answer

In its commitment to achieving a balanced regulatory answer in the face of the increased breadth and complexity of its role, IPART is continuing to strive to be at the forefront of regulation.

The following table provides a summary of the implementation of IPART's strategic commitments in 2009/10:

| STRATEGY | ACTION | PROGRESS TO 30 JUNE 2010 |
|---|--|---|
| Monitor developments in other jurisdictions | <ul style="list-style-type: none"> > Participate in Australian Utilities Regulators Forum > Research and monitor developments in other regulatory regimes > Collaborate with other regulators in research activity, including developing joint research programs > Participate in seminars/conferences | <ul style="list-style-type: none"> > Attended and presented at all Regulator Forum meetings > Developments in Australia monitored on an ongoing basis. > Produced quarterly round-up of international regulatory developments and journal articles, which was shared with central agencies. > Introduced a new regulatory report to be distributed every 2-3 weeks for more timely dissemination of information. > There was considerable interchange of work on industry developments with other jurisdictional regulators. > IPART hosted a regulatory conference in May 2010 |

| STRATEGY | ACTION | PROGRESS TO 30 JUNE 2010 |
|---|---|---|
| Monitor developments in other jurisdictions <i>continued</i> | | <ul style="list-style-type: none"> > Various staff members have attended seminars/conferences as presenters and attendees. > Attended inter-jurisdictional energy transport and water regulators' meetings. |
| Monitor and report on impacts of decisions to ensure they have no unintended consequences | <ul style="list-style-type: none"> > Analyse and report on the cumulative impacts of the Tribunal's decisions | <ul style="list-style-type: none"> > See section in this Annual Report. |
| Provide more reasoned explanations of decisions | <ul style="list-style-type: none"> > Continue to develop report writing skills | <ul style="list-style-type: none"> > Reviewed IPART report writing style to further improve the quality of reports. > Training to improve staff writing skills is available and offered to individuals or teams on a needs basis. Training is supported by one on one feedback to staff on their written reports. |

4. Pursuing excellence and fostering innovation in our operations

IPART's commitment to excellence and fostering innovation has led to an increased diversity of subject matter in government referrals and more social policy work.

IPART's strategic response to some of these issues in 2009/10 follows:

| STRATEGY | ACTION | PROGRESS TO 30 JUNE 2010 |
|--|--|--|
| Continue to research and adopt improved regulatory techniques and approaches | <ul style="list-style-type: none"> > Interpret statutory requirements and ensure compliance > Liaise carefully on any scope and terms of reference before work is accepted > Make better use of the Tribunal's expertise by planning the time between reviews and reference to delegated Tribunal meetings | <ul style="list-style-type: none"> > Checks are undertaken to ensure that regulated entities comply with IPART price determinations. > Where possible, IPART suggested changes to draft Terms of Reference for greater clarity of task and associated timelines. > Cross-sectoral research and policy program instituted to ensure continuing best-practice in the execution of the Tribunal's regulatory functions. |

| STRATEGY | ACTION | PROGRESS TO 30 JUNE 2010 |
|--|---|---|
| <p>Continue to research and adopt improved regulatory techniques and approaches <i>continued</i></p> | <ul style="list-style-type: none"> > Use informal Tribunal meetings when exploring new ground and not making a decision > Conduct internal training sessions to facilitate transfer of skills between staff. > Prepare infrastructure to take responsibility for operation of the Energy Savings Scheme | <ul style="list-style-type: none"> > Formed metropolitan water inter-agency group to review approaches to pricing of common services. > A more structured approach to the Tribunal's forward agenda has streamlined the decision making process. > A number of informal discussions were held with the Tribunal. > Detailed planning is undertaken for all reviews. > Engaged expert peer review of various discussion papers > Engaged CEPA to review Australian and international practice of incentive-based regulation (ie, CPI-X regulation). The purpose was to enhance our understanding of issues and developments in practical approaches to incentive regulation and to identify approaches from which IPART might learn. > Held numerous training and skills sessions on best-practice modelling and IPART-specific use of Excel, Word and PowerPoint. > Administrative processes were streamlined for the Energy Savings Scheme. > New web site content and changes to the Registry were completed by 30 June for Scheme commencement on 1 July 2009. |
| <p>Be proactive on referrals</p> | <ul style="list-style-type: none"> > Suggest possible areas to apply IPART's expertise in discussion with relevant Ministers | <ul style="list-style-type: none"> > The Chairman and CEO have met with relevant agencies and Ministers to discuss potential projects. |
| <p>Continue to investigate ways to obtain the views of the average customers</p> | <ul style="list-style-type: none"> > Repeat the Household Survey | <ul style="list-style-type: none"> > Survey being undertaken for Sydney, Blue Mountains and Illawarra areas. |

5. Applying resources to deliver a robust, well run organisation

IPART's program of continuous improvement is based on a commitment to best practice, on-going staff development, collaboration, sector-wide government initiatives and the use of technology.

Examples of strategies implemented in the reporting period include:

| STRATEGY | ACTION | PROGRESS TO 30 JUNE 2010 |
|--|--|---|
| <p>Review profile of workforce to match skill set with organisational needs</p> | <ul style="list-style-type: none"> > Staff rotation – integrate rotation with Performance Enhancement System (PES) reviews > Revise and upgrade the agency's competency/capability standards > Identify critical roles and critical skills for succession planning | <ul style="list-style-type: none"> > Consideration is given to staff members' skills and experience when new programs and functions are initiated. This also provides for personal enhancement of skills and encourages staff to 'stretch' and challenge their abilities. > Employees were rotated to different industry teams to meet work peaks and skill requirements. > The new framework has been in operation for 12 months. Competency standards are an integral part of the recruitment process. > Staffing needs and skills are regularly reviewed to ensure key skills are retained, maintained or developed. |
| <p>Become preferred employer by offering development opportunities and family friendly work practices</p> | <ul style="list-style-type: none"> > Reward staff for outstanding performance and to improve staff retention > Support flexible working conditions | <ul style="list-style-type: none"> > Development opportunities, including secondment opportunities are encouraged to reward and enhance performance. Personal and market retention allowances are used to reward consistent and high level performance. > IPART offers part-time work and working from home arrangements to allow staff to balance work and family responsibilities. > The electronic flexi time recording system allows for greater ease in monitoring and reporting team and agency leave with associated costs. |

| STRATEGY | ACTION | PROGRESS TO 30 JUNE 2010 |
|--|---|---|
| Provide systematic training and other skill building opportunities for staff | <ul style="list-style-type: none"> > Provide training that meets individual and organisational needs | <ul style="list-style-type: none"> > The performance management system identifies individual development needs. In addition the agency's training and development policy includes a generous training cap for each staff member to further promote a learning organisation and encourage continuous personal development. |
| Work with other public sector agencies to achieve economies of scale | <ul style="list-style-type: none"> > Collaborate with other agencies in procurement and technology initiatives | <ul style="list-style-type: none"> > IPART joined the then Department of Commerce web-based e-tendering system. |
| Continuously improve systems and services | <ul style="list-style-type: none"> > Ensure corporate services are effective, cost efficient and meet the needs of the agency > Develop electronic business processes | <ul style="list-style-type: none"> > Migrated residual servers to a virtualised environment for enhanced business continuity > Conducted extensive BCP testing. > A new ICT monthly reporting template was introduced > IPART website and intranet continued to be enhanced to suit business processes. > Software applications were developed to enhance the user experience, as well as to manage the technical environment > An Information Manager was appointed to improve information and business processes within IPART. > Selected a new Content Management system to be integrated with IPART's record management system. |
| Embrace Government commitment to electronic service delivery | <ul style="list-style-type: none"> > Provide all appropriate publications and transactions on the internet | <ul style="list-style-type: none"> > Due to IPART's increasing workload the amount of information published on IPART's website has increased significantly in the 2009/10 year. |

| STRATEGY | ACTION | PROGRESS TO 30 JUNE 2010 |
|---|---|--|
| <p>Embrace Government commitment to electronic service delivery <i>continued</i></p> | <ul style="list-style-type: none"> > Enhance the capacity of the web site to meet stakeholder communication needs | <ul style="list-style-type: none"> > A latest news carousel was introduced to the homepage to ensure stakeholders could easily access recent publications. > IPART migrated its web hosting environment to a new provider to improve website uptime and increase control of the web hosting environment. > IPART linked a mini Google appliance to its websites to enhance search capabilities. The search options were made more prominent on the homepage. > The IPART homepage was enhanced with tabbed menus for quick links, speeches and employment. |
| <p>Make effective use of equipment and systems</p> | <ul style="list-style-type: none"> > Undertake planning in relation to allocation of equipment and resources | <ul style="list-style-type: none"> > Some further changes to office layout were introduced in response to the Energy Savings Scheme and the new local government role. |

Key Performance Indicators

The following measures were developed as part of IPART's Results and Services Plan. The service delivery and funding plan was prepared by agencies to demonstrate the relationship between the services they deliver and the results they are working towards.

| PLANNED RESULT | RESULT INDICATORS | 2006/07 Actual | 2007/08 Actual | 2008/09 Actual | 2009/10 Actual | 2010/11 Estimate |
|----------------|-------------------|----------------|----------------|----------------|----------------|------------------|
|----------------|-------------------|----------------|----------------|----------------|----------------|------------------|

Competitive business environment in NSW

Intermediate result:

| | | | | | | |
|--|---|-----------------------|-----------------------|-----------------------|--------------------------------------|---|
| > Independent oversight of prices for energy, transport and water services | > Graph of real cost to public over time | 2006/07 Annual Report | 2007/08 Annual Report | 2008/09 Annual Report | See 'Impacts' section in this report | See 'Impacts' section in 2010/11 report |
| | > Graph of real cost to businesses over time | " | " | " | " | " |
| | > Perceived quality of leadership – practical outcomes and independence (expressed as % from stakeholder survey)* | No new survey data | 95% | No new survey data | 82% | No new survey data |

Healthy and sustainable energy and water supplies in NSW

Intermediate result:

| | | | | | | |
|--|--|-----------|-----------|-----------|-----------|-----------|
| > Suppliers of energy and water meet licence obligations | > Acceptance by Ministers of annual water and energy audit/licence compliance reports | 6 reports | 6 reports | 6 reports | 6 reports | 6 reports |
| > CO ₂ reduction targets are monitored and enforced | > Net tonnes per capital CO ₂ emissions in NSW from electricity usage (allowing for offset credits) | 7.27 | 7.27 | 7.27 | 7.27 | 7.27 |

* Since the factors need to be assessed each year with current data, no forward estimate is possible.

Planned service delivery

| SERVICES DELIVERED | SERVICE MEASURES | 2006/07 Actual | 2007/08 Actual | 2008/09 Actual | 2009/10 Actual | 2010/11 Estimate |
|--------------------|------------------|----------------|----------------|----------------|----------------|------------------|
|--------------------|------------------|----------------|----------------|----------------|----------------|------------------|

1. Licence monitoring and equipment

Key services:

| | | | | | | |
|--|--|-----------|-----------|-----------|------------|-----------|
| > Monitoring of water licences | > Acceptance by Minister of annual water audit reports | 4 reports | 4 reports | 4 reports | 6 reports | 6 reports |
| > Monitoring of energy licences | > Acceptance by Minister of annual energy compliance audit reports | 2 reports | 2 reports | 2 reports | 10 reports | 2 reports |
| > Administrator of Greenhouse Gas Reduction Scheme targets | > # of accredited abatement projects (per year) | 44 | 33 | 16 | 24 | 3 |
| | > # of abatement certificates registered (per year) | 20.9m | 25.5m | 21.5m | 18.3m | 24m |
| > Administration of Energy Savings Scheme targets | > # of accredited energy savings projects | – | – | – | 49 | 30 |
| | > # of energy savings certificates registered (per year) | – | – | – | .43m | .69m |

2. Pricing of water, transport, energy and other price reviews

Key services:

| | | | | | | |
|-------------------------------|--|---------------|-----|---------------|-----|----------------|
| > Wide consultation on issues | > Perceived quality of consultation processes (expressed as % from stakeholder survey) | No new survey | 94% | No new survey | 88% | No new survey* |
| > Rigorous process of review | > Perceived professionalism of staff (expressed as % from stakeholder survey) | No new survey | 99% | No new survey | 93% | No new survey |
| | > Perceived timeliness of decision-making processes | " | 83% | No new survey | 88% | No new survey* |

| SERVICES DELIVERED | SERVICE MEASURES | 2006/07 Actual | 2007/08 Actual | 2008/09 Actual | 2009/10 Actual | 2010/11 Estimate |
|--------------------|------------------|----------------|----------------|----------------|----------------|------------------|
|--------------------|------------------|----------------|----------------|----------------|----------------|------------------|

2. Pricing of water, transport, energy and other price reviews *continued*

Key services:

| | | | | | | |
|---|--|----|----|----|----|----|
| > Rigorous process of review <i>continued</i> | > Number of projects completed | | | | | |
| | > within 6 months | 7 | 12 | 5 | 12 | 16 |
| | > within 12 months | 14 | 0 | 4 | 10 | 12 |
| | > over 12 months | 4 | 13 | 2 | 3 | 5 |
| | > # of public hearings, forums and workshops | 15 | 18 | 9 | 19 | 10 |
| | > # of papers and reports (Total) | 58 | 70 | 53 | 59 | 53 |
| | > major | 39 | 56 | 25 | 44 | 34 |
| | > minor | 19 | 14 | 28 | 15 | 19 |

3. Referred reviews

Key services:

| | | | | | | |
|------------------------------|--|-----------|-----------|-----------|-----------|-----------|
| > Terms of reference are met | > Relevant Minister's broad acceptance of report and recommendations | 3 reports | 8 reports | 7 reports | 5 reports | 8 reports |
|------------------------------|--|-----------|-----------|-----------|-----------|-----------|

* Since the factors need to be assessed each year with current data, no forward estimate is possible.

+ IPART is not able to anticipate the numbers of referrals in any future year.

Impacts of IPART's Determinations

IPART regulates the prices of a number of essential infrastructure services, namely water, electricity, gas and public transport services. Because they are essential services, it is important to monitor the impacts of our price determinations on households. Currently, households spend, on average, around 4.2% of household income on these services. We also monitor the impact of our determinations on the bills of non-residential customers whose prices are regulated.

Overview

- > Prices for the essential services that IPART regulates have fallen in real (inflation-adjusted) terms over most of the period for which IPART has been collecting data. Regulated prices only reached their 1992/93 levels again in 2005/06. Since then, however, prices have risen significantly in real terms (that is, faster than inflation).
- > For example, in 2009/10 regulated prices were 17.9% higher in real terms for electricity, gas, water and public transport than they were in 2007/08. This rise over 2 years was mainly driven by higher electricity and water prices.

The table below summarises the price movements above inflation in various periods.

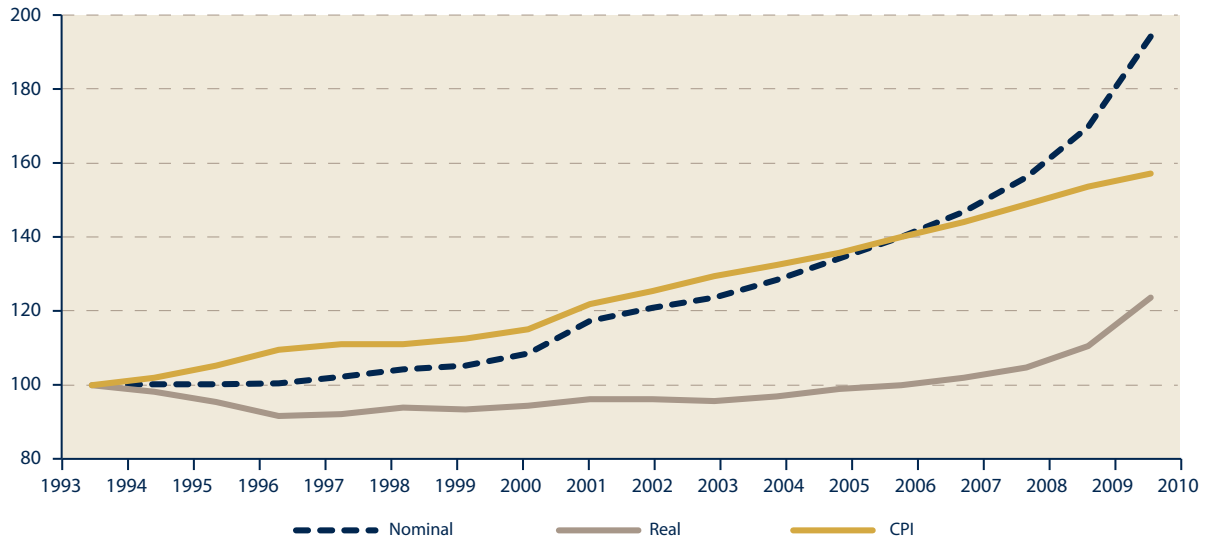
| | Whole period 1992/93–2009/10 | First 13 years 1992/93–05/06 | Past 4 years 2005/06–09/10 |
|-----------------------------|---------------------------------|---------------------------------|-------------------------------|
| Cumulative real rise | 23.5% | 0.0% | 23.5% |
| Average annual rise | 1.3% | 0.0% | 5.4% |
| Electricity | 1.5% | -0.3% | 7.4% |
| Gas | 2.6% * | 3.0% * | 1.5% |
| Sydney Water | 1.1% | -0.5% | 6.6% |
| Hunter water | -0.1% | -2.0% | 6.3% |
| CityRail | 1.6% | 1.4% | 2.2% |
| Public bus and ferry | 1.0% | 1.2% | 0.6% |

* from 1994/95

- > The share of average weekly earnings spent on IPART-regulated services has first fallen and then risen. It was 4.4% in 1992/93 and 4.2% in 2009/10. Household incomes rose faster than the prices of IPART-regulated services from 1992/93 to 2006/07 so that the share fell from 4.4% to 3.6%. Since 2006/07 the share has risen from 3.6% to 4.2% as household incomes rose more slowly than prices.
- > Households on low incomes spend proportionately more on IPART-regulated services. For example, the poorest 20% of NSW households spend 4.9% on these services; the richest 20% spend 3.1%. Recent rises in electricity and water prices would therefore significantly disrupt the budgets of low income households.

Measuring the effects of IPART's pricing decisions on residential customers

To monitor the effect of our price determinations on households, we introduced an index of household charges in 1993. Each year the index measures the weighted average change in the prices of the services we regulate,

Figure 1: Composite index of household charges and the CPI, 1992/93 to 2009/10

Note: A break in the index occurred in 2000/01 with the introduction of the Goods and Services Tax (GST) and related changes which affected the nominal rise in prices in various ways in that year. We also changed the Metropolitan Water component of the index in 2009/10 by assuming that the representative customer uses 200kL of water per year instead of 220kL. But this has not caused a break in the index because we have recalculated all the years under the new assumption.

Data source: IPART.

where the weights are derived from Australian Bureau of Statistics (ABS) data on household expenditure on electricity, gas, water and public transport (rail, bus and ferry services).¹

Since 1992/93, the index of household charges has risen a cumulative 94.1%, while the general price level has risen by 57.1% (see Figure 1). The rise in the index after adjusting for inflation has been 23.5%, which is often stated as the rise "in real terms".² The average annual nominal rise has been 4.0% per annum (1.3% in real terms), although much of the rise has been concentrated in the past 2 years.

During the 1990s, the index generally rose more slowly than inflation so that prices fell in real terms. Since 2000, charges began to rise faster than inflation in response to a number of, largely cost, pressures. By 2005/06, prices in real terms were back to their 1992/93 levels. Greater cost pressures have caused larger cost rises in recent years, especially in 2008/09 and 2009/10, as discussed in the next chapter.

Over 2008/09 and 2009/10, households paid on average 24.4% more for electricity, gas, water, sewerage and public transport than they did in 2007/08. In real terms, average household charges rose by 17.9%. Figure 2 shows how real household charges have varied by the type of service since 1992/93 (1994/95 for gas).

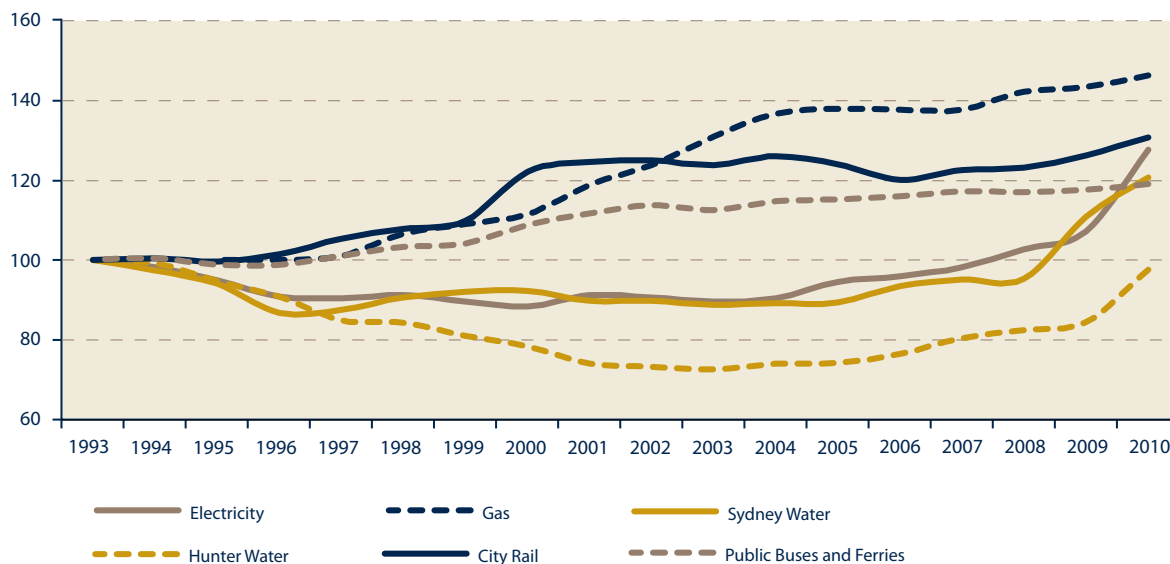
The main components of the latest increase were real rises in prices for electricity and water services. Smaller real increases occurred for gas and transport services. The drivers of price increases for each service are discussed in detail in the next chapter.

We now look at the various types of services in two ways, first by considering the course of prices in real terms over the whole period and second, by considering recent developments.

¹ For the period 1992/93 to 2003/04, the weightings are from the 1998/99 Household Expenditure survey (all NSW households) and are: electricity 51%, water 23%, gas 8% and public transport 18%. Weightings from the 2003/04 Household Expenditure Survey (Sydney households), used from 2004/2005, are: electricity 47%, water 20.5%, gas 11.5% and public transport 21%.

² The phrase 'in real terms' means that the effect of inflation is removed while the phrase 'in nominal terms' means that the effect of inflation is included.

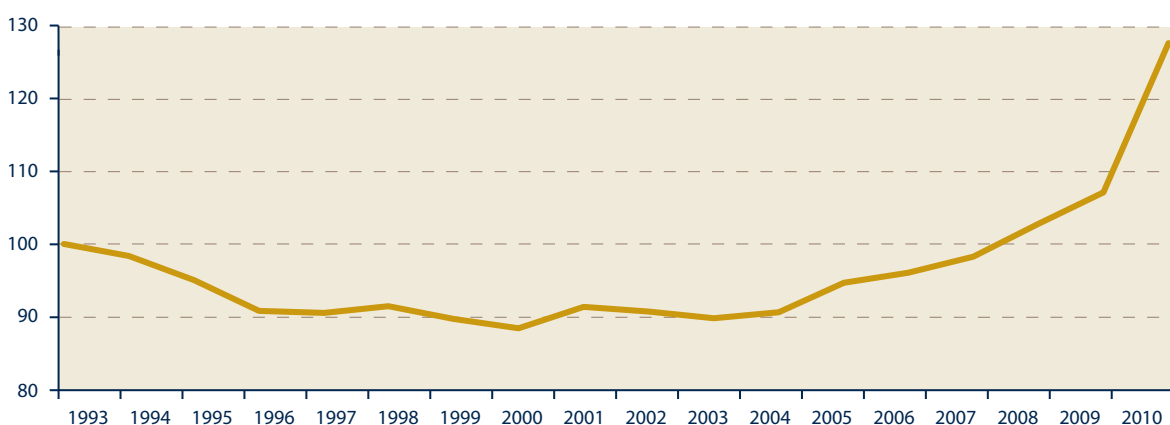
Figure 2: Indices of household charges in real terms, by type of service



Electricity prices – long term trends

Regulated electricity charges³ in real terms were no higher for households in 2007/08 than they were in 1992/93 but they have risen more sharply in the past 2 years to now be 27.8% higher than they were at the start of the period (Figure 3).

Figure 3: Index of residential electricity prices (real)



Electricity market – retail regulation

Since 1 January 2002, all electricity customers in NSW have been offered the option of choosing their retail electricity supplier by negotiating a retail supply contact, or remaining with their Standard Retailer (which is either Country Energy, EnergyAustralia or Integral Energy, depending on where the customer lives) on a regulated tariff.

³ The electricity index excludes the Climate Change Fund. Some (but not all) electricity retail tariffs include a small additional amount which contributes to the NSW Government's Climate Change Fund (formerly the Energy Savings Fund). In respect of electricity, the Fund aims to reduce overall electricity consumption in NSW and related greenhouse gas emissions, reduce peak electricity demand, stimulate investment in innovative measures, and increase public awareness in energy savings.

Electricity pricing – recent developments

Over 2008/09 and 2009/10, retail prices faced by average householders on regulated tariffs rose by 25.5% for Country Energy customers, by 36.1% for EnergyAustralia customers and by 30.6% for Integral Energy customers.

In March 2010 we made a determination of retail electricity prices for residential customers and small businesses that have remained with their Standard Retailer. Under this determination (which applies from 1 July 2010 to 30 June 2013), average regulated retail tariffs will increase by a substantial percentage in each year of the determination period. Over the next 3 years we estimate that nominal regulated prices will increase 42% for Country Energy customers, by 20% for Integral Energy customers and by 36% for EnergyAustralia customers. The exact prices will be finalised in May each year, before a 1 July price change, by calculating various components of the price, including the rise in the CPI and an allowance for purchasing wholesale electricity, all of which will be based on the most recently available information.

Over 2010/11 to 2012/13, we expect the competitiveness of the NSW retail market will continue to develop. This may help to lessen the impact of the regulated tariff increases on electricity prices in general, by encouraging retailers to compete for customers. To encourage stronger competition, we recommended the NSW Government take steps to ensure consumers have access to transparent tariff information and can easily compare retailers' offers.

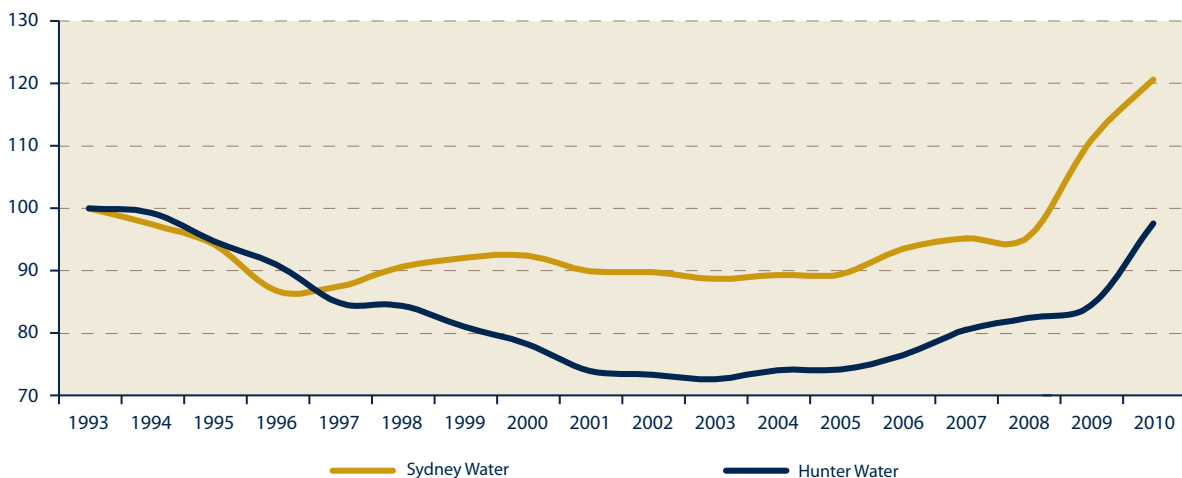
The NSW Government has implemented legislation which requires a licensed retail supplier to provide pricing information to small retail customers on its website. IPART began publishing the pricing information on its website from 30 September 2010. It is in a form that enables small retail customers to compare the tariffs and charges of retail suppliers.

Metropolitan Water – long term trends

Between 1992/93 and 2009/10, residential water prices have increased in real terms for Sydney Water customers, especially in 2008/09 (Figure 4). Overall, a residential customer of Sydney Water who uses 200kL of water each year would have typically paid 20.6% more for water and sewerage services in 2009/10 than in 1992/93 in real terms.⁴

Hunter Water customers experienced a significant price increase in 2009/10 (Figure 4). However, in real terms, a residential customer of Hunter Water would still be paying less, by 2.4%, for water and sewerage services in 2009/10 than in 1992/93.

Figure 4: Indices of residential water and sewerage charges for Sydney Water and Hunter Water (real)



⁴ Previous annual reports calculated the index for a customer using 220kL of water each year so that the Metropolitan Water indices in this report are not strictly comparable to the indices in previous IPART annual reports.

Metropolitan water pricing – recent developments

Sydney Water

The water and sewerage bills of residential customers of Sydney Water who use 200kL of water per year went up by 33.5% over the years 2008/09 and 2009/10. In real terms, the increase was 26.5%.

The price determination that applied in 2009/10 to Sydney Water Corporation came into effect 1 July 2008. Sydney Water Corporation's 2008 determination will increase bills in real terms by 32.6% for a typical residential customer over the four years of the determination.

Hunter Water

The water and sewerage bills of residential customers of Hunter Water who use 200kL of water per year went up by 24.9% in 2009/10. In real terms, the increase was 18.3%. Under the current price determination, which runs from 1 July 2009 to 30 June 2013, the bill for a typical customer will increase by 30.7% in real terms.

Residential customers will see increases in the water usage charges (which vary with the amount of water used) and a reduction in water service charges (which are a fixed fee). Sewerage service charges will increase while the sewerage usage charge has been removed because it was considered to be a de facto water usage charge, and the water usage charge was already acting as a price signal to encourage water conservation.

Gosford City Council

Gosford City Council's current price determination runs from 1 July 2009 to 30 June 2013. Over this period residential customers who consume 200kL of water each year will see their bills increase by 15% in real terms. Their bill increased by 7.1% in real terms in 2009/10.

Wyong Shire Council

Wyong Shire Council's current price determination also runs from 1 July 2009 to 30 June 2013. Over this period, residential customers who consume 200 kL of water each year will see their bills increase by 21% in real terms. Their bill increased by 11% in real terms in 2009/10.

Non-metropolitan water pricing

Country Energy – water and sewerage services for the Broken Hill area

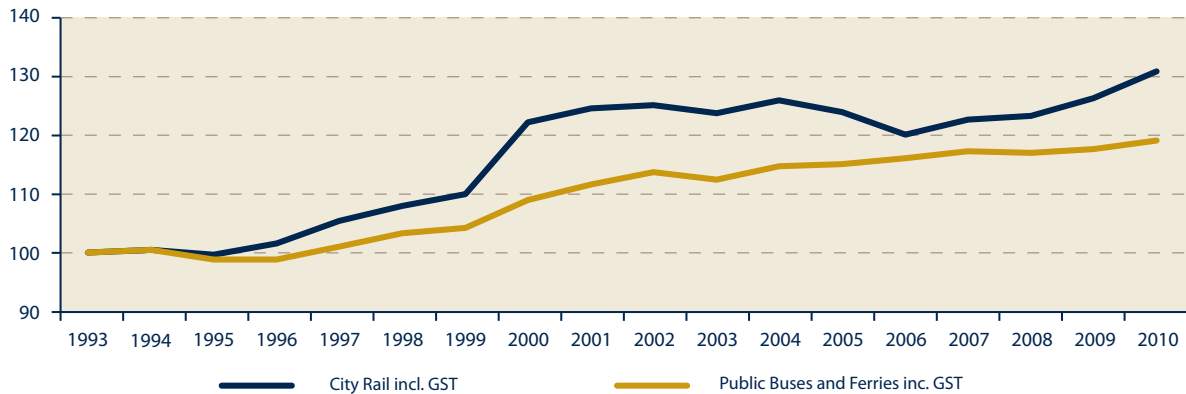
Country Energy provides water and sewerage services to the city of Broken Hill and its surrounding areas. Our first pricing determination for these services took effect from 1 July 2010. The results and impacts of the determination will be discussed more fully in next year's Annual Report. Generally, prices were increased in real terms to support the construction of some major water infrastructure in the Broken Hill area. Details are available on our website.

Public transport – long term trends

Since 1992/93, rail fares have increased by 30.9% in real terms. Public bus and ferry fares increased an average 19.1% over the same period.⁵ Public transport prices rose considerably between 1992/93 and 2000/01. Since then, rail fares have increased in real terms by 5.1% and bus and ferry fares have increased by 6.6% (Figure 5).

Transport fares recover only part of the costs of providing services. The remaining revenue required is met from the State Budget. In Sydney, fares cover less than a third of the cost of providing rail services and around half the cost of providing bus services.

⁵ The index for public buses and ferries is for STA buses, Newcastle buses and Sydney Ferries only. Most private bus fares fell when STA and private bus fares in the Sydney metropolitan area were harmonised in 2005.

Figure 5: Indices of public transport fares (real)

Public transport – recent developments

CityRail

CityRail fares rose by a weighted average of 12.0% in nominal terms or 6.1% in real terms over 2008/09 and 2009/10.⁶

Buses

The price of bus fares in all 25 contract regions in the metropolitan and outer metropolitan regions of NSW increased by a nominal average of 3.4% on 3 January 2010.

Our 4-year determination of maximum fares for bus services provided under contracts with the State Government in the metropolitan and outer metropolitan regions of NSW commenced on 3 January 2010. The determination aims to ensure that passengers make a fair contribution towards the efficient costs of providing bus services, while also making good use of bus services. We determined fares that balance the interests of the community in having low bus fares and greater bus usage against the cost to the community of providing bus services. We set the fares to recover the efficient cost of providing bus services to fare-paying passengers minus the value of the external benefits that the use of these services provides to the broader community. These external benefits include reduced road congestion and air pollution.

Fares will increase by slightly more than the rate of inflation in each of the next 4 years.

Ferries

Fares for some regulated private ferry services fell slightly on 1 July 2009 as the result of a mid-year fuel cost review. No fares for regulated private ferry services changed at the usual fare change date of December 2009⁷. The single fare for the Newcastle Stockton ferry also did not change. IPART did not determine maximum fares for Sydney Ferries in 2009/10.

MyZone

On 18 April 2010 the NSW Government introduced a new fare structure for public transport in Sydney and the Central Coast, Hunter and Illawarra called 'MyZone'.⁸ Under MyZone most fares were reduced, some were unchanged and some rose.

⁶ CityRail and metropolitan bus fares generally increase in January each year. The average increases for the financial year take the timing of the increases into account. They are not adjusted for any changes in the levels of fares associated with the introduction of the MyZone fares in April 2010.

⁷ IPART actually recommended small decreases to some private ferry fares from December 2009 but the Government decided to leave all regulated private ferry fares unchanged.

⁸ For more information on MyZone fares see www.myzone.nsw.gov.au or phone the Transport Info line on 131 500.

IPART is responsible for determining maximum fares for public transport services in NSW. Determinations are in place for all current rail, bus and ferry services that fix the maximum fares that can be charged.

However, to implement the Government's MyZone fares an Order was made to temporarily remove our responsibility for determining the maximum prices for services under a small number of tickets. In addition the Government simplified fares by withdrawing a number of existing bus, rail and TravelPass products.

Our current determinations on maximum prices for services under rail tickets, bus tickets and TravelPasses will continue except for those tickets covered by the Order, or withdrawn from sale.

Gas – long term trends

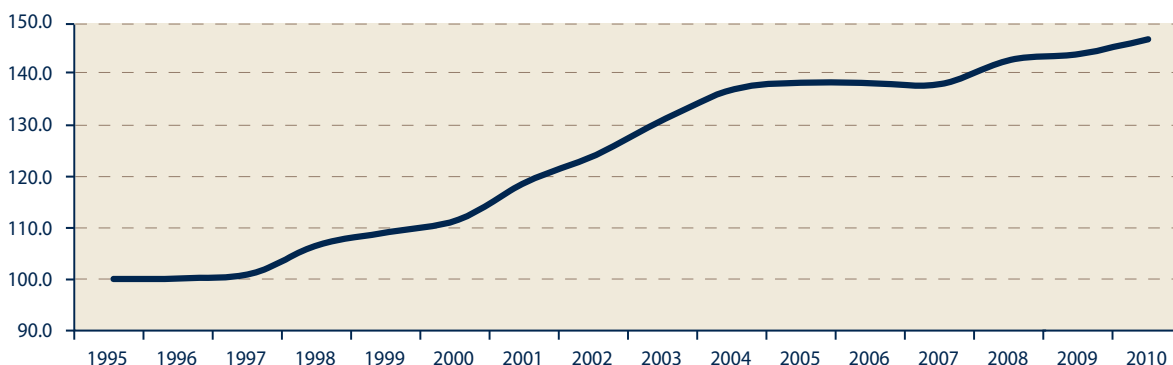
The gas price index we use is calculated for an AGL gas customer using 25,000MJ of gas per year (which is a medium level of usage). The index starts after 1992/93 because we did not regulate gas prices until 1995/96 (Figure 6).

Over 2008/09 and 2009/10, gas prices for the typical customer rose 8.5%, or 2.8% in real terms. Residential gas prices rose sharply between 1997/98 and 2003/04, but they have increased modestly in real terms since that time. AGL customers paid 46.2% more for gas in 2009/10 compared to the amount paid in 1994/95 (in real terms).

Gas market – retail regulation

Retail contestability was introduced into the gas market from 1997, and all gas retail services have been contestable since 1 January 2002. Small retail customers still have the option to remain on, or return to, a regulated tariff. Standard Gas Retailers in NSW include AGL, ActewAGL, Country Energy and Origin Energy, depending on the location of the customer.

Figure 6: Index of residential gas prices for AGL customers 1994/95–2009/10 (real)



Note: The index assumes that the representative residential customer is on the "Everytime Plus" (residential economy) tariff to 2003, and then switched to "Everytime value" as recommended by AGL. On 1 July 2007 the regulated residential tariffs were consolidated into a single regulated tariff.

Gas – recent developments

In June 2010 IPART and the Standard Gas Retailers entered into Voluntary Transitional Pricing Arrangements (VTPAs), which included a weighted average price cap for regulated tariffs. These VTPAs set out the price path for the retail component of regulated tariffs and retail charges for small gas customers. In special circumstances a retailer may apply to us to vary prices outside of this limit.

Under the VTPA, AGL and Country Energy will be allowed to increase the retail component of their regulated tariffs, on average, by the change in the CPI in each year of the regulatory period from 2010/11 to 2012/15. Origin Energy will be allowed to increase the retail component of the regulated tariff by an average of CPI+1% per year.⁹ ActewAGL will be allowed an increase of CPI-3% for the retail component over 3 years.

While the average increase in tariffs from our final decisions on the retail component is moderate, some customers' gas bills are likely to rise more because of rising network charges.

We do not regulate the network component of retail gas tariffs. This component is either regulated by the Australian Energy Regulator (AER) or is unregulated. As a result of the AER's recent final decisions, the network charges for most small retail customers will increase by between 4.8% and 13.4% over the three year period.

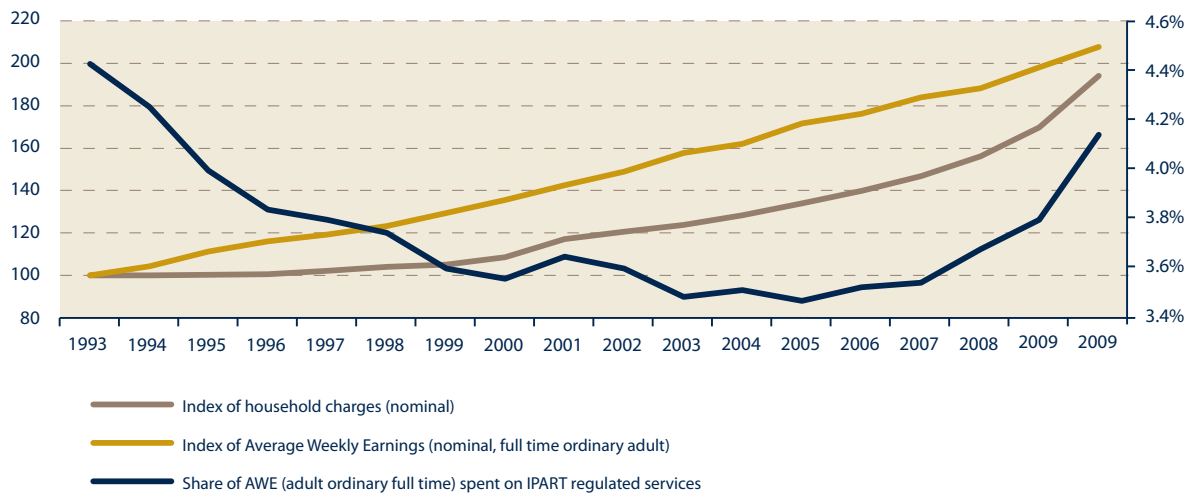
A typical residential customer of AGL and Origin Energy on regulated tariffs can expect to pay around \$0.52 more per week for gas over the 3 years to 2013. Country Energy customers on regulated tariffs can expect to pay \$0.64 per week more over the 3 years, while ActewAGL customers on regulated tariffs will pay around \$0.42 per week.

Price impacts by level of income

The share of average weekly earnings (AWE) spent on IPART-regulated services was around 4.2% in 2009/10, compared to around 4.4% in 1992/93 (Figure 7).

Whilst there has been an overall decrease in the proportion of income spent on IPART-regulated services, this figure has been trending upwards since 2005/06. There was a large increase in the amount of income spent on these services between 2008/09 and 2009/10 (from 3.8% to 4.2%) because the service price rises were greater than the increase in average weekly earnings.

Figure 7: Share of Average Weekly Earnings spent on IPART services



Note: Expenditure on services is obtained from the ABS's 2003/04 Household Expenditure Survey (Sydney values), indexed by IPART's combined index of household charges. Average weekly earnings are the ABS series 'Average Weekly Earnings (NSW adult full time, ordinary time)'

Household bills

The indices of household charges measure price changes for 'average' households. The actual price changes for specific households will depend on a number of factors, the most important of which are: how much of each service is consumed, who provides the services and whether the households qualify for pensioner rebates/discounts.

⁹ For 2010/11 only, the limit on the average change in the retail component of tariffs for the Albury district supplied by Origin Energy is CPI+10%.

We made some estimates of the proportion of gross income spent on water and electricity by different household types using household consumption data from the 2006 IPART Household Survey for Sydney and estimated household income data from NATSEM.¹⁰ The analysis indicates that young single parent families and mature single people spend over 4% of their gross income on electricity and water, while young single persons, young couples and mature couples with no children spend 2.5%, 2.1% and 2.1% of gross income respectively on electricity and water. These differences reflect both consumption differences and income differences between the groups.

Analysis of Hypothetical Households

As in previous Annual Reports, we have calculated the bills for three different household types to illustrate the effects of consumption levels and pensioner rebates/discounts. The household characteristics are listed in Table 1. They are:

- > Household 1 is an 'average' household that uses public transport on a regular basis.
- > Household 2 is a 'low' consumption household that also uses public transport.
- > Household 3 is a household with the same level of consumption as Household 2 (including public transport), but is eligible for pensioner rebates and discounts.

To calculate typical bills, we assumed certain levels of consumption and that all households are supplied by EnergyAustralia for electricity, AGL for gas and Sydney Water for water and sewerage, and travel by rail or STA bus.

Not surprisingly, households that consume less will face lower bills than households that consume more and further, those that qualify for pensioner rebates/discounts will pay less than non-pensioner households for the same service. For example in 2009/10, (Figure 8):

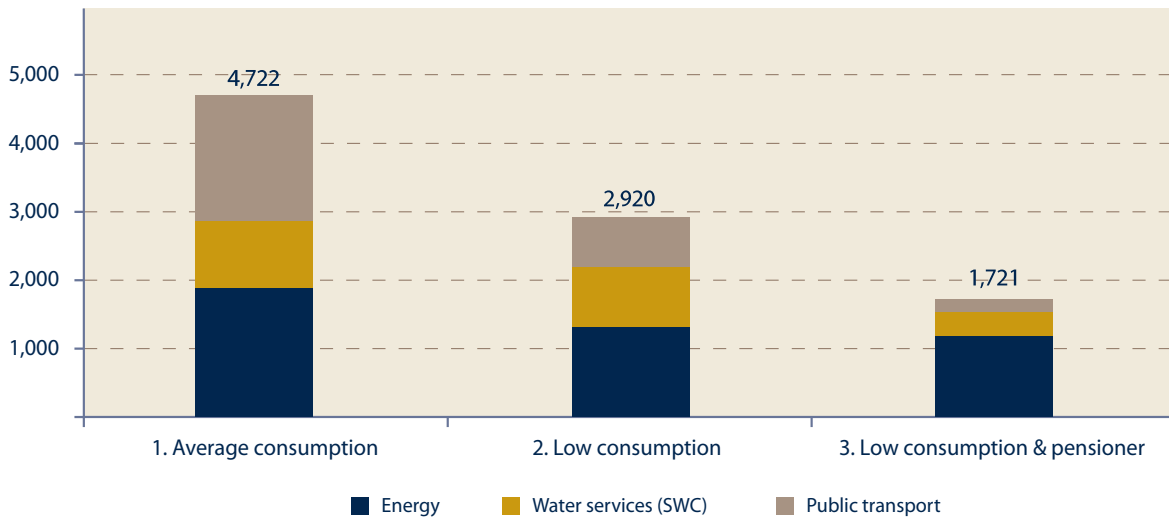
Table 1: Characteristics of "typical" households^a

| | Household 1 | Household 2 | Household 3 |
|--|---|---|---|
| | Average consumption | Low consumption | Low consumption and Pensioner |
| Electricity consumption | 7,500 kWh (2,000kWh off-peak) | 5,000 kWh (1,500kWh off-peak) | 5,000 kWh (1,500kWh off-peak) |
| Gas consumption | 25,000 MJ | 14,000 MJ | 14,000 MJ |
| Water consumption | 200 kL per year | 150 kL per year | 150 kL per year |
| STA Bus and CityRail train transport (return trip) | 225 days per year Red TravelPass then My Multi 1 (valid for bus, train and ferry) ^{b,c} | 70 days per year Adult return train ticket (10km) and Blue TravelTen then MyTrain single fare (up to 10km) and MyBus TravelTen (1-2 section bus trip) ^b | 70 days per year Pensioner excursion |

Notes:

- a. The electricity, gas and water consumption for Households 2 and 3 are typical for pensioner households in the Sydney metropolitan area, based on IPART's 2006 Household Survey.
- b. MyMulti, MyTrain and MyBus fares were introduced on 18 April 2010. They replaced the previous ticket types.
- c. The Red TravelPass gave unlimited travel on CityRail services in the area bounded by Bondi Junction, Rockdale, Bardwell Park, Canterbury, Croydon and Chatswood stations., plus unlimited travel on Sydney Buses in the red area – zones 1, 3, 6 and 7 as well as unlimited travel on Sydney Ferries inner harbour services. MyMulti 1 gives unlimited travel on government and private buses and government ferries, as well as in the CityRail zone bounded by Bondi Junction, Chatswood, Croydon, Canterbury, Bardwell Park, and Rockdale.

¹⁰ National Centre for Social and Economic Modelling, a private model-building consultancy based in Canberra.

Figure 8: Household bills (\$ per year, 2009/10)

- > Household 1 paid a total of \$4,722
- > Household 2 paid \$2,920, and
- > Household 3 (pensioner) paid \$1,721.

The pensioner household received rebates of \$130 for household energy¹¹ and \$527 for water services¹², and a discount of \$541 for public transport¹³. It therefore paid \$1,199, or 41%, less than the equivalent non-pensioner household for the same services.

Although the pensioner household (Household 3) paid substantially less than the low consumption non-pensioner household (Household 2) in 2009/10 for the same services, the bill for this household type has increased more rapidly than the non-pensioner household's bill over the last 13 years.

As shown in Figure 9, since 1996/97 the bill for an average level of consumption (Household 1) has increased by 35.8% in real terms and the low-consumption non-pensioner household's bill has increased by 36.1%. The pensioner's combined bill (water, energy and transport) has increased by 43.6% (or at an annual average rate of 2.8%).

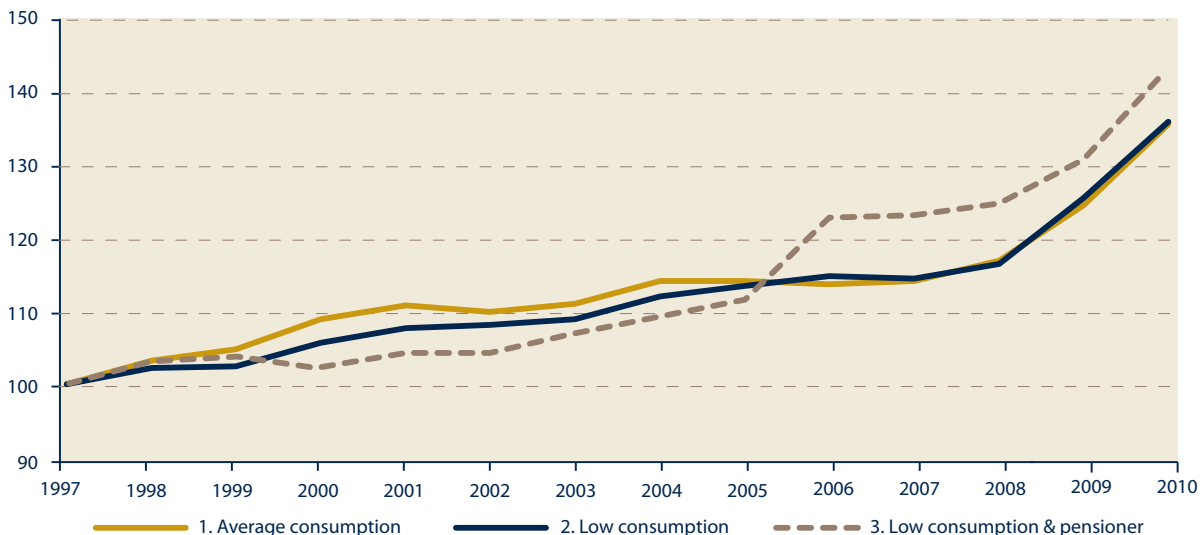
The pensioner's combined bill rose more than the other two household types, because the increases in electricity and gas prices exceeded increases in the rebate and because the cost of the pensioner excursion ticket increased from \$1.00 to \$2.50 in 2005. The increase in the pensioner excursion ticket had its greatest effect on pensioners who use trains and STA buses. Pensioners who use private buses are likely to have experienced a decrease in their transport costs when the ticket was extended to private buses in January 2005.

11 The NSW government introduced a pensioner rebate of \$112 per year for electricity and gas on 1 January 2002. The rebate increased to \$130 from 1 July 2009 and to \$145 from 1 July 2010. The rebate will increase to \$161 on 1 July 2011. Rebates are paid on electricity bills, and are available to account holders who hold a Centrelink Pensioner concession card or Department of Veterans' Affairs (DVA) concession card or certain DVA Gold cards. From 1 July 2009, rebates were extended to Commonwealth Health Care card holders.

12 Sydney Water's pensioner rebates in 2009/10 were 100% of the fixed charge for water and 85% of the fixed charge for sewerage. Rebates are available to owner-occupiers holding Centrelink Pensioner concession cards or DVA concession cards. (Tenants are not directly responsible for paying the fixed charges, and therefore do not qualify for rebates).

13 A Pensioner Excursion Ticket, at a flat fare of \$2.50, was introduced in January 2005 as part of the NSW Government's Fairer Fares plan. Replacing the four existing Pensioner Excursion Tickets, the ticket was extended to private bus operators in the Sydney metropolitan area. A \$1 ticket was previously applicable to STA and CityRail travel. The tickets cover all day travel around Sydney and Newcastle, and are available to people holding Centrelink Pensioner concession cards, NSW Seniors Cards or NSW or Victorian War Widow(er) concession cards.

Figure 9: Increase in household bills (real)



Price impacts on non-residential customers

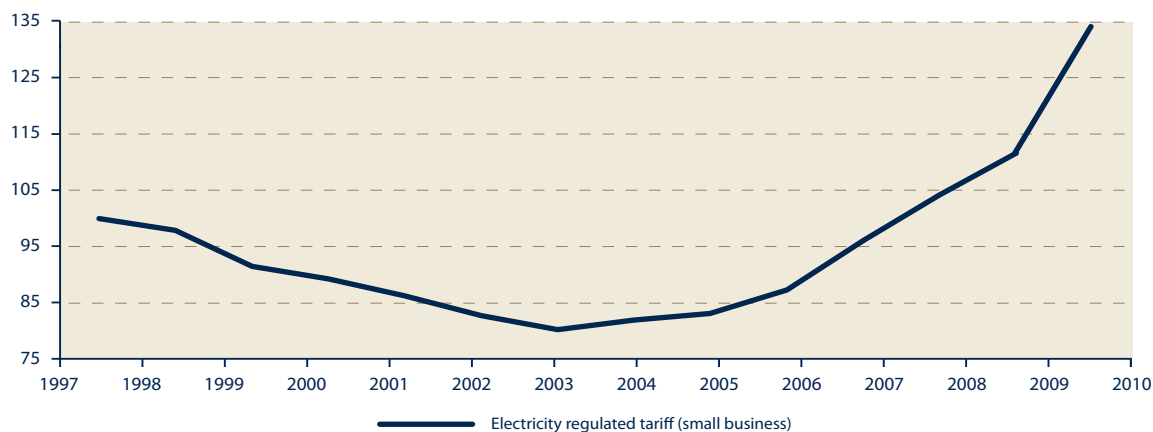
Our determinations also affect the bills of non-residential customers for electricity, gas and water. We consider each in turn.

Electricity

Retail contestability has been progressively introduced in NSW since 1996, and we no longer regulate most non-residential tariffs. Business customers with consumption of less than 160 MWh per year can, however, still choose to remain on a regulated tariff.

The electricity index shown in Figure 10 is calculated for an EnergyAustralia small business customer on a general supply tariff using 30 MWh per year. The customer paid 35.9% more in nominal terms over 2008/09 and 2009/10, (28.7% in real terms) compared to 2007/08. The bill for this customer was 34.2% higher in real terms in 2009/10 than in 1996/97.

Figure 10: Index of regulated business electricity prices, small customers (real, excluding GST)



Note: Prices calculated for consumption of 30 MWh per year on a general supply tariff. Prices exclude GST.

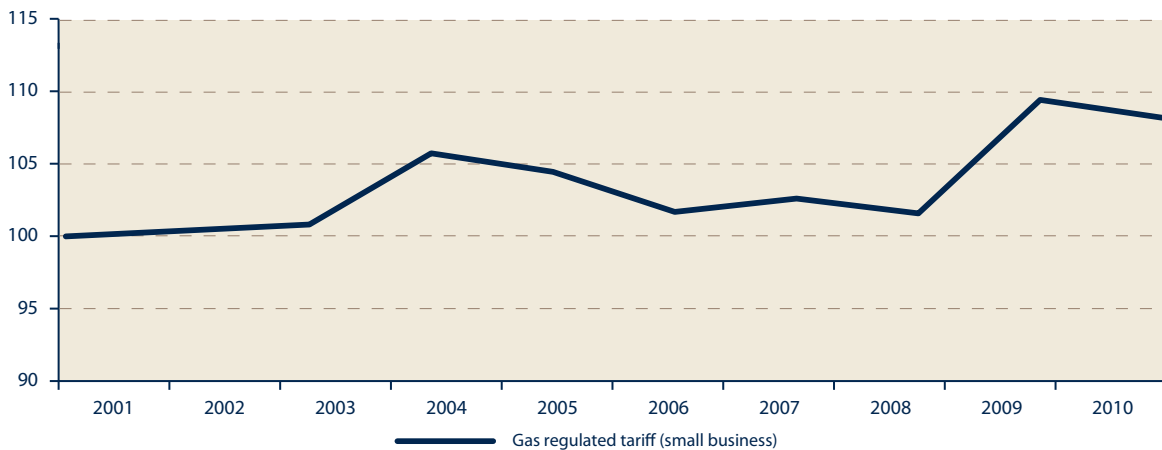
Source: For 1996/97 – 2003/04, data comes from Electricity Supply Association of Australia, *Electricity Prices in Australia 2003/04*. For 2004/05 onwards the data is calculated using EnergyAustralia's General Supply (Non TOU) tariff.

Gas

Competition in the retail gas sector was introduced in stages from 1999 to 2002, and all customers are now able to choose their supplier. Business customers with consumption of less than 1 terajoule per year can choose to remain on a "default" tariff if they have not entered into a negotiated customer supply contract.

The gas index shown in Figure 11 is calculated for an AGLRE small business customer on a standard business supply tariff using 184,000 MJ per year. The customer paid 11.3% more in nominal terms over 2008/09 and 2009/10 (or 6.5% in real terms) compared with 2007/08. The bill for this customer was 8.2% higher in real terms in 2009/10 than in 2000/01.

Figure 11: Index of regulated business gas prices, small customers (real, excluding GST)



Note: Prices calculated for consumption of 184,000 MJ per year on a default standard business supply tariff. Prices exclude GST.

Source: AGLRE default standard business tariff.

Metropolitan Water

Bills for non-residential customers have followed a similar trend to those of residential customers. Sydney Water's non-residential customers experienced a nominal price increase of about 28.9% over 2008/09 and 2009/10, which is 22.2% in real terms.

The bills for Sydney Water's non-residential customers of water and sewerage services are substantially lower than in 1992/93 – by 41.7% in real terms (Figure 12). This reduction is largely due to the progressive elimination of property value-based charges, which were finally eliminated on 1 July 2004.

Hunter Water's non-residential customers experienced a nominal price increase of about 32.9% over 2008/09 and 2009/10, or 25.9% in real terms. Average prices are, however, still 3.2% lower than they were in 1992/93 (Figure 12)¹⁴.

Bulk water

Bulk water customers on regulated rivers pay two sets of charges, the first to State Water Corporation, which is responsible for river operations, and the second to the Department of Environment, Climate Change and Water (DECCW) for water resource management. Customers who extract water from unregulated rivers or groundwater only pay water resource management charges.

¹⁴ Hunter Water's water and sewerage property value based charges were eliminated in 1994/95. Average bills fell about 30% between 1992/93 and 1994/95.

Figure 12: Index of real water and sewerage charges for non-residential customers

Note: The index measures average revenue per kL of water sold, and is therefore only a rough indicator of prices. Since 2003/04 the index has been calculated using 2002/03 sales volumes to eliminate the impact of reduced consumption.

The applicable determination for this financial year was that covering 1 October 2006 to 30 June 2010. The main objective was to continue to move prices to cost reflective levels in accordance with COAG principles. Over the period State Water's prices in real terms rose annually by an average of 5.8% and charges for water resource management rose annually by an average of 4.1%.

In making our determination for State Water and DECCW, we were strongly influenced by:

- > the continuing focus on moving prices towards cost reflective levels, as a result of the NSW Government's commitments under the National Water Initiative (NWI)
- > significant increases in some State Water and the DECCW's costs, partly reflecting an increase in the agencies' responsibilities
- > the corporatisation of State Water and its subsequent shift to a commercial business model, and
- > licence changes requiring State Water to generate a greater proportion of its revenue from usage charges.

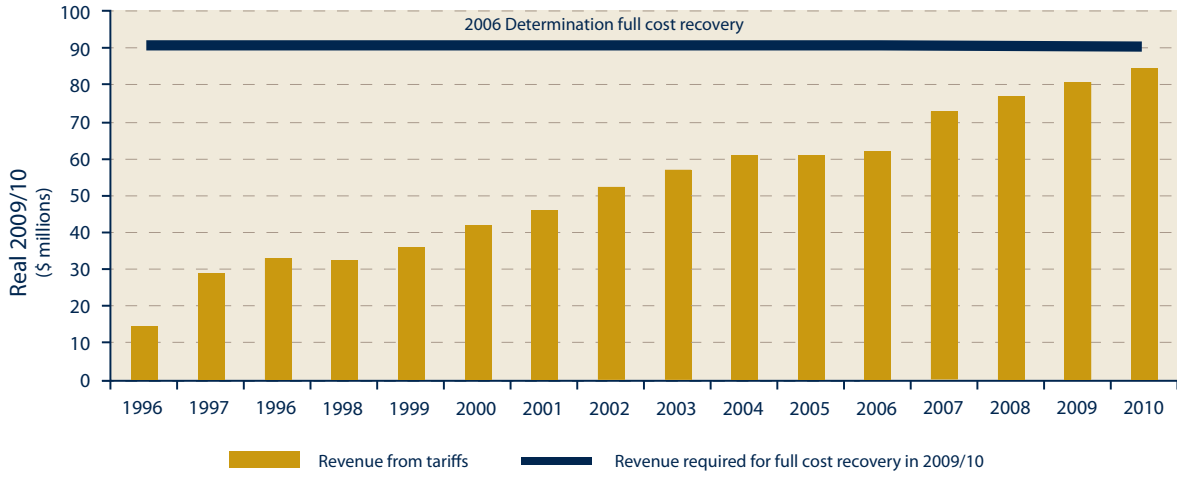
IPART's determination targeted recovery of 93% of users' share of estimated efficient costs in 2009/10 (\$84.6 million out of \$91.1 million; 2009/10 dollars) (Figure 13). This represented a real increase of 13% in users' contributions to that sought in 2006/07.

Bulk Water – recent developments

During the year we undertook an investigation into prices for bulk water and water resource management services to apply for the next regulatory period. A determination has been made for State Water which took effect from 1 July 2010. Under the determination, the annual bills for bulk water users on regulated rivers across NSW will increase in real terms. The size of the increase will vary depending on the valley in which customers are located and the type of entitlement held. Details of the new prices are on our website.

The review of prices for water resource management services, consent transactions and meter reading and servicing is continuing. We released a draft determination and report on 15 October 2010 and we expect to release the final determination in February 2011 that will commence on 1 July 2011.

Figure 13: Actual and target revenue^a from bulk water tariffs 1994/05–2009/10 (real)



The above revenues are calculated based on the long-term average demand for bulk water.



Why are IPART-regulated prices going up?

As the previous chapter showed, many of IPART's recent pricing decisions have increased prices faster than the rate of inflation for the period that the pricing decision covers. This chapter details some of the reasons for those price increases. Unless otherwise specified, this chapter analyses changes to "real" prices, that is, without taking inflation into account, and the dollar figures are 2009/10 values.

Overview

The factors driving price increases are different for each industry area and are discussed in some detail below. In summary:

- > Increasing capital expenditure is required to meet Government standards for quality, reliability, and environmental impacts.
- > In the water and electricity industries, increasing capital expenditure is required to maintain or replace ageing assets.
- > For both water and electricity, increasing capital expenditure is required to meet growth in demand. For water, this stems from population growth, as demand per capita is steady or declining. For electricity, it relates more to growth in peak demand (ie, at particular times of the day).
- > Increases in the purchase costs of electricity also contributed to the 2009/10 increases, but not to increases in IPART's determination from 2010/11 onwards. The increased purchase costs ultimately reflect increased costs of generating electricity.
- > For gas prices, the main driver of future price increases is increased network charges. As for electricity network charges, these are set by the Australian Energy Regulator (AER).
- > Gas network charge increases are driven by increasing capital investments to accommodate system growth and maintenance, and increased operating costs. The increased operating costs arise from compliance with standards and codes, and additional maintenance on new and upgraded facilities.
- > Sydney Water's price increases are driven by the costs associated with large projects, such as the desalination plant and recycled water projects, and the need to replace ageing infrastructure. Sydney Water's price increases were mitigated somewhat by the real declines in the cost of acquiring water from the Sydney Catchment Authority.
- > Water and wastewater prices in Newcastle and the Central Coast are also increasing because of the need to increase water supply and replace or upgrade the water and sewerage network infrastructure.
- > Public transport prices have not risen as much as electricity, gas or water prices. Some increases above inflation have occurred so that train passengers make a larger contribution to the efficient costs of providing rail services, while bus passengers maintain the level of their contribution.

Electricity

The components of retail electricity prices

Electricity retailers play a buffering role between the supply and demand sides of the market. They buy wholesale electricity from generators through the national electricity market, paying either the spot market price (which changes on a half-hourly basis and can vary widely) or a contract price. They also pay significant charges to transport electricity along the transmission and distribution networks to their retail customers. In most cases, they sell electricity to these customers at a set "bundled" price (ie, the price the customer pays is not split into individual components).

For retailers to be viable, this bundled price must cover their payments to generators and network businesses, as well as the costs of running their own business. To calculate the tariffs, regulators separately assess 2 components – network charges (N) and retail charges including generation costs (R). Each component contributes about half of electricity prices. However, as noted above, the tariffs the customer pays are not split into the 2 components.

Network and costs of generation are the drivers of regulated electricity prices in 2009/10

The main drivers of the significant increase in electricity prices in 2009/10 were:

- > increased network charges, in accordance with the AER's distribution and transmission determinations, which are passed through to retail tariffs,
- > increased wholesale energy charges,
- > transitioning tariffs to fully cost reflective levels, as specified in the 2007 determination.

Table 1: Average increase in typical bills for customers on regulated retail electricity tariffs
1 July 2009 (nominal, %)

| | EnergyAustralia | Integral Energy | Country Energy |
|--|-----------------|-----------------|----------------|
| Network price increases | 10.4 | 9.3 | 9.8 |
| Price increases due to transitioning in 2007 determination | 5.3 | 5.9 | 3.0 |
| Impact of increased market based electricity cost allowance from 2009 review | 6.0 | 6.0 | 5.1 |
| Total percentage increase | 21.7 | 21.1 | 17.9 |

Notes: Assumes typical annual usage without controlled load consumption of 5600kWh.

These increases do not include the increase in the NSW Climate Change Fund Levy or the Clean Coal Fund Levy announced in the 2008 NSW Mini-budget.

Source: IPART, Market-based electricity purchase cost allowance – 2009 review – final report, p 2

Market-based energy purchase costs increased by around 15%, including inflation, due to:

- > market uncertainty arising from the policies of governments, including greenhouse policies and uncertainty about the Electricity Tariff Equalisation Fund¹⁵
- > market uncertainty arising from the impact of the drought on generation capacity and output
- > the impact of these uncertainties on contracting behaviour
- > updated demand and supply forecasts, reflecting the impact of the drought and lower demand forecasts, and
- > ownership changes within the generation market.

Network charges are the main driver of electricity price increases from 2010/11 to 2012/13

Network charges (the 'N' component)

Network charges are the dominant factor in the price increases, accounting for 80% to 86% of the total cumulative increase in regulated retail tariffs for the 3 Standard Retailers for the determination period 2010/11 to 2012/13. Table 1 below shows the indicative cumulative price increases and their sources for the 3 Standard Retailers. Figure 1 below shows the proportion that each source contributed to the price increases.

Network charges are determined by the national regulator, the Australian Energy Regulator (AER), not by IPART. The increases are driven by increases in capital expenditure. The AER's determination provides for, in real terms, \$14.8 billion of capital expenditure across the 3 New South Wales networks over the period 2009/10 to 2013/14. The capital expenditure is for:

- > network augmentations to meet rising peak demand across the networks

¹⁵ The Electricity Tariff Equalisation Fund was put in place by the NSW Government. Standard Retailers contribute to and/or withdraw from the fund based on differences between the actual price they pay for electricity and the cost of electricity assumed in setting regulated retail tariffs. It was due to be phased out by June 2010, but various tranches of the phase-out were deferred.

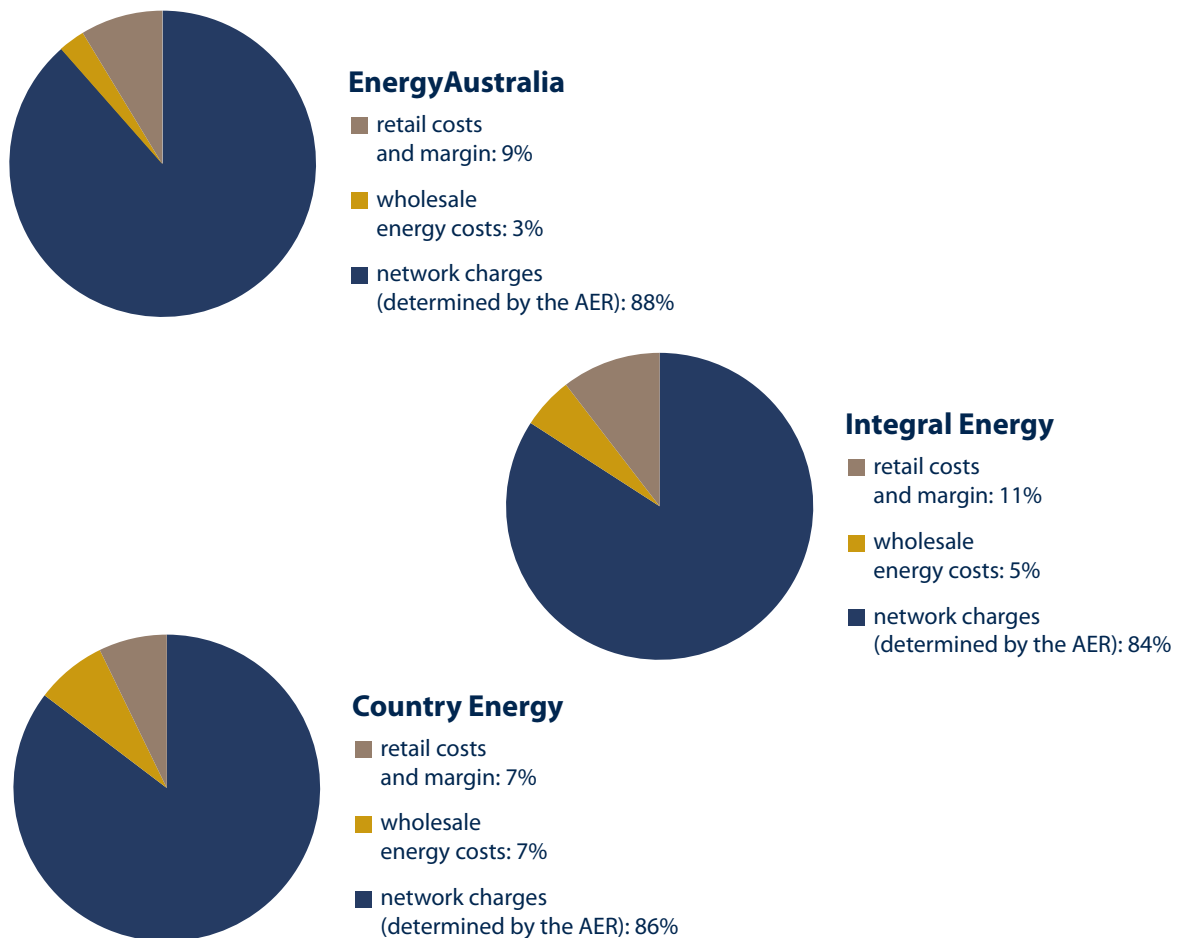
- > network augmentations to meet significant load growth in regions including the north coast, the Sydney central business district and western Sydney
- > enhanced licensing conditions for network security and reliability.

The AER reviews the efficiency of the businesses' capital expenditure proposals but it takes the licence standards on reliability and network planning as given. Hence, the quality of network planning and decisions on licence conditions that drive capital expenditure play a crucial role in pricing outcomes.

Table 2: Indicative cumulative increases in regulated electricity prices under the final determination, and their causes, 2010/11 to 2012/13 (nominal, %)

| | EnergyAustralia | Integral Energy | Country Energy |
|---|-----------------|-----------------|----------------|
| Increases in network charges (as determined by the AER) | 31 | 16 | 35 |
| Increases in wholesale energy costs | 1 | 1 | 3 |
| Increases in retail costs and margin | 3 | 2 | 3 |
| Total increases | 36 | 20 | 42 |

Figure 1: Components of cumulative price increase for each retailer



Retail and generation charges and the price of carbon are not driving electricity price increases between 2010/11 and 2012/13

Retail and generation charges (the 'R' component)

The 'R' component consists of an energy purchase cost allowance (for the retailers to buy wholesale electricity), an amount to cover retail operating expenditure and a retail profit margin.

Energy purchase costs

Increases in energy purchase costs (related to the cost of generation) increased prices by only 1 to 3 percentage points, including inflation, in total over the 3 years.

The Government required IPART to calculate energy purchase costs using 2 methods, and then apply the higher of the two. The market-based cost method, which was the higher of the 2 and contributed to the 2009/10 increases as described in section 1.2.2, fluctuates more than the long run marginal cost (LRMC) method. In 2010/11, market-based costs fell, but prices did not fall because LRMC was used.

Retail operating expenditure

We opted to use the Standard Retailers' historic costs rather than their forecast costs to calculate their retail operating expenditure allowance because we did not agree with some retailers' view that the costs of serving customers would increase significantly over the 2010 determination period. As a result, the retail operating cost allowance per customer was actually lower than in our 2007 determination.

Retail margin

We set the retail (profit) margin allowance slightly higher than the margin we allowed in the 2007 determination, reflecting updated analysis of the systematic risks associated with electricity retailing for the 2010 determination.

Together, increases in retail operating expenditure and margin increased prices by only 2 to 3 percentage points, including inflation, in total over the 3 years of the determination period.

The price of carbon

When we undertook our review of electricity prices, the Commonwealth Government was working towards the introduction of an emissions trading scheme, the Carbon Pollution Reduction Scheme (CPRS), in 2011. When we released our final determination of electricity prices in April 2010, we announced prices that incorporated the impacts of the proposed CPRS from 2011/12. As the CPRS had been announced but not yet introduced, we also calculated prices based on a scenario without the CPRS. Shortly afterwards the Commonwealth Government postponed the CPRS and we advised that the second set of prices would apply. Therefore the prices analysed above do not include any increases due to the CPRS.

If the CPRS or some other form of carbon price is introduced, electricity prices will rise further initially, but the medium term effects depend on what happens to other greenhouse mitigation measures that a carbon price would replace. Most such measures also increase electricity prices and will often do so significantly in the longer term.

How do price increases and their drivers in NSW compare with other states?

In Queensland, electricity price increases are determined annually, using an index, the Benchmark Retail Cost Index (BRCI). In 2009/10 regulated electricity prices increased by 11.82% (including inflation).

The increase comprised:

- > an increase in energy costs of 12% (accounting for 45% of the total BRCI raise) reflecting the impact of rising fuel and capital costs
- > an increase in transmission and distribution costs of 12.3% (accounting for 48% of the total BRCI raise) reflecting ongoing significant investment in the distribution networks, and

- > an increase in retail costs of 8.7% (accounting for the remaining 7% of the total BRCI raise) reflecting mainly the fact that the retail margin increases proportionately with the increase in all other costs.

In 2010/11, regulated electricity prices have increased by 13.29% (including inflation).

The increase in Queensland prices comprises:

- > An increase in network charges of 17.4%, as approved by the AER. Network charges contribute 8.21 percentage points to the change in the BRCI (61% of the total increase).
- > An increase in wholesale energy costs of 8.7%, reflecting the impact of rising coal and gas costs on generation costs and higher energy market prices. Wholesale energy costs contribute 3.81 percentage points to the change in the BRCI (29% of the total increase).
- > An increase in other retail costs of 13.7%, reflecting a significant increase in estimates of customer acquisition and retention costs. Other retail costs contribute 1.27 percentage points to the change in the BRCI (10% of the total increase).

In Victoria, retail price regulation ended in January 2009. However, the AER continues to set network charges. In June 2010, the AER made a draft decision to reject large increases to network charges sought by the Victorian distributors and instead proposed a reduction of 5.8% (nominal) in the first year of the determination (from 1 January 2011), followed by increases roughly in line with inflation for the 4 subsequent years.

In South Australia, a recently published draft decision by the Essential Services Commission of South Australia proposes tariffs that would lead to an increase in average bills of around 7% (nominal) in the first year of the determination. The report does not provide a breakdown of drivers contributing to the price increases.

In the ACT, the Independent Competition and Regulatory Commission's final decision projects a modest average increase in the regulated price from 1 July 2010 of 2.4% in nominal terms and 0.5% in real terms (ie, given an assumed inflation rate of 1.82%). The 2010/11 price adjustment incorporated an increase in network costs of 7.4% from the previous year, a projected reduction in wholesale energy costs of about 3.1% from 2009/10 levels, retail operating costs increasing by CPI and the retail margin increasing to 5.4%.

In Western Australia, the Minister for Energy announced in February 2009 that electricity prices would rise from 1 April 2009 and again on 1 July 2009 such that the average household bill would rise by 26.5% (nominal). The increases were to bring tariffs, which had been unchanged since 1997, closer to cost-reflective levels.

Gas

The components of retail gas prices

Like electricity retailers, gas retailers have to purchase gas from wholesalers. However, the wholesale gas market is not as volatile as the wholesale electricity market, since most Australian gas markets are based on bilateral arrangements between producers, major users and retailers linked together through pipeline hubs connecting gas fields to gas consumers.

Like electricity tariffs, retail gas tariffs comprise 2 components – network charges (N) and retail charges (R). A customer's total gas bill is the sum of these components (N + R). Each component contributes about half of gas prices, but customers do not see the separate components in their tariffs.

Gas prices for 2009/10 generally did not increase in real terms

As was agreed under their Voluntary Transitional Pricing Agreements, AGL, ActewAGL and Origin's default gas tariffs increased by CPI on 1 July 2009, so did not increase in real terms¹⁶. Country Energy did not increase gas retail prices and charges from 1 July 2009, equating to a decrease in real prices.

¹⁶ Origin's Murray valley customers' prices increased by 2% in real terms.

Network charges are driving gas price increases between 2010/11 and 2012/13

Most of the growth in gas prices over the next 3 years is being driven by increased network charges, as determined by the AER, not IPART. The reasons for these increases include new capital investments to accommodate system growth and maintenance, and increased operating costs (arising from compliance with standards and codes, and additional maintenance on new and upgraded facilities). See table 3.

Table 3: Indicative average increase in regulated retail tariffs 2010/11 to 2012/13 (nominal, %)

| | AGL | ActewAGL | Country Energy | Origin Energy |
|---|-------------|-------------|----------------|---------------|
| Increases in network charges (as determined by the AER) | 8.6 | 8.81 | 13.4 | 4.8 |
| Increases in retail and wholesale costs | 4.2 | 1.4 | 3.8 | 11.1 |
| Total increases | 12.7 | 10.3 | 17.2 | 15.9 |
| Total increase in CPI | 7.7 | 7.7 | 7.7 | 7.7 |

Retail costs and a price for carbon are not driving gas prices between 2010/11 and 2012/13

Table 3 indicates that the retail component of gas prices is increasing below the level of CPI, except for Origin Energy, so retail factors are not driving gas prices.

Our gas decisions did not assess the impact of the proposed CPRS on gas prices.

If the CPRS or some other form of carbon price is introduced, gas prices will rise further, but not as much as electricity prices, because gas is less carbon-intensive.

How do price increases and their drivers in NSW compare with other states?

In South Australia, gas standing contract prices were adjusted on 1 July 2010. For a residential customer with medium consumption (24,000 MJ annually), it is estimated that the average annual gas bill in 2010/11 will increase by 3.11% (nominal). This equates to an annual bill increase of \$19.65. Approximately \$4.20 of this increase relates to the retailer component of the bill, which includes pass-through amounts for the Residential Energy Efficiency Scheme (REES). The remainder of the bill increase is due to distribution network tariffs as approved by the Australian Energy Regulator (AER).

Retail prices for gas are unregulated in all other jurisdictions

Metropolitan water businesses

The components of a metropolitan water business's prices

IPART uses a "building block" approach to calculate the revenue that a metropolitan water business requires to fund its services. That means we assess the revenue the business will require for:

- > operating expenditure, including:
 - > the forecast efficient operating and maintenance costs plus
 - > an allowance for working capital
- > capital investment, including:
 - > a return on assets
 - > a return of assets (regulatory depreciation).

Sydney Water

Sydney Water purchases water from the Sydney Catchment Authority, processes it to drinking water quality, and provides water with various levels of processing to residential and business customers in Sydney, the Blue Mountains and the Illawarra. Sydney Water also provides wastewater disposal services to households and businesses and manages stormwater flows. Its revenue must cover the costs of purchasing raw water and the costs of treatment, transfer, supply and then collection and disposal of wastewater and stormwater.

Drivers of Sydney Water's prices from 2008/09 to 2011/12

The increases in Sydney Water's prices are largely driven by costs associated with a number of large capital projects including the desalination plant (which alone is contributing around 43% of cumulative bill increases) and recycled water projects. Large new water supply projects usually lead to price increases as they are higher-cost sources of supply and there have been few such projects in recent years prior to the desalination plant being built.

Around a quarter of the cumulative bill increases can be attributed to additional costs for replacing ageing infrastructure and increased investment in infrastructure to meet operating licence requirements and government policies on water quality, water security and environmental impacts.

Another source of price increases is an increase in the Weighted Average Cost of Capital (or rate of return), as a result of changing financial market conditions. For example, interest rates on debt change over time and were higher at the time of the current determination.

The key drivers and their contribution to bill increases are set out in Table 4 below.

Table 4: Bill increase for a typical residential property between 2007/08 to 2011/12 (\$2009/10)

| Key Drivers | 250kL user | 200kL user |
|---|--------------|--------------|
| Desalination | \$122 | \$106 |
| Renewals, servicing growth and operating licence ^a | \$73 | \$65 |
| Return on assets and depreciation allowance | \$66 | \$62 |
| Recycled water projects | \$21 | \$20 |
| Total | \$281 | \$252 |

a This figure is calculated as a residual.

What is not driving Sydney Water's prices from 2008/09 to 2011/12?

IPART's last determination replaced an inclining block water usage charge (ie, water consumed above a threshold level is charged at a higher rate) for residential water users with a single usage charge that applies to all water consumed. This reflects a reduction in water scarcity concerns with construction of the desalination plant and commissioning of new recycled water schemes.

Sydney Catchment Authority

Sydney Catchment Authority manages and protects Sydney's drinking water catchments and catchment infrastructure, and supplies bulk water to its customers, including Sydney Water and a number of local councils.

Drivers of Sydney Catchment Authority's prices from 2009/10 to 2011/12

SCA's price increases are driven by an increase in SCA's efficient operating expenditure in 2009/10 (due to SCA's contribution to the Accelerated Sewerage Program), and increases in the allowances for a return on assets and a return of assets (or regulatory depreciation) over the determination period.

Table 5 shows the impact on Sydney Water customers of the increases in SCA's charges to Sydney Water.

Table 5: Impact on Sydney Water customers: final determination of SCA prices (\$2009/10)

| | 2009/10 | 2010/11 | 2011/12 |
|---|---------|---------|---------|
| Increase in Sydney Water water service charge for typical households as a result of this determination^a | | | |
| Final determination | 6.98 | 12.78 | 16.95 |
| Increase in typical water and sewerage bills for Sydney Water's customers as a result of determination^b | | | |
| Final Determination | 0.70% | 1.30% | 1.60% |

a Assumes a 20mm meter connection (as is the case for most residential premises).

b Assumes 20mm meter connection and water consumption of 200kL per annum.

What is not driving Sydney Catchment Authority's price increases from 2009/10 to 2011/12?

The SCA's prices do not currently include a 'scarcity charge'. However, in our determination we flagged that we would consider, at the time of the next review of SCA's prices from July 2012, introducing a mechanism where SCA's prices vary in inverse proportion to dam levels.

Hunter Water Corporation

Hunter Water Corporation provides water, wastewater and some stormwater services to half a million people and businesses in the lower Hunter region. Hunter Water manages its own bulk water supply, unlike Sydney Water which buys water from the SCA.

What is driving Hunter Water's price increases from 2009/10 to 2011/12?

The main contributors to the price increases are:

- > sewer system development and upgrades (36% of cumulative price increases)
- > operating cost increases, including higher power costs and employment of additional staff (20% of cumulative price increases).

The construction of Tillegra Dam is contributing about 15% of the bill increases over the 4-year determination period.

The key drivers and their contribution to bill increases are set out in Table 6 below.

Gosford City Council

Gosford City Council and Wyong Shire Council supply water and wastewater services to the residents of the Central Coast. They act together in managing a number of major projects and share the costs. IPART sets prices for each council individually.

What is driving Gosford City Council's water price increases from 2009/10 to 2011/12?

Severe water shortages were evident on the Central Coast during the recent drought and Gosford City Council has planned for construction of various major works to alleviate this situation. Many of the works are being jointly undertaken with Wyong Council and include a pipeline to transfer water to the major storage facility Mangrove Creek dam. The increase in prices will enable Gosford Council to proceed with works to improve the water supply and also works to ensure compliance with sewerage discharge standards.

Table 7 outlines the contributions of various factors to bill increases for residential customers.

Table 6: Contribution of requirements for operating expenditure and capital investment to the expected increase in a typical residential customer's bill, 2008/09 to 2012/13 (\$2009/10)

| | IPART determination |
|--|---------------------|
| Operating expenditure | \$45 |
| Capital investment: | |
| Tillegra Dam | \$33 |
| Subsidy for Kooragang Island Recycled Water Scheme | \$0 |
| Sewer projects required to meet DECC standards | \$27 |
| Sewer transport and treatment plant upgrades | \$55 |
| Water supply system development and upgrades | \$20 |
| Other system augmentation, and water resource capital expenditure | \$31 |
| | \$165 |
| Removal of developer charges, (all costs recovered through customer prices) | \$16 |
| Total | \$227 |

Note: Typical bills are based on households with water and sewerage services consuming 200kL of water per annum.

Source: Hunter Water submissions and IPART modelling.

Table 7: Gosford City Council: Contribution of requirements for operating expenditure and capital investment to expected increase in a typical residential customer's bill, 2008/09 to 2012/13 (\$2009/10)

| | IPART determination |
|--|---------------------|
| – Operating expenditure | –\$9 |
| – Capital investment: | |
| Water security | |
| Mardi to Mangrove | \$16 |
| Mardi suite of works | \$10 |
| | \$28 |
| Reliability of sewerage system | |
| Terrigal to Kincumber augmentation | \$16 |
| Sewerage system reliability | \$10 |
| Kincumber Sewage Treatment Plant | \$22 |
| | \$47 |
| Other system augmentation capital expenditure | \$21 |
| | \$95 |
| – Return on assets | \$52 |
| Total | \$137 |

Note: Typical bills are based on households with water, sewerage and stormwater drainage services consuming 200kL of water per annum. Bills exclude charges related to Gosford Council's contributions to the Climate Change Fund. Note that totals may not add due to rounding.

Wyong Shire Council

Gosford City Council and Wyong Shire Council supply water and wastewater services to the residents of the Central Coast. They act together in managing a number of major projects and share the costs. IPART sets prices for each council individually.

What is driving Wyong Shire Council’s water price increases from 2009/10 to 2011/12?

Wyong Shire Council residents also faced water shortages during the drought and works are required to improve drought security. Wyong Shire Council is jointly undertaking works with Gosford City Council and a range of other projects to improve its own water, sewerage and stormwater services.

Table 8 outlines the contributions of various factors to bill increases for residential customers.

Table 8: Wyong Shire Council: Contribution of requirements for operating expenditure and capital investment to the expected increase in a typical residential customer’s bill, 2008/09 to 2012/13 (\$2009/10)

| | IPART determination |
|---|---------------------|
| – Operating expenditure | \$39 |
| – Capital investment: | |
| Water security | |
| Mardi to Mangrove | \$20 |
| Mardi suite of works | \$13 |
| | \$33 |
| Other system augmentation capital expenditure | \$58 |
| | \$90 |
| – Return on assets | \$52 |
| Total | \$180 |

Notes: Typical bills are based on households with water, sewerage and stormwater drainage services consuming 200kL of water per annum. Bills have been adjusted to exclude charges related to Wyong Councils’ contributions to the Climate Change Fund. Columns may not add due to rounding.

Country Energy (Broken Hill water supply)

Country Energy supplies treated water, chlorinated water and non-potable water to residential, non-residential and rural users in and around Broken Hill. It provides sewerage services to properties in the city of Broken Hill.

IPART set Country Energy’s prices for providing water and sewerage services to Broken Hill for the first time in 2010.

What is driving Country Energy’s water price increases from 2010/11 to 2012/13?

Increases are necessary to ensure that Country Energy’s prices more closely reflect the efficient costs it incurs in providing these services – including the costs of renewing and replacing the assets required to ensure the Broken Hill area has a safe and secure water supply.

The increases in prices are required to:

- > Allow Country Energy to maintain its water and sewerage networks.
- > Adequately compensate Country Energy for its investment in water treatment infrastructure.

- > Improve water security through a variety of projects including refurbishing the Umberumberka Dam and Umberumberka and Imperial Lake pipelines and replace various sections of the Menindee to Broken Hill pipeline.
- > Fund sewerage works including replacement of the Wills Wastewater Treatment Plant.
- > Ensure that Country Energy receives sufficient revenue to enable it to continue to invest in its water business at Broken Hill.

How do NSW's metropolitan water agencies' price increases and their drivers compare to those in other states?

Similar to metropolitan NSW, the principal drivers of water price increases in the other states and territories are:

- > Supply augmentations to improve water security.
- > Replacement of ageing infrastructure.
- > Health and environmental standards.

Governments have relied to varying degrees on water restrictions, demand management measures and increased water recycling to balance supply and demand. However, growing populations, reduced water run-off into dam storages and diminution of groundwater supplies has seen governments turn to non-rain dependent water sources (eg, desalination). Some states (eg, Victoria and Queensland) are developing water grids which will source and transport water over a wider geographical area than previously to service their major population centres.

In addition, Victoria has explicitly adjusted prices to reflect lower per capita consumption in a capital-intensive industry where costs do not vary directly (at least in the short to medium term) with supply.

The extent of proposed price increases varies between states, depending on the extent of the demand/supply imbalance, timing of the commencement of the major supply augmentations and Commonwealth funding. For example, the Commonwealth is making a major contribution to the costs of the desalination plant servicing Adelaide whereas the customers of Sydney Water are fully funding their desalination plant.

For these reasons, the increases in bills from 1 July 2010 are:

- > Melbourne – the bill for a typical water and sewerage residential customer using 165 kilolitres of water a year will increase by between 12.3% and 16.2% in real terms
- > South East Queensland – the water and sewerage bill for a typical residential customer consuming 149 kilolitres of water a year will increase by 10.7%
- > South Australia:
 - > potable water prices will rise by 21.7% on average in real terms
 - > metropolitan sewerage charges will rise by 0.8% and country sewerage charges will rise by 1.3% on average in real terms. Sewerage charges are based on a customer's property value, subject to a minimum charge
- > ACT – a typical household consuming between 250 and 300 kilolitres of water a year will see a rise of approximately 3% in their bill in real terms from 1 July 2010 and for each of the years until 2012/13.

In comparison, a typical Sydney Water residential customer consuming 200 kilolitres of water a year will see their water and sewerage bill increase by 4.4% in real terms from 1 July 2010.

Bulk Water

The components of bulk water prices

IPART sets prices for 2 different aspects of bulk water supply:

1. Services provided by State Water

State Water is a statutory state-owned corporation. It provides bulk water services to around 6,200 customers including irrigation corporations, country town water supply authorities, farms, mines and electricity generators. State Water meets community needs by providing water for stock and domestic users. It is also responsible for delivering environmental flows on regulated rivers. State Water operates around 20 dams and over 280 weirs and associated assets on regulated rivers.

2. Services provided by the NSW Office of Water (NOW)

The NSW Office of Water undertakes water management activities, including:

- > negotiating with other States and the Commonwealth on interstate water sharing arrangements
- > developing and implementing water sharing plans under the *Water Management Act 2000*, which specify the rules for each river system for sharing water between the environment and extractive users
- > administering water licences and approvals, assessing resource availability, allocating available water to licensees, monitoring compliance and, where necessary, taking appropriate enforcement action
- > developing and implementing water trading rules and systems to support effective market operation
- > advising on plans and strategies for the protection and enhancement of water courses, riparian corridors and groundwater dependent ecosystems.

IPART sets prices to enable NOW to recover water users' share of the efficient costs of its water management activities.

Drivers of bulk water price increases from July 2010

State Water

On average across all valleys, water prices will be around 28% higher in 2013/14 than in 2009/10. Higher costs contribute 11% to this increase and lower expected water sales contribute 15%.

The user notional revenue requirement shows that the largest contributor to higher costs is the return on capital component (10%). This increase reflects both a larger asset base and a higher rate of return. The introduction of the volatility allowance contributes 4% to the increase. By contrast, operating expenditure (-1%) and Murray-Darling Basin Authority costs (-4%) are expected to be lower in 2013/14 than in 2009/10.

NSW Office of Water (NOW)

A new price determination is currently under way. In the interim the nominal prices in place at 30 June 2010 continue to be charged. Delay in making a new determination arises from the need to have sufficient information in the public arena for stakeholders to be able to effectively participate in the determination process.

Public transport

Because public transport (rail, buses and ferries) is heavily subsidised by the Government, as it is in other jurisdictions, price increases are driven as much by decisions about what proportion of costs should be borne by passengers as by the underlying costs themselves.

CityRail

Drivers of CityRail fare prices from 2008/09 to 2011/12

Under our determinations CityRail fares increased on average by 2% in real terms from 3 January 2010, the second year of a 4-year price path. On 18 April fares further changed as a result of the Government's implementation of MyZone (see below).

We determined fares so that fare-paying passengers make a fair and appropriate contribution to the efficient costs of providing the services they use, and to encourage optimal use of rail services. IPART engaged LECG to assist us to make an independent and robust estimate of the value of external benefits of the CityRail network.

Based on LECG's work, we estimated that the value of these external benefits is around \$1.7-1.9 billion a year which represents about 70% of the efficient costs of providing CityRail services. Therefore, our final decision was that it is appropriate for passengers to fund around 30% of CityRail's costs.

Fares were set so that on average across the 4 years 2008/9 to 2011/12 passengers made an increasing contribution to the efficient costs of providing CityRail's services.¹⁷ In 2009/10 CityRail fares were set to recover around 29% of CityRail's efficient costs as compared to 27% in 2008/9. IPART's view of efficient costs are based on operating costs reductions of 8% in real terms in 2009/10 and by 18% in real terms by 2011/12.

Fares have been set to recover a share of the return on and of forecast capital expenditure of \$1.3 billion in 2009/10. This expenditure is for additional rolling stock, station and interchange upgrades, and CityRail's clearways project.

Introduction of MyZone

On 18 April 2010, the Government introduced a new fare structure for public transport in Sydney, Central Coast, Hunter and Illawarra called 'MyZone', which impacts on all regulated rail, bus and ferry fares. MyZone intends to simplify fares by withdrawing from sale a number of existing bus, rail and TravelPass products. Our current determinations on maximum prices for rail, bus tickets and TravelPasses will continue except for those tickets specified by the Government or that no longer exist.

The introduction of MyZone has had some impacts on the maximum level of fares allowed in our 2008 determination. For example, the price of the new MyMulti Day ticket is above the level set for the equivalent ticket in our determination (the DayTripper). Under an amendment to the Order, the Government will remove IPART's responsibility for setting the maximum price for the services under this ticket temporarily. In addition, some passengers may pay more for travel under the new multi-modal tickets that replace the Blue TravelPass and 2-Zone TravelPass as these tickets cost more than the withdrawn tickets.

How do price increases and their drivers in NSW compare with other states?

NSW is the only state where an independent regulator sets rail fares.

In other states rail fares are generally announced by Governments without the reasons for the increases (or decreases) being given.

Metropolitan buses

Drivers of metro and outer metro bus price increases from 2009/10 to 2013/14

Bus fares increased by an average of 1.4% in real terms on 3 January 2010. As with rail fares, on 18 April fares further changed as a result of the Government's implementation of MyZone (see above)

We determined fares so that fare-paying passengers make a fair and appropriate contribution to the efficient costs of providing the services they use, and to encourage optimal use of bus services. To set bus fares we undertook rigorous analysis to estimate:

- > the total efficient costs of providing the contracted bus services (including operator and RTA costs¹⁸), and
- > the external benefits generated by these services (that is, the benefits for the whole community, not just bus users, such as reduced road congestion and reduced air pollution).

¹⁷ See IPART, *Review of CityRail fares 2009-2012 – Final Report, December 2008*, p 106.

¹⁸ For example, RTA costs include those of providing and maintaining bus priority measures, such as bus lanes, priority traffic signals and bus bays along major bus corridors.

We subtracted the value of the external benefits from the efficient costs, because we consider it reasonable for the Government to subsidise bus fares to a level consistent with this value. We also subtracted the costs of providing free bus services to school students and concession fares to pensioners and other disadvantaged groups. We did this because we consider the Government, not bus passengers, should fund the costs of these social welfare policies. We then set fares to recover the remaining amount (taking into account the forecast patronage of bus services over the determination period). These fares should recover around half of the total cost that Government incurs in providing bus services. This level of cost recovery is similar to the level achieved in 2008/9.

How do price increases and their drivers in NSW compare with other states?

NSW is the only state where an independent regulator sets bus fares.

In other states bus fares are generally announced by Governments without the reasons for the increases (or decreases) being given.

Ferries

IPART has not increased fares for Sydney Ferries' ferry tickets since January 2007. In real terms, prices have fallen in the three and a half years since then.

In the year from December 2009, IPART recommended decreases to fares for some private ferry services. However, NSW Transport and Infrastructure decided to leave maximum fares unchanged.

Taxis

Components of taxi fares

Each year we estimate how much the cost of providing taxi services has changed over the previous 12 months based on the movement in an industry-specific cost index, known as the Taxi Cost Index (TCI). We then use this index to develop fare changes that, on average, match the change in the cost of providing taxi services.

The costs and weightings in the TCI were established after a survey of industry costs and practices and a significant degree of public consultation with stakeholders. Each year we use a cost 'inflater' to estimate the change in each cost item in the TCI.

Unlike other public transportation, the Government does not subsidise taxi services. As such, there is no scope to set prices below the cost of supply. Hence, the full amount of these cost changes are factored into the fare structures, which include a fixed flag fall, distance-based charges across day and night peak times, waiting time, booking fee, maxi taxi surcharge and night and Sunday/public holiday surcharges.

Drivers of taxi fare increases in 2009/10

Fares for urban taxis increased by 0.4% in real terms from 1 July 2009 and 0.3% in real terms for country taxis.

The primary contributors to the overall increase in the TCI for urban and country taxis were notional driver wages, plate lease costs and insurance.

How do price increases and their drivers in NSW compare with other states?

Taxi fares across Victoria increased by 6.1% (nominal) on 13 December 2008, which added an extra \$1.20 to the average metropolitan taxi fare of \$19.60 for a 10km trip. The fare increase was to make sure taxi drivers are adequately paid, and operators are assisted with higher operating costs and funding safety measures such as driver protection screens.



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Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

Independent Pricing and Regulatory Tribunal Division

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of the Independent Pricing and Regulatory Tribunal Division (the Division), which comprises the statement of financial position as at 30 June 2010, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes.

Auditor's Opinion

In my opinion, the financial statements:

- present fairly, in all material respects, the financial position of the Division as at 30 June 2010, and its financial performance for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the Public Finance and Audit Regulation 2010

My opinion should be read in conjunction with the rest of this report.

The Chairman's Responsibility for the Financial Statements

The Chairman is responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Chairman, as well as evaluating the overall presentation of the financial statements.

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

My opinion does not provide assurance:

- about the future viability of the Division
- that it has carried out its activities effectively, efficiently and economically, or
- about the effectiveness of its internal controls.

Independence

In conducting this audit, the Audit Office of New South Wales has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their role by the possibility of losing clients or income.



C J Giumelli
Director, Financial Audit Services

20 October 2010
SYDNEY

Independent Pricing and Regulatory Tribunal



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**STATEMENT ON BEHALF
OF THE INDEPENDENT PRICING AND REGULATORY TRIBUNAL DIVISION**

Pursuant to section 41C of the *Public Finance and Audit Act 1983*, we state that to the best of our knowledge and belief:

- a) the accompanying financial report has been prepared in accordance with applicable Australian Accounting Standards, (which include Australian equivalents to International Financial reporting Standards (AIFRS)), other authoritative pronouncements of the Australian Accounting Standards Board (AASB), the requirements of the *Public Finance and Audit Act 1983* and the *Public Finance and Audit Regulation 2010*, the Financial Reporting Code for Budget Dependent General Government Sector Agencies and Treasurer's Directions;
- b) the financial report exhibits a true and fair view of the financial position of the Independent Pricing and Regulatory Tribunal Division of New South Wales as at 30 June 2010 and the operations 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.

A handwritten signature in black ink, appearing to read 'Rod Sims'.

Rod Sims
Chairman

20 October 2010

ELECTRICITY GAS WATER TRANSPORT OTHER INDUSTRIES

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2010

| | | 2010 | 2009 |
|---|-------|---------------|---------------|
| | Notes | \$'000 | \$'000 |
| Expenses excluding losses | | | |
| Employee related expenses | 2(a) | 11,580 | 11,092 |
| Total expenses excluding losses | | 11,580 | 11,092 |
| Revenue | | | |
| Personnel services | 3(a) | 11,027 | 10,566 |
| Total Revenue | | 11,027 | 10,566 |
| Gain / (loss) on disposal | | - | - |
| Net Cost of Services | | (553) | (526) |
| Government Contributions | | | |
| Acceptance by the Crown Entity of employee benefits and other liabilities | 4 | 553 | 526 |
| Total Government Contributions | | 553 | 526 |
| SURPLUS / (DEFICIT) FOR THE YEAR | | | |
| Other comprehensive income | | - | - |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | - | - |

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2010

| | Accumulated Funds | Total |
|---|----------------------|--------|
| | \$'000 | \$'000 |
| Balance at 1 July 2009 | - | - |
| Surplus / (deficit) for the year | - | - |
| Total comprehensive income for the year | - | - |
| Balance at 30 June 2010 | - | - |
| Balance at 1 July 2008 | - | - |
| Surplus / (deficit) for the year | - | - |
| Total comprehensive income for the year | - | - |
| Balance at 30 June 2009 | - | - |

Statement of Financial Position

AS AT 30 JUNE 2010

| | | 2010 | 2009 |
|--------------------------------------|-------|--------------|--------------|
| | Notes | \$'000 | \$'000 |
| ASSETS | | | |
| Current assets | | | |
| Receivables | 5 | 1,579 | 1,346 |
| Total current assets | | 1,579 | 1,346 |
| Total assets | | 1,579 | 1,346 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Payables | 6 | 178 | 155 |
| Provisions | 7 | 1,389 | 1,181 |
| Total current liabilities | | 1,567 | 1,336 |
| Non-current liabilities | | | |
| Provisions | 7 | 12 | 10 |
| Total non-current liabilities | | 12 | 10 |
| Total liabilities | | 1,579 | 1,346 |
| Net assets | | - | - |
| EQUITY | | | |
| Accumulated funds | | - | - |
| | | - | - |

The accompanying notes form part of these financial statements.

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2010

CASH FLOWS FROM OPERATING ACTIVITIES

Employee related

Personnel services

Cash reimbursements from the Crown Entity

NET INCREASE/ (DECREASE) IN CASH

CLOSING CASH AND CASH EQUIVALENTS

| | 2010 | 2009 |
|--|--------|--------|
| | \$'000 | \$'000 |
| | | |
| | - | - |
| | - | - |
| | - | - |
| | - | - |
| | - | - |

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2010

1. Summary of Significant Accounting Policies

(a) Reporting entity

The Independent Pricing and Regulatory Tribunal Division is a Division of the Government Service, established pursuant to Part 2 of Schedule 1 to the Public Sector Employment and Management Act 2002. It is a not-for-profit entity as profit is not its principal objective. It is consolidated as part of the NSW Total State Sector Accounts. It is domiciled in Australia and its principal office is at Level 2, 44 Market Street Sydney 2000.

The Independent Pricing and Regulatory Tribunal Division's objective is to provide personnel services to The Independent Pricing and Regulatory Tribunal.

The financial statement was authorised for issue by the Chairman of The Independent Pricing and Regulatory Tribunal Division on 20 October 2010.

(b) Basis of preparation

The Division's financial statements are general purpose financial statements which has been prepared in accordance with:

- > applicable Australian Accounting Standards (which include Australian Accounting Interpretations);
- > the requirements of the *Public Finance and Audit Act 1983* and Regulation 2010; and
- > the Financial Reporting Directions published in the Code for Budget Dependent General Government Sector Agencies or issued by the Treasurer.

Judgements, key assumptions and estimations management has made are disclosed in the relevant notes to the financial statements.

(c) Statement of compliance

The Division's financial statements and notes comply with Australian Accounting Standards, which include Australian Accounting Interpretations.

(d) Income recognition

Income is measured at the fair value of the consideration or contribution received or receivable.

(e) Assets

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method, less an allowance for any impairment of receivables. Any changes are recognised in the surplus / (deficit) for the year when impaired, derecognised or through the amortisation process.

Short-term receivables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

(f) Liabilities

(i) Payables

These amounts represent liabilities for goods and services provided to the division and other amounts. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

(ii) Employee benefits and other provisions

Salaries and wages, annual leave, sick leave and on-costs

Liabilities for salaries and wages (including non-monetary benefits), annual leave and paid sick leave that are due within 12 months after the end of the period in which the employees render the service are recognised and measured in respect of employees' services up to the reporting date at undiscounted amounts based on the amounts based on the amounts expected to be paid when the liabilities are settled.

Long-term annual leave that is not expected to be taken within twelve months is measured at present value in accordance with AASB 119 *Employee Benefits*.

Unused non-vesting sick leave does not give rise to a liability as it is not considered probable that sick leave taken in the future will be greater than the benefits accrued in the future.

The outstanding amounts of payroll tax, workers' compensation insurance premiums and fringe benefits tax, which are consequential to employment, are recognised as liabilities and expenses where the employee benefits to which they relate have been recognised.

Long service leave and superannuation

Long service leave is measured at present value in accordance with AASB 119 *Employee Benefits*. This is based on the application of certain factors (specified in NSWTC 09/04) to employees with 5 or more years of service, using current rates of pay. These factors were determined based on an actuarial review to approximate present value.

The superannuation expense for the financial year is determined by using the formulae specified in the Treasurer's Directions. The expense for certain superannuation schemes (i.e. Basic Benefit and First State Super) is calculated as a percentage of the employees' salary. For other superannuation schemes (i.e. State Superannuation Scheme and State Authorities Superannuation Scheme), the expense is calculated as a multiple of the employees' superannuation contributions.

(g) Comparative information

Except when an Australian Accounting Standard permits or requires otherwise, comparative information is disclosed in respect of the previous period for all amounts reported in the financial statements.

(h) New Australian Accounting Standards issued but not effective

At reporting date, the following Standards and Interpretations were in issue but not yet effective. NSW Treasury mandate (TC10/08) precludes early adoption of these accounting standards.

- > AASB 9 and AASB 2009 11 regarding financial instruments
- > AASB 2009 5 regarding annual improvements
- > AASB 2009 9 regarding first time adoption
- > AASB 124 and AASB 2009 12 regarding related party transactions
- > Interpretation 19 and AASB 2009 13 regarding extinguishing financial liability with equity instruments
- > AASB 2009 14 regarding prepayments of a minimum funding requirement
- > AASB 2010 1 regarding AASB 7 comparatives for first time adopters.

The Division anticipates that the adoption of these Standards and Interpretations in future periods will not have a material financial impact on the financial statements.

These Standards and Interpretations will be first applied in the financial statements of the Division that relates to the annual reporting period beginning after the effective date of each pronouncement.

| | 2010 | 2009 |
|---|---------------|---------------|
| | \$'000 | \$'000 |
| 2. Expenses Excluding Losses | | |
| (a) Employee related expenses | | |
| Salaries and wages (including recreation leave) | 9,615 | 9,261 |
| Superannuation – defined benefit plans | 111 | 143 |
| Superannuation – defined contribution plans | 620 | 582 |
| Long service leave | 436 | 421 |
| Workers compensation insurance | 41 | 42 |
| Payroll tax and fringe benefit tax | 605 | 585 |
| On costs (Recreation and Long Service Leave) | 152 | 58 |
| | 11,580 | 11,092 |
| 3. Revenue | | |
| (a) Personnel services | | |
| Personnel services | 11,027 | 10,566 |
| | 11,027 | 10,566 |
| 4. Acceptance by the Crown Entity of Employee Benefits and Other Liabilities | | |
| The following liabilities and / or expenses have been assumed by the Crown Entity: | | |
| Superannuation-defined benefit | 111 | 143 |
| Long service Leave | 436 | 374 |
| Payroll tax | 6 | 9 |
| | 553 | 526 |
| 5. Current Assets – Receivables | | |
| Current Receivables | | |
| Personnel services | 1,579 | 1,346 |
| | 1,579 | 1,346 |

6. Current Liabilities – Payable

Current Liabilities – Payables

Accrued salaries, wages and on-costs

2010
\$'000

2009
\$'000

178

155

178

155

7. Current / Non-Current Liabilities – Provisions

Current

Employee benefits and related on-costs

Recreation leave

1,109

936

Long service leave

114

97

Payroll tax

166

148

Total provisions

1,389

1,181

Non-current

Employee benefits and related on-costs

Long service leave

12

10

Total provisions

12

10

Aggregate employee benefits and related on-costs

Provisions – current

1,389

1,181

Provisions – non-current

12

10

Accrued salaries, wages and on-costs (Note 6)

178

155

1,579

1,346

8. Financial Instruments

The Independent Pricing and Regulatory Tribunal Division's principal financial instruments are short term receivables and payables. These instruments expose the Division primarily to credit risk on short term receivables. The Division does not enter into or trade financial instruments for speculative purposes and does not use financial derivatives.

The Chief Executive Officer has overall responsibility for the establishment and oversight of risk management and reviews and agrees policies for managing risk. Compliance with policies is reviewed by the internal auditors on a continuous basis.

8. Financial Instruments continued

| | Note | Category | Carrying Amount | |
|--|-----------------------|---|-----------------|--------|
| | | | 2010 | 2009 |
| | | | \$'000 | \$'000 |
| (a) Financial instrument categories | | | | |
| FINANCIAL ASSETS | | | | |
| Class: | | | | |
| Receivables | (Note 5) ¹ | Loans and receivables (at amortised cost) | 1,579 | 1,346 |
| FINANCIAL LIABILITIES | | | | |
| Class: | | | | |
| Payables | (Note 6) ² | Financial liabilities measured at amortised cost | 178 | 155 |

Notes

1. Excludes statutory receivables and prepayments (i.e. not within scope of AASB7).
2. Excludes statutory payables and unearned revenue (i.e. not within scope of AASB7).

(b) Credit Risk

Credit risk arises from the financial assets of the Division, which are receivables. No collateral is held by the Division. The Division has not granted any financial guarantees.

Credit risk arises when there is the possibility of the Division's debtors defaulting on their contractual obligations, resulting in a financial loss to the Division. The maximum exposure to credit risk is generally represented by the carrying amount of the financial assets (net of any allowance for impairment).

Receivables – trade debtors

All trade debtors are recognised as amounts receivable at balance date. The balance owing represents monies due from the Independent Pricing and Regulatory Tribunal. Sales are made to them on 14 day terms.

No financial assets are past due or impaired.

(c) Liquidity risk

Liquidity risk is the risk that the Division will be unable to meet its payment obligations when they fall due. The Division continuously manages risk through monitoring future cash flows and maturities planning to ensure adequate holding of high quality liquid assets.

The liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasurer's Direction 219.01. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received. Treasurer's Direction 219.01 allows the Minister to award interest for late payment. No interest for late payment was paid during the 2009 financial year (2008 – \$Nil).

The table below summarises the maturity profile of the Division's financial liabilities, together with the interest rate exposure.

8. Financial Instruments continued

| | Interest Rate Exposure | | | Maturity Dates | | | |
|--------------------------------------|------------------------|---------------------|------------------------|----------------------|--------|---------|---------|
| | Nominal Amount | Fixed Interest Rate | Variable Interest Rate | Non-interest bearing | < 1 yr | 1–5 yrs | > 5 yrs |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| 2010 | | | | | | | |
| <i>Payables:</i> | | | | | | | |
| Accrued salaries, wages and on-costs | 178 | – | – | – | 178 | – | – |
| | 178 | – | – | – | 178 | – | – |
| 2009 | | | | | | | |
| <i>Payables:</i> | | | | | | | |
| Accrued salaries, wages and on-costs | 155 | – | – | – | 155 | – | – |
| | 155 | – | – | – | 155 | – | – |

(d) Market risk

The Division has no cash and cash equivalents. The Division has no exposure to foreign currency risk and does not enter into commodity contracts.

(e) Fair Value

Financial instruments are generally recognised at cost. The amortised cost of financial instruments recognised in the balance sheet approximates the fair value.

9. After Balance Date Events

There are no events subsequent to balance date which affect the financial statements.

End of audited financial report.



GPO BOX 12
Sydney NSW 2001

INDEPENDENT AUDITOR'S REPORT

Independent Pricing and Regulatory Tribunal

To Members of the New South Wales Parliament

I have audited the accompanying financial statements of the Independent Pricing and Regulatory Tribunal (the Tribunal), which comprises the statement of financial position as at 30 June 2010, the statement of comprehensive income, statement of changes in equity, statement of cash flows, service group statement and summary of compliance with financial directives for the year then ended, a summary of significant accounting policies and other explanatory notes for both the Tribunal and the consolidated entity. The consolidated entity comprises the Tribunal and the entities it controlled at the year's end or from time to time during the financial year.

Auditor's Opinion

In my opinion, the financial statements:

- present fairly, in all material respects, the financial position of the Tribunal and the consolidated entity as at 30 June 2010, and of their financial performance for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations)
- are in accordance with section 41B of the *Public Finance and Audit Act 1983* (the PF&A Act) and the *Public Finance and Audit Regulation 2010*.

My opinion should be read in conjunction with the rest of this report.

The Tribunal's Responsibility for the Financial Statements

The members of the Tribunal are responsible for the preparation and fair presentation of the financial statements in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the PF&A Act. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Tribunal, as well as evaluating the overall presentation of the financial statements.

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

My opinion does not provide assurance:

- about the future viability of the Tribunal or consolidated entity,
- that they have carried out their activities effectively, efficiently and economically, or
- about the effectiveness of their internal controls.
- on the assumptions used in formulating the budget figures disclosed in the financial statements.

Independence

In conducting this audit, the Audit Office of New South Wales has complied with the independence requirements of the Australian Auditing Standards and other relevant ethical requirements. The PF&A Act further promotes independence by:

- providing that only Parliament, and not the executive government, can remove an Auditor-General
- mandating the Auditor-General as auditor of public sector agencies but precluding the provision of non-audit services, thus ensuring the Auditor-General and the Audit Office of New South Wales are not compromised in their role by the possibility of losing clients or income.



C J Glumelli
Director, Financial Audit Services

20 October 2010
SYDNEY

Independent Pricing and Regulatory Tribunal



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**STATEMENT ON BEHALF
OF THE INDEPENDENT PRICING AND REGULATORY TRIBUNAL**

Pursuant to section 41C of the *Public Finance and Audit Act 1983*, we state that to the best of our knowledge and belief:

- a) the accompanying financial report has been prepared in accordance with applicable Australian Accounting Standards, (which include Australian equivalents to International Financial reporting Standards (AIFRS)), other authoritative pronouncements of the Australian Accounting Standards Board (AASB), the requirements of the *Public Finance and Audit Act 1983* and the *Public Finance and Audit Regulation 2010*, the Financial Reporting Code for Budget Dependent General Government Sector Agencies and Treasurer's Directions;
- b) the financial report exhibits a true and fair view of the financial position of the Independent Pricing and Regulatory Tribunal of New South Wales as at 30 June 2010 and the operations 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.

A handwritten signature in blue ink that reads 'Rod Sims'.

Rod Sims
Chairman

A handwritten signature in blue ink that reads 'James Cox'.

James Cox
Chief Executive Officer and
Full Time Member

20 October 2010

ELECTRICITY GAS WATER TRANSPORT OTHER INDUSTRIES

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2010

| | Notes | Consolidated | | | IPART | | |
|---|-------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | | Actual 2010 \$'000 | Budget 2010 \$'000 | Actual 2009 \$'000 | Actual 2010 \$'000 | Budget 2010 \$'000 | Actual 2009 \$'000 |
| Expenses excluding losses | | | | | | | |
| Operating expenses | | | | | | | |
| Employee related | 2(a) | 11,580 | 10,210 | 11,092 | – | – | – |
| Other operating expenses | 2(b) | 8,038 | 7,405 | 7,640 | 8,038 | 7,405 | 7,640 |
| Depreciation and amortisation | 2(c) | 680 | 581 | 635 | 680 | 581 | 635 |
| Personnel services | 2(d) | – | – | – | 11,027 | 10,210 | 10,566 |
| Total expenses excluding losses | | 20,298 | 18,196 | 19,367 | 19,745 | 18,196 | 18,841 |
| Revenue | | | | | | | |
| Sale of goods and services | 3(a) | 1,805 | 709 | 2,226 | 1,805 | 709 | 2,226 |
| Investment revenue | 3(b) | 246 | 224 | 221 | 246 | 224 | 221 |
| Other revenue | 3(c) | 7 | 195 | 178 | 7 | 195 | 178 |
| Total Revenue | | 2,058 | 1,128 | 2,625 | 2,058 | 1,128 | 2,625 |
| Gain / (loss) on disposal | | 2 | – | (18) | 2 | – | (18) |
| Other gains / (losses) | | (20) | – | – | (20) | – | – |
| Net Cost of Services | | (18,258) | (17,068) | (16,760) | (17,705) | (17,068) | (16,234) |
| Government Contributions | | | | | | | |
| Recurrent appropriation | 6 | 18,043 | 16,322 | 16,342 | 18,043 | 16,322 | 16,342 |
| Capital appropriation | 6 | 175 | 180 | 180 | 175 | 180 | 180 |
| Acceptance by the Crown Entity of employee benefits and other liabilities | 7 | 553 | – | 526 | – | – | – |
| Total Government Contributions | | 18,771 | 16,502 | 17,048 | 18,218 | 16,502 | 16,522 |
| SURPLUS / (DEFICIT) FOR THE YEAR | | 513 | (566) | 288 | 513 | (566) | 288 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | 513 | (566) | 288 | 513 | (566) | 288 |

The accompanying notes form part of these financial statements.

Statements of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2010

CONSOLIDATED

| | Accumulated Funds | Total |
|---|----------------------|--------------|
| | \$'000 | \$'000 |
| Balance at 1 July 2009 | 5,742 | 5,742 |
| Surplus / (deficit) for the year | 513 | 513 |
| Total other comprehensive income | - | - |
| Balance at 30 June 2010 | 6,255 | 6,255 |
| Balance at 1 July 2008 | 5,454 | 5,454 |
| Surplus / (deficit) for the year | 288 | 288 |
| Total other comprehensive income | - | - |
| Balance at 30 June 2009 | 5,742 | 5,742 |

IPART

| | | |
|---|--------------|--------------|
| Balance at 1 July 2009 | 5,742 | 5,742 |
| Surplus / (deficit) for the year | 513 | 513 |
| Total other comprehensive income | - | - |
| Balance at 30 June 2010 | 6,255 | 6,255 |
| Balance at 1 July 2008 | 5,454 | 5,454 |
| Surplus / (deficit) for the year | 288 | 288 |
| Total other comprehensive income | - | - |
| Balance at 30 June 2009 | 5,742 | 5,742 |

Statement of Financial Position

AS AT 30 JUNE 2010

| | Notes | Consolidated | | | IPART | | |
|--------------------------------------|-------|--------------|-------------|-------------|--------------|-------------|-------------|
| | | Actual 2010 | Budget 2010 | Actual 2009 | Actual 2010 | Budget 2010 | Actual 2009 |
| | | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| ASSETS | | | | | | | |
| Current Assets | | | | | | | |
| Cash and cash equivalents | 9 | 6,029 | 5,246 | 5,107 | 6,029 | 5,246 | 5,107 |
| Receivables | 10 | 447 | 110 | 117 | 447 | 110 | 117 |
| Total Current Assets | | 6,476 | 5,356 | 5,224 | 6,476 | 5,356 | 5,224 |
| Non-Current Assets | | | | | | | |
| Property plant and equipment | 11 | 1,994 | 2,087 | 2,480 | 1,994 | 2,087 | 2,480 |
| Intangible assets | 12 | 42 | 48 | 56 | 42 | 48 | 56 |
| Total Non-Current Assets | | 2,036 | 2,135 | 2,536 | 2,036 | 2,135 | 2,536 |
| Total Assets | | 8,512 | 7,491 | 7,760 | 8,512 | 7,491 | 7,760 |
| LIABILITIES | | | | | | | |
| Current Liabilities | | | | | | | |
| Payables | 13 | 585 | 465 | 561 | 1,986 | 465 | 1,752 |
| Provisions | 14 | 1,389 | 1,181 | 1,181 | - | 1,181 | - |
| Other | 15 | 5 | - | - | 5 | - | - |
| Total Current Liabilities | | 1,979 | 1,646 | 1,742 | 1,991 | 1,646 | 1,752 |
| Non-Current Liabilities | | | | | | | |
| Provisions | 14 | 278 | 276 | 276 | 266 | 276 | 266 |
| Total Non-Current Liabilities | | 278 | 276 | 276 | 266 | 276 | 266 |
| Total Liabilities | | 2,257 | 1,922 | 2,018 | 2,257 | 1,922 | 2,018 |
| Net Assets | | 6,255 | 5,569 | 5,742 | 6,255 | 5,569 | 5,742 |
| EQUITY | | | | | | | |
| Accumulated funds | | 6,255 | 5,569 | 5,742 | 6,255 | 5,569 | 5,742 |
| Total Equity | | 6,255 | 5,569 | 5,742 | 6,255 | 5,569 | 5,742 |

The accompanying notes form part of these financial statements.

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2010

| | Notes | Consolidated | | | IPART | | |
|---|-------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | | Actual 2010 \$'000 | Budget 2010 \$'000 | Actual 2009 \$'000 | Actual 2010 \$'000 | Budget 2010 \$'000 | Actual 2009 \$'000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | | | |
| Payments | | | | | | | |
| Employee related | | (10,793) | (9,819) | (10,375) | (10,793) | (9,819) | (10,375) |
| Other | | (9,052) | (8,713) | (9,310) | (9,052) | (8,713) | (9,310) |
| Total Payments | | (19,845) | (18,532) | (19,685) | (19,845) | (18,532) | (19,685) |
| Receipts | | | | | | | |
| Sale of goods and services | | 1,598 | 647 | 3,006 | 1,598 | 647 | 3,006 |
| Interest received | | 189 | 224 | 297 | 189 | 224 | 297 |
| Other | | 930 | 1,478 | 1,239 | 930 | 1,478 | 1,239 |
| Total Receipts | | 2,717 | 2,349 | 4,542 | 2,717 | 2,349 | 4,542 |
| Cash Flows From Government | | | | | | | |
| Recurrent appropriation | 6 | 18,043 | 16,322 | 16,342 | 18,043 | 16,322 | 16,342 |
| Capital appropriation (excluding equity appropriations) | 6 | 180 | 180 | 180 | 180 | 180 | 180 |
| Cash transfers to the Consolidated Fund | | – | – | (211) | – | – | (211) |
| Net Cash Flows From Government | | 18,223 | 16,502 | 16,311 | 18,223 | 16,502 | 16,311 |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | 19 | 1,095 | 319 | 1,168 | 1,095 | 319 | 1,168 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | | | |
| Proceeds from sale of plant and equipment | | 2 | – | 6 | 2 | – | 6 |
| Purchases of plant and equipment | | (175) | (180) | (427) | (175) | (180) | (427) |
| NET CASH FLOWS FROM INVESTING ACTIVITIES | | (173) | (180) | (421) | (173) | (180) | (421) |
| NET INCREASE (DECREASE) IN CASH | | 922 | 139 | 747 | 922 | 139 | 747 |
| Opening cash and cash equivalents | | 5,107 | 4,332 | 4,360 | 5,107 | 4,332 | 4,360 |
| CLOSING CASH AND CASH EQUIVALENTS | 9 | 6,029 | 4,471 | 5,107 | 6,029 | 4,471 | 5,107 |

The accompanying notes form part of these statements.

Supplementary Financial Statements

Service Group Statements

FOR THE YEAR ENDED 30 JUNE 2010

| Consolidated | Service group 1 – Energy/Transport/ Water Pricing and Analysis and Policy Work* | | Service group 2 – Licensing and Greenhouse Reduction Scheme Administration* | | Not Attributable | | Total | |
|---|---|-----------------|---|----------------|---------------------|----------------|----------------|----------------|
| | 2010 \$'000 | 2009 \$'000 | 2010 \$'000 | 2009 \$'000 | 2010 \$'000 | 2009 \$'000 | 2010 \$'000 | 2009 \$'000 |
| AGENCY'S EXPENSES AND INCOME | | | | | | | | |
| Expenses excluding losses | | | | | | | | |
| Operating expenses | | | | | | | | |
| – Employee related expenses | 8,143 | 7,633 | 3,437 | 3,459 | – | – | 11,580 | 11,092 |
| – Other operating expenses | 5,419 | 4,961 | 2,619 | 2,679 | – | – | 8,038 | 7,640 |
| Operating expenses | 13,562 | 12,594 | 6,056 | 6,138 | – | – | 19,618 | 18,732 |
| Depreciation and amortisation expenses | 483 | 463 | 197 | 172 | – | – | 680 | 635 |
| Total expenses excluding losses | 14,045 | 13,057 | 6,253 | 6,310 | – | – | 20,298 | 19,367 |
| Revenue | | | | | | | | |
| Sale of goods and services | 1,340 | 2,018 | 465 | 208 | – | – | 1,805 | 2,226 |
| Investment revenue | 175 | 161 | 71 | 60 | – | – | 246 | 221 |
| Other revenue | 5 | 130 | 2 | 48 | – | – | 7 | 178 |
| Total Revenue | 1,520 | 2,309 | 538 | 316 | – | – | 2,058 | 2,625 |
| Gain / (loss) on disposal | 1 | (13) | 1 | (5) | – | – | 2 | (18) |
| Other gains / (losses) | – | – | (20) | – | – | – | (20) | – |
| Net Cost of Services | 12,524 | 10,761 | 5,734 | 5,999 | – | – | 18,258 | 16,760 |
| Government contributions ** | | | | | 18,771 | 17,048 | 18,771 | 17,048 |
| SURPLUS / (DEFICIT) FOR THE YEAR | (12,524) | (10,761) | (5,734) | (5,999) | 18,771 | 17,048 | 513 | 288 |
| TOTAL COMPREHENSIVE INCOME | (12,524) | (10,761) | (5,734) | (5,999) | 18,771 | 17,048 | 513 | 288 |

Supplementary Financial Statements

Service Group Statements continued

FOR THE YEAR ENDED 30 JUNE 2010

| Consolidated | Service group 1 – Energy/Transport/ Water Pricing and Analysis and Policy Work* | | Service group 2 – Licensing and Greenhouse Reduction Scheme Administration* | | Not Attributable | | Total | |
|--|---|----------------|---|----------------|---------------------|----------------|----------------|----------------|
| | 2010 \$'000 | 2009 \$'000 | 2010 \$'000 | 2009 \$'000 | 2010 \$'000 | 2009 \$'000 | 2010 \$'000 | 2009 \$'000 |
| AGENCY'S ASSETS AND LIABILITIES | | | | | | | | |
| Current Assets | | | | | | | | |
| Cash and cash equivalents | – | – | – | – | 6,029 | 5,107 | 6,029 | 5,107 |
| Receivables | 313 | 80 | 134 | 37 | – | – | 447 | 117 |
| Total current assets | 313 | 80 | 134 | 37 | 6,029 | 5,107 | 6,476 | 5,224 |
| Non-current Assets | | | | | | | | |
| Property plant and equipment | 1,427 | 1,692 | 567 | 788 | – | – | 1,994 | 2,480 |
| Intangibles | 31 | 41 | 11 | 15 | – | – | 42 | 56 |
| Total non-current assets | 1,458 | 1,733 | 578 | 803 | – | – | 2,036 | 2,536 |
| TOTAL ASSETS | 1,771 | 1,813 | 712 | 840 | 6,029 | 5,107 | 8,512 | 7,760 |
| Current liabilities | | | | | | | | |
| Payables | 438 | 363 | 147 | 198 | – | – | 585 | 561 |
| Provisions | 1,124 | 912 | 265 | 269 | – | – | 1,389 | 1,181 |
| Other | 5 | – | – | – | – | – | 5 | – |
| Total current liabilities | 1,567 | 1,275 | 412 | 467 | – | – | 1,979 | 1,742 |
| Non-current liabilities | | | | | | | | |
| Provisions | 197 | 201 | 81 | 75 | – | – | 278 | 276 |
| Total non-current liabilities | 197 | 201 | 81 | 75 | – | – | 278 | 276 |
| TOTAL LIABILITIES | 1,764 | 1,476 | 493 | 542 | – | – | 2,257 | 2,018 |
| NET ASSETS | 7 | 337 | 219 | 298 | 6,029 | 5,107 | 6,255 | 5,742 |

NSW Budget Paper No. 3 has replaced program statements with service group statements. Service group statements focus on the key measures of service delivery performance.

* The names and purposes of each service group are summarised in Note 8.

** Appropriations are made on an agency basis and not to individual service groups. Consequently, government contributions must be included in the 'Not Attributable' column.

Supplementary Financial Statements

Service Group Statements continued

FOR THE YEAR ENDED 30 JUNE 2010

| Consolidated | Service group 1 – Energy/Transport/ Water Pricing and Analysis and Policy Work* | | Service group 2 – Licensing and Greenhouse Reduction Scheme Administration* | | Not Attributed | | Total | |
|--|---|----------------|---|----------------|-------------------|----------------|----------------|----------------|
| | 2010 \$'000 | 2009 \$'000 | 2010 \$'000 | 2009 \$'000 | 2010 \$'000 | 2009 \$'000 | 2010 \$'000 | 2009 \$'000 |
| ADMINISTERED EXPENSES AND INCOME | | | | | | | | |
| Administered Expenses | | | | | | | | |
| Impairment of receivables | – | – | 1,403 | – | – | – | 1,403 | – |
| Total Administered Expenses | – | – | 1,403 | – | – | – | 1,403 | – |
| Administered Income | | | | | | | | |
| – Taxes, fees and fines | – | – | 7,498 | 3,690 | – | – | 7,498 | 3,690 |
| Total Administered Income | – | – | 7,498 | 3,690 | – | – | 7,498 | 3,690 |
| Administered Income less Expenses | – | – | 6,095 | 3,690 | – | – | 6,095 | 3,690 |

* The name and purpose of the program is summarised in Note 8.

** Appropriations are made on an agency basis and not to individual programs. Consequently, government contributions must be included in the 'Not Attributable' column.

Summary of Compliance with Financial Directives

FOR THE YEAR ENDED 30 JUNE 2010

| Consolidated | 2010 | | | | 2009 | | | |
|---|----------------------------|--|--------------------------|--|----------------------------|--|--------------------------|--|
| | Recurrent Appropriation | Expenditure/ Net Claim on Consolidated Fund | Capital Appropriation | Expenditure/ Net Claim on Consolidated Fund | Recurrent Appropriation | Expenditure/ Net Claim on Consolidated Fund | Capital Appropriation | Expenditure/ Net Claim on Consolidated Fund |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| ORIGINAL BUDGET APPROPRIATION / EXPENDITURE | | | | | | | | |
| – Appropriation Act | 16,322 | 16,322 | 180 | 175 | 16,151 | 16,141 | 180 | 180 |
| – Additional Appropriations | – | – | – | – | – | – | – | – |
| | 16,322 | 16,322 | 180 | 175 | 16,151 | 16,141 | 180 | 180 |
| OTHER APPROPRIATIONS / EXPENDITURE | | | | | | | | |
| – Treasurer's Advance | 1,721 | 1,721 | – | – | 1,000 | 199 | – | – |
| – Transfers to / from another agency (s28 of the Appropriation Act) | – | – | – | – | 2 | 2 | – | – |
| | 1,721 | 1,721 | – | – | 1,002 | 201 | – | – |
| Total Appropriations / Expenditure / Net Claim on Consolidated Fund (includes transfer payments) | 18,043 | 18,043 | 180 | 175 | 17,153 | 16,342 | 180 | 180 |
| Amount draw down against Appropriation | | 18,043 | | 180 | | 16,342 | | 180 |
| Liability to Consolidated Fund* | | – | | (5) | | – | | – |

The Summary of compliance is based on the assumption that Consolidated Fund monies are spent first (except where otherwise identified or prescribed).

The Liability to Consolidated Fund represents the difference between the "Amount drawn down against Appropriation" and the "Total Expenditure/Net Claim on Consolidated Fund".

Note to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2010

1. Summary of Significant Accounting Policies

(a) Reporting entity

The Independent Pricing and Regulatory Tribunal of New South Wales (hereafter referred to as the Tribunal) is a separate reporting entity.

The Independent Pricing and Regulatory Tribunal Division was established under the Public Sector Employment Legislation Amendment Act 2006, to provide personnel services to the Independent Pricing & Regulatory Tribunal from 17 March 2006. The Division has no functions other than employment functions.

In the process of preparing the consolidated financial statements for the economic entity consisting of the controlling and controlled entities, all inter-entity transactions and balances have been eliminated.

The Tribunal is a budget dependent Statutory Authority. The Tribunal is a not-for-profit entity (as profit is not its principal objective) and it has no cash generating units. The reporting entity is consolidated as part of the NSW Total State Sector Accounts.

These consolidated financial statements for the year ended 30 June 2010 has been authorised for issue by the Chairman of the Tribunal and Chief Executive Officer and Full Time Member of the Tribunal on 20 October 2010.

(b) Basis of preparation

The Tribunal's financial statements is a general purpose financial statements which has been prepared in accordance with:

- > applicable Australian Accounting Standards (which include Australian Accounting Interpretations);
- > the requirements of the *Public Finance and Audit Act 1983* and Regulation 2010; and
- > the Financial Reporting Directions published in the Code for Budget Dependent General Government Sector Agencies or issued by the Treasurer.

Plant and equipment are measured at fair value. Other financial statements items are prepared in accordance with the historical cost convention.

Judgements, key assumptions and estimations management has made are disclosed in the relevant notes to the financial statements.

All amounts are rounded to the nearest one thousand dollars and are expressed in Australian currency.

(c) Statement of compliance

The consolidated and parent entity financial statements and notes comply with Australian Accounting Standards, which include Australian Accounting Interpretations.

(d) Administered activities

The Tribunal administers, but does not control, certain activities on behalf of the Crown Entity. It is accountable for the transactions relating to those administered activities but does not have the discretion, for example, to deploy the resources for the achievement of the Tribunal's own objectives.

Transactions and balances relating to the administered activities are not recognised as the Tribunal's income, expenses, assets and liabilities, but are disclosed in the accompanying schedules as "Administered Income", "Administered Expenses", "Administered Assets" and "Administered Liabilities".

The accrual basis of accounting and all applicable accounting standards have been adopted.

(e) Insurance

The Tribunal's insurance activities are conducted through the NSW Treasury Managed Fund Scheme of self insurance for Government agencies. The expense (premium) is determined by the Fund Manager based on past experience.

(f) Accounting for the Goods and Services Tax (GST)

Income, expenses and assets are recognised net of the amount of GST, except that:

- > the amount of GST incurred by the Tribunal as a purchaser that is not recoverable from the Australian Taxation Office is recognised as part of the cost of acquisition of an asset or as part of an item of expense and
- > receivables and payables are stated with the amount of GST included.

Cash flows are included in the statement of cash flow on a gross basis. However, the GST components of cash flows arising from investing and financing activities which is recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

(g) Income recognition

Income is measured at the fair value of the consideration or contribution received or receivable. Additional comments regarding the accounting policies for the recognition of income are discussed below.

(i) Parliamentary appropriations and contributions

Except as specified below, parliamentary appropriations and contributions from other bodies (including grants and donations) are generally recognised as income when the agency obtains control over the assets comprising the appropriations / contributions. Control over appropriations and contributions is normally obtained upon the receipt of cash. Appropriations are not recognised as income in the following circumstances:

- > Unspent appropriations are recognised as liabilities rather than income, as the authority to spend the money lapses and the unspent amount must be repaid to the Consolidated Fund.

The liability is disclosed in Note 15 as part of 'Current liabilities – Other'. The amount will be repaid and the liability will be extinguished next financial year. Any liability in respect of transfer payments is disclosed in Note 20 "Administered assets and liabilities".

(ii) Sale of goods

Revenue from the sale of goods is recognised as revenue when the Tribunal transfers the significant risks and rewards of ownership of the assets.

(iii) Rendering of services

Revenue is recognised when the service is provided or by reference to the stage of completion (based on labour hours incurred to date).

(iv) Investment revenue

Interest revenue is recognised using the effective interest method as set out in AASB 139 Financial Instruments: Recognition and Measurement.

(h) Assets

(i) Acquisitions of assets

The cost method of accounting is used for the initial recording of all acquisitions of assets controlled by the Tribunal. Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire the asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the requirements of other Australian Accounting Standards.

Assets acquired at no cost, or for nominal consideration, are initially recognised at their fair value at the date of acquisition.

Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.

Where payment for an asset is deferred beyond normal credit terms, its cost is the cash price equivalent, i.e. the deferred payment amount is effectively discounted at an asset-specific rate.

(ii) Capitalisation thresholds

Property, plant and equipment and intangible assets costing \$5,000 and above individually (or forming part of a network costing more than \$5,000) are capitalised.

(iii) Revaluation of property, plant and equipment

Physical non-current assets are valued in accordance with the "Valuation of Physical Non-Current Assets at Fair Value" Policy and Guidelines Paper (TPP 07-1). This policy adopts fair value in accordance with AASB 116 *Property, Plant and Equipment* and AASB 140 *Investment Property*.

Property, plant and equipment is measured on an existing use basis, where there are no feasible alternative uses in the existing natural, legal, financial and socio-political environment. However, in the limited circumstances where there are feasible alternative uses, assets are valued at their highest and best use.

Fair value of property, plant and equipment is determined based on the best available market evidence, including current market selling prices for the same or similar assets. Where there is no available market evidence, the asset's fair value is measured at its market buying price, the best indicator of which is depreciated replacement cost.

As a not-for-profit entity, revaluation increments and decrements are offset against one another within a class of non-current assets, but not otherwise.

(iv) Impairment of property, plant and equipment

As a not-for-profit entity with no cash generating units, the Tribunal is effectively exempted from AASB 136 *Impairment of Assets* and impairment testing. This is because AASB 136 modifies the recoverable amount test to the higher of fair value less costs to sell and depreciated replacement cost. This means that, for an asset already measured at fair value, impairment can only arise if selling costs are material. Selling costs are regarded as immaterial.

(v) Depreciation of property, plant and equipment

Depreciation is provided for on a straight-line basis for all depreciable assets so as to write off the depreciable amount of each asset as it is consumed over its useful life to the Tribunal.

All material separately identifiable components of assets are depreciated over their shorter useful lives.

| Depreciation Rates | | 30 June 2010 % Rate | 30 June 2009 % Rate |
|-------------------------------|--|------------------------|------------------------|
| <i>Intangible Asset:</i> | Computer software | 25 | 25 |
| <i>Plant & Equipment:</i> | Office furniture and fittings | 10 | 10 |
| | Computer equipment and hardware | 33 | 33 |
| | General plant and equipment | 14 | 14 |
| | Leasehold improvements – depreciated over the period of the lease or its useful life whichever is shorter. | – | – |

(vi) Restoration costs

The estimated cost of dismantling and removing an asset and restoring the site is included in the cost of an asset, to the extent it is recognised as a liability.

(vii) Maintenance

Day-to-day servicing costs or maintenance are charged as expenses as incurred, except where they relate to the replacement of a part or a component of an asset, in which case the costs are capitalised and depreciated

(viii) Leased assets

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased assets, and operating leases under which the lessor effectively retains all such risks and benefits.

Where a non-current asset is acquired by means of a finance lease, the asset is recognised at its fair value at the commencement of the lease term. The corresponding liability is established at the same amount. Lease payments are allocated between the principal component and the interest expense.

Operating lease payments are charged to the statements of comprehensive income in the periods in which they are incurred.

(ix) Intangible assets

The Tribunal recognises intangible assets only if it is probable that future economic benefits will flow to the Tribunal and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. Where an asset is acquired at no or nominal cost, the cost is its fair value as at the date of acquisition.

All research costs are expensed. Development costs are only capitalised when certain criteria are met.

Intangible assets are subsequently measured at fair value only if there is an active market. As there is no active market for the Tribunal's intangible assets, the assets are carried at cost less any accumulated amortisation.

The Tribunal's intangible assets are amortised using the straight line method over a period of four years.

Intangible assets are tested for impairment where an indicator of impairment exists. If the recoverable amount is less than its carrying amount the carrying amount is reduced to recoverable amount and the reduction is recognised as an impairment loss.

(x) Other assets

Other assets are recognised on a cost basis.

(i) Liabilities**(i) Payables**

These amounts represent liabilities for goods and services provided to the Tribunal and other amounts. Payables are recognised initially at fair value, usually based on the transaction cost or face value. Subsequent measurement is at amortised cost using the effective interest method. Short-term payables with no stated interest rate are measured at the original invoice amount where the effect of discounting is immaterial.

(ii) Employee benefits and other provisions**(a) Salaries and wages, annual leave, sick leave and on-costs**

Liabilities for salaries and wages (including non-monetary benefits), annual leave and paid sick leave that are due to be settled within 12 months after the end of the period in which the employees render the service are recognised and measured in respect of employee's services up to the reporting date at undiscounted amounts based on the amounts expected to be paid when the liabilities are settled.

Long-term annual leave that is not expected to be taken within twelve months is measured at present value in accordance with AASB 119 Employee Benefits. Market yields on government bonds of 5.25% are used to discount long-term annual leave.

Unused non-vesting sick leave does not give rise to a liability as it is not considered probable that sick leave taken in the future will be greater than the benefits accrued in the future.

The outstanding amounts of payroll tax, workers' compensation insurance premiums and fringe benefits tax, which are consequential to employment, are recognised as liabilities and expenses where the employee benefits to which they relate have been recognised.

(b) Long service leave and superannuation

The Tribunal's liabilities for long service leave and defined benefit superannuation are assumed by the Crown Entity. The Tribunal accounts for the liability as having been extinguished resulting in the amount assumed being shown as part of the non-monetary revenue item described as "Acceptance by the Crown Entity of employee benefits and other liabilities".

Long service leave is measured at present value in accordance with AASB 119 Employee Benefits. This is based on the application of certain factors (specified in NSWTC 09/04) to employees with five or more years of service, using current rates of pay. These factors were determined based on an actuarial review to approximate present value.

The superannuation expense for the financial year is determined by using the formulae specified in the Treasurer's Directions. The expense for certain superannuation schemes (i.e. Basic Benefit and First State Super) is calculated as a percentage of the employees' salary. For other superannuation schemes (i.e. State Superannuation Scheme and State Authorities Superannuation Scheme), the expense is calculated as a multiple of the employees' superannuation contributions.

(c) Other Provisions

Other provisions exist when: the Tribunal has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

(j) Budgeted amounts

The budgeted amounts are drawn from the budgets as formulated at the beginning of the financial year and with any adjustments for the effects of additional appropriations, s 21A, s 24 and / or s 26 of the *Public Finance and Audit Act 1983*.

The budgeted amounts in the statements of comprehensive income and the statements of cash flows are generally based on the amounts disclosed in the NSW Budget Papers (as adjusted above). However, in the statement of financial position, the amounts vary from the Budget Papers, as the opening balances of the budgeted amounts are based on carried forward actual amounts; i.e. per the audited financial statements (rather than carried forward estimates).

(k) Comparative information

Except where an Australian Accounting Standard permits or requires otherwise, comparative information is disclosed in respect of the previous period for all amounts reported in the financial statements.

(l) New Australian Accounting Standards issued but not effective

At reporting date, the following new accounting Standards have not been applied and are not yet effective. The possible impact of these standards in the period of initial application includes:

- > AASB 9 and AASB 2009-11 regarding financial instruments
- > AASB 2009-5 regarding annual improvements
- > AASB 2009-9 regarding first time adoption
- > AASB 2009-10 regarding classification of rights
- > Interpretation 19 and AASB 2009-13 regarding extinguishing financial liability with equity instruments
- > AASB 2009-14 regarding prepayments of a minimum funding requirement
- > AASB 2010-1 regarding AASB 7 comparatives for first time adopters

The Tribunal anticipates that the adoption of these Standards and Interpretations in future periods will not have a material financial impact on the financial statements

These Standards and Interpretations will be first applied in the financial report of the Tribunal that relates to the annual reporting period beginning after the effective date of each pronouncement.

2. Expenses Excluding Losses

(a) Employee related expenses

| | Consolidated | | IPART | |
|---|---------------|---------------|----------|----------|
| | 2010 | 2009 | 2010 | 2009 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Salaries and wages (including recreation leave) | 9,615 | 9,261 | – | – |
| Superannuation - defined benefit plans | 111 | 143 | – | – |
| Superannuation - defined contribution plans | 620 | 582 | – | – |
| Long service leave | 436 | 421 | – | – |
| Workers compensation insurance | 41 | 42 | – | – |
| Payroll tax and fringe benefit tax | 605 | 585 | – | – |
| Oncosts-Recreation Leave and long service leave | 152 | 58 | – | – |
| | 11,580 | 11,092 | – | – |

(b) Other operating expenses include the following:

| | | | | |
|--|--------------|--------------|--------------|--------------|
| Auditor's remuneration | | | | |
| – audit of the financial statements | 36 | 27 | 36 | 27 |
| Consultancies | 3,710 | 2,862 | 3,710 | 2,862 |
| Contractors | 476 | 448 | 476 | 448 |
| Insurance | 9 | 11 | 9 | 11 |
| Legal costs | 197 | 182 | 197 | 182 |
| Operating lease rental expense | | | | |
| – minimum lease payments | 772 | 1,025 | 772 | 1,025 |
| Travel | 113 | 137 | 113 | 137 |
| Other expenses | 1,097 | 1,048 | 1,097 | 1,048 |
| Corporate services | 311 | 286 | 311 | 286 |
| EDP expenses | 1,116 | 1,364 | 1,116 | 1,364 |
| Maintenance | 201 | 250 | 201 | 250 |
| | 8,038 | 7,640 | 8,038 | 7,640 |
| <i>* Reconciliation – Total maintenance</i> | | | | |
| Maintenance expense – other (non-employee related), as above | 201 | 250 | 201 | 250 |
| Total maintenance expenses included in Note 2(a) + 2(b) | 201 | 250 | 201 | 250 |

2. Expenses Excluding Losses continued

(c) Depreciation and amortisation expense

Depreciation:

Plant and Equipment

| | Consolidated | | IPART | |
|------------------------|--------------|--------|--------|--------|
| | 2010 | 2009 | 2010 | 2009 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Plant and Equipment | 292 | 254 | 292 | 254 |
| | 292 | 254 | 292 | 254 |
| Amortisation: | | | | |
| Leasehold improvements | 374 | 365 | 374 | 365 |
| Intangible Asset | 14 | 16 | 14 | 16 |
| | 680 | 635 | 680 | 635 |
| (d) Personnel services | | | | |
| Personnel services | - | - | 11,027 | 10,566 |
| | - | - | 11,027 | 10,566 |

Amortisation:

Leasehold improvements

Intangible Asset

(d) Personnel services

Personnel services

3. Revenue

(a) Sale of goods and services

Rendering of services (reimbursement of both external consultancies and in-house costs)

| | | | | |
|--|-------|-------|-------|-------|
| Rendering of services (reimbursement of both external consultancies and in-house costs) | 1,805 | 2,226 | 1,805 | 2,226 |
| | 1,805 | 2,226 | 1,805 | 2,226 |

| | | | | |
|--|-------|-------|-------|-------|
| | 1,805 | 2,226 | 1,805 | 2,226 |
|--|-------|-------|-------|-------|

(b) Investment revenue

Interest revenue from financial assets not at fair value through profit or loss

| | | | | |
|---|-----|-----|-----|-----|
| Interest revenue from financial assets not at fair value through profit or loss | 246 | 221 | 246 | 221 |
| | 246 | 221 | 246 | 221 |

| | | | | |
|--|-----|-----|-----|-----|
| | 246 | 221 | 246 | 221 |
|--|-----|-----|-----|-----|

(c) Other revenue

Revenue as resources received free of charge

| | | | | |
|--|---|-----|---|-----|
| Revenue as resources received free of charge | - | 167 | - | 167 |
| Other | 7 | 11 | 7 | 11 |
| | 7 | 178 | 7 | 178 |

| | | | | |
|--|---|-----|---|-----|
| | 7 | 178 | 7 | 178 |
|--|---|-----|---|-----|

4. Gain / (Loss) on Disposal

Gain / (loss) on disposal of plant and equipment

Proceeds from disposal

Less: Written down value of assets disposed

Net gain / (loss) on disposal of plant and equipment

| | | | | |
|--|---|------|---|------|
| Proceeds from disposal | 2 | 6 | 2 | 6 |
| Less: Written down value of assets disposed | - | (24) | - | (24) |
| Net gain / (loss) on disposal of plant and equipment | 2 | (18) | 2 | (18) |

| | Consolidated | | IPART | |
|---|---------------|---------------|---------------|---------------|
| | 2010 | 2009 | 2010 | 2009 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| 5. Other Gain / (Losses) | | | | |
| Impairment of receivables | (20) | – | (20) | – |
| Other gains / (losses) total | (20) | – | (20) | – |
| 6. Appropriations | | | | |
| Recurrent appropriations | | | | |
| Total recurrent drawdowns from NSW Treasury (per Summary of compliance) | 18,043 | 16,342 | 18,043 | 16,342 |
| Less: Liability to Consolidated Fund (per Summary of compliance) | – | – | – | – |
| | 18,043 | 16,342 | 18,043 | 16,342 |
| Comprising: | | | | |
| Recurrent appropriations (per Statement of comprehensive income) | 18,043 | 16,342 | 18,043 | 16,342 |
| | 18,043 | 16,342 | 18,043 | 16,342 |
| Capital appropriations | | | | |
| Total capital drawdowns from NSW Treasury (per Summary of compliance) | 180 | 180 | 180 | 180 |
| Less: Liability to Consolidated Fund (per Summary of Compliance) | 5 | – | 5 | – |
| | 175 | 180 | 175 | 180 |
| Comprising: | | | | |
| Capital appropriations (per Statements of comprehensive income) | 175 | 180 | 175 | 180 |
| | 175 | 180 | 175 | 180 |
| 7. Acceptance by the Crown Entity of Employee Benefits and Other Liabilities | | | | |
| The following liabilities and / or expenses have been assumed by the Crown Entity or other government agencies: | | | | |
| Superannuation – defined benefit | 111 | 143 | – | – |
| Long Service Leave | 436 | 374 | – | – |
| Payroll tax | 6 | 9 | – | – |
| | 553 | 526 | – | – |

8. Service Groups of the Agency

(a) Service group 1 – Energy/Transport/Water Pricing and Analysis and Policy Work

Purpose:

The service group covers the setting of prices for energy, water and public transport and for carrying out other specific reviews of Government services referred at the request of the responsible Ministers.

This service group contributes to the following intermediate results:

- > abuse of monopoly power is prevented, and efficiency, sustainability and community welfare is promoted
- > independent advice is provided to the Government on issues of pricing, funding, competition, service, policy and governance
- > prices (or revenues) for energy, transport and water services are determined fairly and reasonably in accordance with legislation and,
- > issues of financial viability, efficiency, environmental impact, consumer protection and other issues are balanced.

(b) Service group 2 – Licensing and Greenhouse Reduction Scheme Administration

Purpose:

This service group consists of Water Licensing, Energy Compliance, Greenhouse Gas Reduction Scheme and the Energy Savings Scheme administration.

This service group contributes to the following results:

- > suppliers of energy and water meet their licence obligations and
- > Co₂ reduction targets are enforced.

Sustainable environmental outcomes are promoted.

9. Current Assets – Cash and Cash Equivalents

Cash at bank and on hand

| | Consolidated | | IPART | |
|--------------------------|--------------|--------|--------|--------|
| | 2010 | 2009 | 2010 | 2009 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Cash at bank and on hand | 6,029 | 5,107 | 6,029 | 5,107 |
| | 6,029 | 5,107 | 6,029 | 5,107 |

For the purposes of the statements of cash flows, cash and cash equivalents include cash at bank and cash on hand.

Cash and cash equivalent assets recognised in the statement of financial position are reconciled at the end of the financial year to the statements of cash flows as follows:

| | Consolidated | | IPART | |
|---|--------------|--------------|--------------|--------------|
| | 30 June 2010 | 30 June 2009 | 30 June 2010 | 30 June 2009 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Cash and cash equivalents (per statement of financial position) | 6,029 | 5,107 | 6,029 | 5,107 |
| Closing cash and cash equivalents (per statements of cash flows) | 6,029 | 5,107 | 6,029 | 5,107 |

Refer Note 22 for details regarding credit risk, liquidity risk, and market risk arising from financial instruments.

10. Current Assets – Receivables

Current Receivables

| | Consolidated | | IPART | |
|------------------------------|--------------|------------|------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Sale of goods and services | 207 | – | 207 | – |
| Goods and Services Tax (GST) | 92 | 29 | 92 | 29 |
| Interest receivable | 134 | 77 | 134 | 77 |
| Other | 14 | 11 | 14 | 11 |
| | 447 | 117 | 447 | 117 |

| | Consolidated | | IPART | |
|---|--------------|--------------|--------------|--------------|
| | 30 June 2010 | 30 June 2009 | 30 June 2010 | 30 June 2009 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Movement in the allowance for impairment | | | | |
| Balance at 1 July 2009 | – | – | – | – |
| Increase/(decrease) in allowance recognised in profit or loss | 20 | – | 20 | – |
| Balance at 30 June 2010 | 20 | – | 20 | – |

Details regarding credit risk, liquidity risk and market risk, including financial assets that are either past due or impaired, are disclosed in Note 22.

11. Non-Current Assets – Plant and Equipment

CONSOLIDATED

At 1 July 2009 – fair value

| | Leasehold Improvement \$'000 | Plant and Equipment \$'000 | Total \$'000 |
|--------------------------|------------------------------------|----------------------------------|-----------------|
| Gross carrying amount | 2,238 | 1,355 | 3,593 |
| Accumulated depreciation | (508) | (605) | (1,113) |
| Net carrying amount | 1,730 | 750 | 2,480 |

At 30 June 2010 – fair value

| | | | |
|--------------------------|-------|-------|---------|
| Gross carrying amount | 2,238 | 1,476 | 3,714 |
| Accumulated Depreciation | (881) | (839) | (1,720) |
| Net carrying amount | 1,357 | 637 | 1,994 |

Reconciliation

A reconciliation of the carrying amount of each class of property, plant and equipment at the beginning and end of the current reporting period is set out below.

Year ended 30 June 2010

| | | | |
|--------------------------------------|-------|-------|-------|
| Net carrying amount at start of year | 1,730 | 750 | 2,480 |
| Additions | – | 180 | 180 |
| Disposals | – | (59) | (59) |
| Depreciation expense | (373) | (293) | (666) |
| Write back on disposals | – | 59 | 59 |
| Net carrying amount at end of year | 1,357 | 637 | 1,994 |

At 1 July 2008 – fair value

| | | | |
|--------------------------|-------|-------|-------|
| Gross carrying amount | 2,156 | 1,263 | 3,419 |
| Accumulated Depreciation | (143) | (581) | (724) |
| Net carrying amount | 2,013 | 682 | 2,695 |

At 30 June 2009 – fair value

| | | | |
|--------------------------|-------|-------|---------|
| Gross carrying amount | 2,238 | 1,355 | 3,593 |
| Accumulated Depreciation | (508) | (605) | (1,113) |
| Net carrying amount | 1,730 | 750 | 2,480 |

Reconciliation

A reconciliation of the carrying amount of each class of property, plant and equipment at the beginning and end of the previous reporting period is set out below.

Year ended 30 June 2009

| | | | |
|--------------------------------------|-------|-------|-------|
| Net carrying amount at start of year | 2,013 | 682 | 2,695 |
| Additions | 128 | 299 | 427 |
| Disposals | – | (252) | (252) |
| Transfer | (46) | 46 | – |
| Depreciation expense | (365) | (254) | (619) |
| Write back on Disposals | – | 229 | 229 |
| Net carrying amount at end of year | 1,730 | 750 | 2,480 |

11. Non-Current Assets continued

IPART

At 1 July 2009 – fair value

| | Leasehold Improvement \$'000 | Plant and Equipment \$'000 | Total \$'000 |
|--------------------------|------------------------------------|----------------------------------|-----------------|
| Gross Carrying Amount | 2,238 | 1,355 | 3,593 |
| Accumulated Depreciation | (508) | (605) | (1,113) |
| Net carrying amount | 1,730 | 750 | 2,480 |

At 30 June 2010 – fair value

| | | | |
|--------------------------|-------|-------|---------|
| Gross Carrying Amount | 2,238 | 1,476 | 3,714 |
| Accumulated Depreciation | (881) | (839) | (1,720) |
| Net carrying amount | 1,357 | 637 | 1,994 |

Reconciliation

A reconciliation of the carrying amount of each class of property, plant and equipment at the beginning and end of the current reporting period is set out below.

Year ended 30 June 2010

| | | | |
|--------------------------------------|-------|-------|-------|
| Net Carrying Amount at start of year | 1,730 | 750 | 2,480 |
| Additions | - | 180 | 180 |
| Disposals | - | (59) | (59) |
| Depreciation expense | (373) | (293) | (666) |
| Write back on Disposals | - | 59 | 59 |
| Net carrying amount at end of year | 1,357 | 637 | 1,994 |

At 1 July 2008 – fair value

| | | | |
|--------------------------|-------|-------|-------|
| Gross carrying amount | 2,156 | 1,263 | 3,419 |
| Accumulated Depreciation | (143) | (581) | (724) |
| Net carrying amount | 2,013 | 682 | 2,695 |

At 30 June 2009

| | | | |
|--------------------------|-------|-------|---------|
| Gross carrying amount | 2,238 | 1,355 | 3,593 |
| Accumulated Depreciation | (508) | (605) | (1,113) |
| Net carrying amount | 1,730 | 750 | 2,480 |

Reconciliation

A reconciliation of the carrying amount of each class of property, plant and equipment at the beginning and end of the previous reporting period is set out below.

Year ended 30 June 2009

| | | | |
|--------------------------------------|-------|-------|-------|
| Net carrying amount at start of year | 2,013 | 682 | 2,695 |
| Additions | 128 | 299 | 427 |
| Disposals | - | (252) | (252) |
| Transfer | (46) | 46 | - |
| Depreciation expense | (365) | (254) | (619) |
| Write back on Disposals | - | 229 | 229 |
| Net carrying amount at end of year | 1,730 | 750 | 2,480 |

12. Non-Current Assets – Intangible Assets

At 1 July 2009

| | Consolidated Software \$'000 | IPART Software \$'000 |
|---|------------------------------------|-----------------------------|
| Cost (gross carrying amount) | 139 | 139 |
| Accumulated amortisation and impairment | (83) | (83) |
| Net carrying amount | 56 | 56 |

At 30 June 2010

| | | |
|---|------|------|
| Cost (gross carrying amount) | 139 | 139 |
| Accumulated amortisation and impairment | (97) | (97) |
| Net carrying amount | 42 | 42 |

Year ended 30 June 2010

| | | |
|--|-----------|-----------|
| Net carrying amount at start of year | 56 | 56 |
| Amortisation (recognised in depreciation and amortisation) | (14) | (14) |
| Net carrying amount at end of year | 42 | 42 |

At 1 July 2008

| | | |
|---|------|------|
| Cost (gross carrying amount) | 146 | 146 |
| Accumulated amortisation and impairment | (74) | (74) |
| Net carrying amount | 72 | 72 |

At 30 June 2009

| | | |
|---|------|------|
| Cost (gross carrying amount) | 139 | 139 |
| Accumulated amortisation and impairment | (83) | (83) |
| Net carrying amount | 56 | 56 |

Year ended 30 June 2009

| | | |
|--|-----------|-----------|
| Net carrying amount at start of year | 72 | 72 |
| Additions | – | – |
| Amortisation (recognised in 'depreciation and amortisation') | (16) | (16) |
| Net carrying amount at end of year | 56 | 56 |

13. Current Liabilities – Payables

Accrued salaries, wages and on-costs

Creditors

Personnel services

| | Consolidated | | IPART | |
|--------------------------------------|--------------|--------|--------|--------|
| | 2010 | 2009 | 2010 | 2009 |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Accrued salaries, wages and on-costs | 178 | 155 | – | – |
| Creditors | 407 | 406 | 407 | 406 |
| Personnel services | – | – | 1,579 | 1,346 |
| | 585 | 561 | 1,986 | 1,752 |

Details regarding credit risk, liquidity risk and market risk, including a maturity analysis of the above payables, are disclosed in Note 22.

14. Current / Non-Current Liabilities – Provisions

Current

Employee benefits and related on-costs

Recreation leave

Long service leave

Payroll tax

Total provisions

Non-current

Employee benefits and related on-costs

Long service leave

Non-current

Other provisions

Restoration costs

Total provisions

Aggregate employee benefits and related on-costs

Provisions – current

Provisions – non-current

Accrued salaries, wages and on-costs (Note 13)

| | | | | |
|--|-------|-------|---|---|
| | 1,389 | 1,181 | – | – |
| | 12 | 10 | – | – |
| | 178 | 155 | – | – |
| | 1,579 | 1,346 | – | – |

14. Current / Non-Current Liabilities – Provisions continued

2010

Movements in provisions (other than employee benefits)

Movements in each class of provision during the financial year, other than employee benefits are set out below:

| | Consolidated | | IPART | |
|--|-----------------------------|-----------------|-----------------------------|-----------------|
| | Restoration Costs \$'000 | Total \$'000 | Restoration Costs \$'000 | Total \$'000 |
| Carrying amount at the beginning of financial year | 266 | 266 | 266 | 266 |
| Carrying amount at end of financial year | 266 | 266 | 266 | 266 |

15. Current Liabilities – Other

Liability owing to Consolidated Fund

| | Consolidated | | IPART | |
|--------------------------------------|----------------|----------------|----------------|----------------|
| | 2010 \$'000 | 2009 \$'000 | 2010 \$'000 | 2009 \$'000 |
| Liability owing to Consolidated Fund | 5 | – | 5 | – |
| | 5 | – | 5 | – |

16. Commitments for Expenditure

(a) Other Expenditure Commitments

Aggregate other expenditure for the acquisition of goods and services contracted for at balance date and not provided for:

| | Consolidated | | IPART | |
|------------------------------|----------------|----------------|----------------|----------------|
| | 2010 \$'000 | 2009 \$'000 | 2010 \$'000 | 2009 \$'000 |
| Not later than one year | 503 | – | 503 | – |
| Total (including GST) | 503 | – | 503 | – |

(b) Operating Lease Commitments

Future non-cancellable operating lease rentals not provided for and payable

| | Consolidated | | IPART | |
|---|----------------|----------------|----------------|----------------|
| | 2010 \$'000 | 2009 \$'000 | 2010 \$'000 | 2009 \$'000 |
| Not later than one year | 868 | 1,106 | 868 | 1,106 |
| Later than one year and not later than five years | 2,258 | 4,808 | 2,258 | 4,808 |
| Later than five years | – | – | – | – |
| Lease incentive on non-cancellable operating leases included in lease commitments | – | (916) | – | (916) |
| Total (including GST) | 3,126 | 4,998 | 3,126 | 4,998 |

The total commitments above includes input tax credits of \$334,000 (2009 \$454,000) that are expected to be recoverable from the Australian Taxation Office.

17. Contingent Liabilities and Contingent Assets

The Tribunal is not aware of any contingent liabilities and contingent assets associated with its operations.

18. Budget Review

Net cost of services

The net cost of services of \$18,258K was \$1,190K more than budget. This was mainly due to supplementation received to implement the Energy Saving Scheme. The employee related expenses were \$1,370K over budget due to the additional staff required for the Energy Saving Scheme and also contributed to the net cost of services being over budget.

Assets and liabilities

Current Assets:

Total current assets were \$1,120K more than budget due to the additional Section 9 work of referred reviews on a fee for service basis.

Non Current assets:

Plant and equipment and intangible assets were less than budget (\$99K) as a result of a through stocktake and the decrease of net value of assets.

Current and Non Current Liabilities:

Total liabilities were \$335K more than budget due mainly to employee provisions being over budget by \$208K.

Cash flows

Cash flows from operating activities were \$776K greater than budget due to expenditure for associated costs of the implemented Energy Saving Scheme.

19. Reconciliation of Cash Flows from Operating Activities to Net Cost of Services

| | Consolidated | | IPART | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2010 \$'000 | 2009 \$'000 | 2010 \$'000 | 2009 \$'000 |
| Net cash used on operating activities | 1,095 | 1,168 | 1,095 | 1,168 |
| Net Cash flows from Government | (18,218) | (16,522) | (18,218) | (16,522) |
| Acceptance by the Crown Entity of employee benefits and other liabilities | (553) | (526) | - | - |
| Depreciation and amortisation | (680) | (635) | (680) | (635) |
| Decrease / (increase) in provisions | (210) | (255) | - | (255) |
| Increase / (decrease) in receivables prepayments | 330 | (937) | 330 | (937) |
| Decrease / (increase) in creditors | (24) | 754 | (234) | 754 |
| Decrease / (increase) in other liabilities | - | 211 | - | 211 |
| Net gain / (loss) on sale of plant and equipment | 2 | (18) | 2 | (18) |
| Net cost of services | (18,258) | (16,760) | (17,705) | (16,234) |

20. Administered Assets and Liabilities

Administered Assets

| | Consolidated | | IPART | |
|---------------------------------------|----------------|----------------|----------------|----------------|
| | 2010 \$'000 | 2009 \$'000 | 2010 \$'000 | 2009 \$'000 |
| Cash | 665 | 1,311 | 665 | 1,311 |
| Receivables | 3,898 | 2,754 | 3,898 | 2,754 |
| Doubtful debts provisions | (1,403) | – | (1,403) | – |
| Total Administered Assets | 3,160 | 4,065 | 3,160 | 4,065 |
| Administered Liabilities | | | | |
| Liability to Consolidated Fund | 3,160 | 4,065 | 3,160 | 4,065 |
| Total Administered Liabilities | 3,160 | 4,065 | 3,160 | 4,065 |

21. Administered Income – Schedule of Uncollected Amounts

Electricity / Gas Supplier Licences and Authorisations

| | | | | |
|-------------------------|--------------|--------------|--------------|--------------|
| Not later than one year | 2,495 | 2,754 | 2,495 | 2,754 |
| | 2,495 | 2,754 | 2,495 | 2,754 |

22. Financial Instruments

The Tribunal's principal financial instruments are cash deposits held within the NSW Treasury Banking System, short term receivables and payables. These instruments expose the Tribunal primarily to interest rate risk on cash balances held within the NSW Treasury Banking System and credit risk on short term receivables. The Tribunal does not enter into or trade financial instruments for speculative purposes and does not use financial derivatives.

The Chief Executive Officer has overall responsibility for the establishment and oversight of risk management and reviews and agrees policies for managing risk. Compliance with policies is reviewed by the Internal auditors on a continuous basis.

| | Note | Category | Carrying Amount | |
|--|------|---|-----------------|--------|
| | | | 2010 | 2009 |
| | | | \$'000 | \$'000 |
| (a) Financial instrument categories | | | | |
| FINANCIAL ASSETS | | | | |
| Class: Consolidated | | | | |
| Cash and cash equivalents | 9 | N/A | 6,029 | 5,107 |
| Receivables | 10 | Loans and receivables (at amortised cost) | 355 | 88 |
| FINANCIAL LIABILITIES | | | | |
| Class: Consolidated | | | | |
| Payables | 13 | Financial liabilities measured at amortised cost | 585 | 524 |
| Other | | Financial liabilities measured at amortised cost | - | - |
| FINANCIAL ASSETS | | | | |
| Class: IPART | | | | |
| Cash and cash equivalents | 9 | N/A | 6,029 | 5,107 |
| Receivables | 10 | Loans and receivables (at amortised cost) | 355 | 88 |
| Class: IPART | | | | |
| Payables | 13 | Financial liabilities measured at amortised cost | 1,986 | 1,716 |
| Other | | Financial liabilities measured at amortised cost | - | - |

Notes

1. Excludes statutory receivables and prepayments (i.e. not within scope of AASB 7).
2. Excludes statutory payables and unearned revenue (i.e. not within scope of AASB 7).

22. Financial Instruments continued

(b) Credit Risk

Credit risk arises from the financial assets of the Tribunal, including cash and receivables. No collateral is held by the Tribunal. The Tribunal has not granted any financial guarantees.

Credit risk arises when there is the possibility of the Tribunal's debtors defaulting on their contractual obligations, resulting in a financial loss to the Tribunal. The maximum exposure to credit risk is generally represented by the carrying amount of the financial assets (net of any allowance for impairment).

Cash

Cash comprises cash on hand and bank balances within the NSW Treasury Banking System. Interest is earned on daily bank balances at the monthly average NSW Treasury Corporation (TCorp) 11am unofficial cash rate, adjusted for a management fee to NSW Treasury in paragraph (d) below.

Receivables – trade debtors

All trade debtors are recognised as amounts receivable at balance date. Collectibility of trade debtors is reviewed on an ongoing basis. Procedures as established in the Treasurer's Directions are followed to recover outstanding amounts, including letters of demand. Debts which are known to be uncollectible are written off. An allowance for impairment is raised when there is objective evidence that the Tribunal will not be able to collect all amounts due. This evidence includes past experience, and current and expected changes in economic conditions and debtor credit ratings. No interest is earned on trade debtors. Sales are made on 30 day terms.

The Tribunal is not materially exposed to concentrations of credit risk to a single trade debtor or group of debtors. There are no debtors which are currently not past due or impaired whose terms have been renegotiated.

The only financial assets that are past due or impaired are "sales of goods and services" in the "receivables" category of the statement of financial position.

| | Consolidated | | | IPART | | |
|-----------------------------|---------------------------|---|---|---------------------------|---|---|
| | Total (Notes 1 & 2) | Past due but not impaired (Notes 1 & 2) | Considered impaired (Notes 1 & 2) | Total (Notes 1 & 2) | Past due but not impaired (Notes 1 & 2) | Considered impaired (Notes 1 & 2) |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| 2010 | | | | | | |
| < 3 months overdue | 152 | 152 | – | 152 | 152 | – |
| 3 months – 6 months overdue | 35 | 35 | – | 35 | 35 | – |
| > 6 months overdue | 20 | – | 20 | 20 | – | 20 |
| 2009 | | | | | | |
| < 3 months overdue | – | – | – | – | – | – |
| 3 months – 6 months overdue | – | – | – | – | – | – |
| > 6 months overdue | – | – | – | – | – | – |

Notes

- Each column in the table reports "gross receivables".
- The ageing analysis excludes statutory receivables, as these are not within the scope of AASB 7 and excludes receivables that are not past due and not impaired. Therefore, the "total" will not reconcile to the receivables total recognised in the balance sheet.

22. Financial Instruments continued

(c) Liquidity risk

Liquidity risk is the risk that the Tribunal will be unable to meet its payment obligations when they fall due. The Tribunal continuously manages risk through monitoring future cash flows and maturities planning to ensure adequate holding of high quality liquid assets.

The liabilities are recognised for amounts due to be paid in the future for goods or services received, whether or not invoiced. Amounts owing to suppliers (which are unsecured) are settled in accordance with the policy set out in Treasurer's Direction 219.01. If trade terms are not specified, payment is made no later than the end of the month following the month in which an invoice or a statement is received. Treasurer's Direction 219.01 allows the Minister to award interest for late payment. No interest for late payment was paid during the year 2009.

The table below summarises the maturity profile of the Tribunal's financial liabilities, together with the interest rate exposure.

| <i>Maturity Analysis and interest rate exposure of financial liabilities</i> | Interest Rate Exposure | | | Maturity Dates | | |
|--|------------------------|---------------------|----------------------|----------------|---------|---------|
| | Nominal Amount | Fixed Interest Rate | Non-interest bearing | < 1 yr | 1–5 yrs | > 5 yrs |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Consolidated | | | | | | |
| 2010 | | | | | | |
| Payables: | | | | | | |
| Accrued salaries, wages and on-costs | 178 | – | – | 178 | – | – |
| Creditors | 407 | – | – | 407 | – | – |
| | 585 | – | – | 585 | – | – |
| 2009 | | | | | | |
| Payables: | | | | | | |
| Accrued salaries, wages and on-costs | 155 | – | – | 155 | – | – |
| Creditors | 369 | – | – | 369 | – | – |
| | 524 | – | – | 524 | – | – |

(d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Tribunal's exposure to market risk is primarily through interest rates on cash and cash equivalents. The Tribunal has no exposure to foreign currency risk and does not enter into commodity contracts.

The effect on profit and equity due to a reasonably possible change in risk variable is outlined in the information below, for interest rate risk. A reasonably possible change of +/- 1% is used, consistent with current trends in interest rates. The basis will be reviewed annually and amended where there is structural change in the level of interest rate volatility. The Tribunal's exposure to interest rate risk is set out below.

22. Financial Instruments continued

| | Carrying | -1% | | +1% | |
|------------------------------|----------|--------|--------|--------|--------|
| | Amount | Profit | Equity | Profit | Equity |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Consolidated | | | | | |
| 2010 | | | | | |
| <i>Financial assets</i> | | | | | |
| Cash and cash equivalents | 6,029 | (60) | (60) | 60 | 60 |
| Receivables | 355 | - | - | - | - |
| <i>Financial liabilities</i> | | | | | |
| Payables | - | - | - | - | - |
| | 6,384 | (60) | (60) | 60 | 60 |
| 2009 | | | | | |
| <i>Financial assets</i> | | | | | |
| Cash and cash equivalents | 5,107 | (51) | (51) | 51 | 51 |
| Receivables | 88 | - | - | - | - |
| <i>Financial liabilities</i> | | | | | |
| Payables | 524 | - | - | - | - |
| | 5,719 | (51) | (51) | 51 | 51 |
| IPART | | | | | |
| 2010 | | | | | |
| <i>Financial assets</i> | | | | | |
| Cash and cash equivalents | 6,029 | (60) | (60) | 60 | 60 |
| Receivables | 355 | - | - | - | - |
| <i>Financial liabilities</i> | | | | | |
| Payables | - | - | - | - | - |
| | 6,384 | (60) | (60) | 60 | 60 |
| 2009 | | | | | |
| <i>Financial assets</i> | | | | | |
| Cash and cash equivalents | 5,107 | (51) | (51) | 51 | 51 |
| Receivables | 88 | - | - | - | - |
| <i>Financial liabilities</i> | | | | | |
| Payables | 1,715 | - | - | - | - |
| | 6,910 | (51) | (51) | - | 51 |

(e) Fair Value

Financial instruments are generally recognised at cost. The amortised cost of financial instruments recognised in the balance sheet approximates the fair value.

23. After Balance Date Events

There are no events subsequent to balance date which affect the financial statements.

End of audited financial report.

Our Work Program for 2010/2011

Metropolitan Water Pricing

- > Finalise review of approaches to pricing of common services (eg, recycled water, services to multi-occupancy dwellings and sewerage)
- > Release issues papers for the determination of prices charged by Sydney Water Corporation and Sydney Catchment Authority for the period commencing 1 July 2012

Bulk Water Pricing

Release draft and final price determinations for bulk water services provided by the Water Administration Ministerial Corporation

Water Licensing (public water utilities)

- > Audit and report operating licence compliance by:
 - > State Water Corporation
 - > Sydney Water Corporation
 - > Sydney Catchment Authority
 - > Hunter Water Corporation
- > Undertake an end of term review of Sydney Catchment Authority's operating licence
- > Review Hunter Water Corporation's customer contract
- > Commence end of term review of Hunter Water Corporation's operating licence
- > Collect and audit performance indicators on behalf of the National Water Commission

Water Industry Competition Act 2006 (WICA)

- > Make recommendations to Minister for Water Utilities on:
 - > Licence applications
 - > Declaration of infrastructure for coverage under access arrangements
- > Maintain registers (eg, licence applications, licensees)
- > Administer licence compliance regime
- > Facilitate discussions/seminars with industry participants to identify and resolve matters associated with implementation of Act
- > Determine maximum prices for declared monopoly services

Energy Licensing

- > Process applications for granting of new licences and cancelling of existing licences
- > Report network operators' and energy retailers' performance
- > Conduct licence compliance audits of retailers and network operators
- > Audit operations of Electricity Tariff Equalisation Fund

Rail access

- > Review of rail infrastructure compliance with the NSW rail access undertaking for 2008/09 for Australian Rail Track Corporation and Rail Corporation of NSW

Transport fares

- > Review of taxi fares for the period from 1 July 2011
- > Review of bus fares for rural and regional bus services from January 2011
- > Review of fares for private ferry services from December 2010
- > Review of compliance by CityRail with IPART's determination
- > Review of compliance by metropolitan and outer- metropolitan bus operators with IPART's determination
- > Review of Sydney Ferries fares

Energy Pricing

- > Annual review of total energy cost allowance
- > Review of any cost pass through applications under IPART's regulated electricity retail determination 2010–2013

Local Government

- > Undertake a local government survey of costs to establish a Local Government Cost Index
- > Determine the maximum allowable increase in local government general income (rate peg) for 2011/12
- > Review and determine local government applications for special variations for 2011/12
- > Review selected contribution plans for councils and the Minister for Planning

Section 9 and other referrals

- > Review of the Productivity of State Owned Corporations
- > Development and launching of the Energy Price Comparison website

Analysis and Policy Development

- > Cross-sectoral economic research projects to assist IPART in its analysis and consideration of issues
- > 009/10 Household Survey of electricity, water and gas usage in the Sydney, Blue Mountains and Illawarra regions

Greenhouse Gas Reduction Scheme

- > Managing compliance and amendments for over 200 Accreditations
- > Participating in working groups regarding national scheme
- > Reviewing and updating GGAS Rules
- > Managing compliance of liable parties
- > Management of GGAS/ESS Registry
- > Management of Audit and Technical Services Panels

Energy Savings Scheme

- > Participating with other Government agencies to develop new methodologies
- > Developing an improved website
- > Managing accreditations and amendments
- > Participating in ESS Coordination Working Group
- > Managing compliance of liable parties
- > Management of Audit Panel

Outline budget for 2010/2011

| Budgeted Operating Statement | 2010/11 |
|------------------------------|---------------|
| | \$'000 |
| Employee Related Expenses | 12,410 |
| Other Operating Expenses | 9,109 |
| Depreciation | 581 |
| TOTAL EXPENSES | 22,100 |
| | |
| TOTAL REVENUE | 1,313 |
| NET COST OF SERVICES | 20,787 |
| | |
| Total Government Funding | 20,629 |
| OPERATING RESULT | (158) |

Appendix A

Legislative Provisions

IPART was established under the *Independent Pricing and Regulatory Tribunal Act 1992 (IPART Act)*. It performs functions under the IPART Act and also under the *Gas Supply Act 1996, Electricity Supply Act 1995, Hunter Water Act 1991, Sydney Water Act 1994, Sydney Water Catchment Management Act 1998, Water Management Act 2000, Water Industry Competition Act 2006, Passenger Transport Act 1990, Transport Administration Act 1988* and *State Water Corporation Act 2004*.

IPART continues to exercise certain minor functions under the *Prices Regulation Act 1948, Gaming Machines Act 2001, Crown Lands Act 1989, Snowy Hydro Corporatisation Act 1997* and *Motor Accidents Compensation Act 1999*.

Independent Pricing and Regulatory Tribunal Act 1992

The IPART Act commenced in July 1992 as the *Government Pricing Tribunal Act 1992* and was substantially amended and renamed in January 1996 as the *Independent Pricing and Regulatory Tribunal Act 1992*. Under the IPART Act, IPART has a number of major roles including:

- > regulating prices and reviewing pricing policies of government monopoly services
- > undertaking reviews referred to it in relation to industry, pricing or competition
- > providing assistance to other agencies
- > arbitrating access disputes in relation to public infrastructure access regimes
- > registering access agreements
- > regulating water, electricity and gas licences
- > investigating complaints under the competitive neutrality regime.

Regulating prices and reviewing pricing policies

Under the IPART Act, IPART conducts investigations and makes reports to the relevant Minister with respect to determining the pricing for specified government monopoly services supplied by government agencies. It also conducts periodic reviews of the pricing policies of specified government monopoly services.

A service may be declared to be a government monopoly service if it is a service:

- > for which there are no other suppliers to provide competition in the part of the market concerned
- > for which there is no contestable market by potential suppliers in the short term.

There are 2 main ways in which IPART's investigations may be initiated. The first is by standing reference. In particular, section 11 of the IPART Act provides that IPART is to initiate investigations of government monopoly services supplied by those government agencies for which IPART has a standing reference (with such agencies being listed in Schedule 1 of the IPART Act).

The government agencies for which IPART currently has a standing reference are:

- > Sydney Water Corporation
- > Hunter Water Corporation
- > Water supply authorities constituted under the *Water Management Act 2000*
- > County councils established for the supply of water
- > Rail Corporation New South Wales
- > State Transit Authority (but excluding any bus services provided by the Authority under a service contract to which section 28J of the *Passenger Transport Act 1990* applies)
- > Roads and Traffic Authority

- > Department of Housing
- > Port Corporations or other relevant port authorities within the meaning of Part 5 of the *Ports and Maritime Administration Act 1995*
- > Sydney Catchment Authority
- > Water Administration Ministerial Corporation
- > Sydney Ferries (but excluding any services provided by Sydney Ferries under a ferry service contract to which section 16AE of the *Passenger Transport Act 1990* applies)
- > State Water Corporation
- > Country Energy.

As the services of some agencies listed above have not been declared to be monopoly services, IPART may not initiate pricing investigation for those agencies under section 11 of the IPART Act.

The second way in which an investigation by IPART may be initiated is by a reference from the Premier. Under section 12 of the IPART Act, the Premier may require IPART to determine the maximum price or carry out a review of pricing policies in respect of a specified government monopoly service, including those supplied by government agencies that are the subject of a standing reference. IPART may ask the Premier to make a particular reference under these provisions.

Public participation and access to information

The IPART Act contains a number of provisions to ensure that IPART's activities are conducted through a public process. The main requirement is that IPART must hold at least one public hearing for each pricing or access investigation. IPART may seek public participation by:

- > advertising public hearings
- > seeking public comments on terms of reference
- > providing public access to submissions
- > inviting public comment on issues and submissions
- > holding public seminars and workshops
- > releasing reports and determinations to the public.

IPART must make a document obtained by IPART in connection with an investigation available for inspection on request, unless the document contains information that IPART would not be required to disclose under the *Government Information (Public Access) Act 2009*. If a document contains such information, IPART has the discretion to release it following consultation, if satisfied that it will not damage commercial or other interests.

Matters IPART must consider

Under section 15 of the IPART Act, IPART is required to consider a range of issues when making determinations and recommendations, and to report on what regard it has had to each. These issues are:

- > the cost of providing the services concerned
- > the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standard of services
- > the appropriate rate of return on public sector assets, including appropriate payment of dividends to the Government for the benefit of the people of New South Wales
- > the effect on general price inflation over the medium term
- > the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers
- > the need to maintain ecologically sustainable development (within the meaning of section 6 of the *Protection of the Environment Administration Act 1991*) by appropriate pricing policies that take account of all the feasible options available to protect the environment

- > the impact on pricing policies of borrowing, capital and dividend requirements of the government agency concerned and, in particular, the impact of any need to renew or increase relevant assets
- > the impact on pricing policies of any arrangements that the government agency concerned has entered into for the exercise of its functions by some other person or body
- > the need to promote competition in the supply of the services concerned
- > considerations of demand management (including levels of demand) and least cost planning
- > the social impact of the determinations and recommendations
- > standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise).

The Premier may also require IPART to consider specific matters, in addition to the section 15 matters, in its investigations.

How IPART sets maximum prices

IPART may set maximum prices in either of 2 ways.

The first way is by determining maximum prices. Under section 14 of the IPART Act, IPART may fix the prices in any way it considers appropriate, including fixing:

- > an average price for a number of categories of service
- > a percentage increase or decrease in existing prices
- > an average percentage increase or decrease in existing prices for a number of categories of the service
- > a specified price for each category of the service.

IPART may fix such a price by reference to:

- > a general price index
- > the government agency's economic cost of production
- > a rate of return on the assets of the government agency.

The second way is by establishing a methodology for determining maximum prices. IPART may do this if it considers that it is impractical to fix maximum prices directly. A methodology may be made in any manner that IPART considers appropriate, including by reference to maximum revenue, or maximum rate of increase or minimum rate of decrease in maximum revenue, for a number of categories of the service concerned.

In determining the maximum price for a government monopoly service, IPART may be directed by a portfolio Minister to include an amount representing the efficient cost of complying with a Ministerial directive or a requirement imposed under a licence, authorisation or under a statutory instrument on the agency.

Implementing maximum prices

Agencies which are subject to IPART's determinations are not permitted to levy prices which exceed the maximum prices determined by IPART. Under the IPART Act, the approval of the Treasurer is required if an agency wishes to charge a price below the maximum price.

Compliance

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

Release of reports and determinations

IPART submits its reports to the Premier. Any determination must be published in the NSW Government Gazette as soon as practicable. Reports must be made available for public inspection and sale, tabled in Parliament, and placed in the Parliamentary Library.

Reviewing industries, pricing or competition

Under section 12A of the IPART Act, the Premier may require IPART to conduct investigations and make reports on any matter with respect to industry, pricing or competition. In contrast to the review provisions of sections 11 and 12 of the IPART Act, these reviews are not restricted to government monopoly services and may cover both government and private industry issues. In carrying out reviews under section 12A, IPART is not specifically required to have regard to the various issues listed in section 15 of the IPART Act.

Providing assistance to other agencies

Under section 9 of the IPART Act, the Premier may approve the provision of services by IPART to any government agency or other body or person (public or private), where those services are in areas within IPART's field of expertise and relevant to its functions. In entering into any arrangement to provide services, IPART has a duty to ensure that giving effect to the arrangement will not interfere with its ability to exercise its usual functions. Several examples are shown in the Principal Achievements and 2010/11 Work Program sections in this report.

Arbitrating access disputes

Under Part 4A of the IPART Act, any dispute with respect to a public infrastructure access regime may be subject to arbitration by IPART. In carrying out these arbitration functions, IPART may appoint an arbitrator from a panel approved by the Premier or may undertake the arbitration itself). The *Commercial Arbitration Act 1984* applies to such an arbitration, subject to the provisions of the IPART Act and any regulations made under section 29 of the IPART Act.

Registering access agreements

Section 12B of the IPART Act requires that a government agency notify IPART of any proposed access agreements. IPART may provide advice on the proposed agreement to the agency and to the Premier. IPART is required to register all access agreements (section 12C).

Investigating complaints under competitive neutrality regime

The NSW Government has assigned IPART a role in investigating and reporting on competitive neutrality complaints, under the Competition Principles Agreement. If certain conditions are met, the Premier may refer to IPART, for investigation and report, a complaint about a public trading agency's failure to comply with (or misapplication of) the competitive neutrality principles. The IPART Act specifies the processes IPART is to follow in investigating such a complaint (Part 4C).

Licensing

IPART is responsible for ensuring various regulated entities meet their licence requirements.

Under the IPART Act, *Electricity Supply Act 1995*, *Gas Supply Act 1996*, *Hunter Water Act 1991*, *Sydney Water Act 1994*, *Sydney Water Catchment Management Act 1998* and *State Water Corporation Act 2004* IPART is responsible for matters such as making recommendations to the relevant Minister with respect to:

- > granting, varying, transferring or cancelling a licence (or authorisation in the case of the gas industry)
- > taking action or applying sanctions in response to a contravention of the conditions of a licence
- > taking any remedial action as a result of a contravention of the conditions of a licence.

Under the *Water Industry Competition Act 2006*, IPART is responsible for matters such as making recommendations to the relevant Minister with respect to granting licensing applications. Further, it may cancel or suspend licences (with the concurrence of the relevant Minister).

To fulfil its roles under these Acts, IPART monitors licence compliance and reports annually to the relevant Minister regarding such compliance. IPART also has specific licence auditing responsibilities for the electricity and water industries.

In addition to making recommendations to the Minister, IPART has limited powers to impose monetary penalties or require a utility to take remedial action in certain circumstances.

Energy pricing regulation, disclosure and comparison

Gas Supply Act 1996

The *Gas Supply Act 1996* enables IPART to establish pricing mechanisms known as gas pricing orders that regulate the tariffs, fees, charges and other payments that a standard supplier may impose for the supply of natural gas to small retail customers under standard form customer supply contracts.

To date IPART has not exercised this power, preferring to use a more light-handed form of regulation. Instead, the gas retailers have Voluntary Transitional Pricing Agreements (VTPAs) with IPART. Gas retailers are obliged to set their regulated tariffs and charges in line with these agreements, with IPART monitoring their compliance. The current VTPAs are explained in further detail in the Impacts of IPART's Determinations section in this report.

Electricity Supply Act 1995

The *Electricity Supply Act 1995* provides the framework for introducing full retail competition in the NSW electricity industry. Under this Act, IPART is responsible for setting regulated retail tariffs and charges upon receiving a referral from the relevant Minister. In making its determination, IPART must have regard to the matters set out in the terms of reference and the effect of the determination on competition in the retail electricity market.

Energy pricing disclosure and comparison

The *Electricity and Gas Supply Legislation Amendment (Retail Price Disclosures and Comparisons) Act 2010* introduced an energy pricing disclosure and comparison scheme. It received assent on 28 June 2010.

Retail suppliers must provide IPART with pricing information relating to the supply of gas and electricity to small retail customers in NSW. Retailers must also make this pricing information available on their websites and to the public on request. IPART will publish this pricing information on its website in a way that enables small retail customers to meaningfully compare the tariffs and charges of retail suppliers.

Transport pricing regulation

The *Passenger Transport Act 1990* provides a framework for regulating public transport services. Under this Act, IPART is responsible for setting maximum fares for regular bus services supplied under regular bus service contracts and regular ferry services supplied under regular ferry service contracts. In making its determination, IPART is to consider the following matters:

- > the cost of providing the services concerned
- > the protection of consumers from abuses of monopoly power in terms of prices, pricing policies and standards of service
- > the need for greater efficiency in the supply of services so as to reduce costs for the benefit of consumers and taxpayers
- > the need to maintain ecologically sustainable development (within the meaning of section 6 of the *Protection of the Environment Administration Act 1991*) by appropriate pricing policies that take account of all of the feasible options to protect the environment
- > the social impact of the determination
- > standards of quality, reliability and safety of the services concerned (whether those standards are specified by legislation, agreement or otherwise) and any suggested or actual changes to those standards
- > contractual arrangements prevailing in the industry
- > such other matters as IPART considers relevant.

Greenhouse Gas Reduction Scheme

The NSW Greenhouse Gas Reduction Scheme was introduced by amendments to the *Electricity Supply Act 1995* in December 2002. Since 1 January 2003, electricity retail suppliers and certain other parties have been required to meet mandatory targets for abating greenhouse gas emissions from electricity production and use. IPART is responsible for:

- > determining and publishing key factors that are used to determine greenhouse gas benchmarks for the year
- > determining the greenhouse gas benchmark for each benchmark participant
- > determining the greenhouse shortfall and any liability for greenhouse penalty payable by a benchmark participant.

IPART must monitor compliance with greenhouse gas benchmarks and must report annually to the Minister for Energy regarding such compliance. It may also conduct audits.

IPART has also been appointed as the Scheme Administrator by the Minister for Energy. As Scheme Administrator, it is responsible for:

- > accreditation of abatement certificate providers
- > verification of greenhouse gas abatement activity
- > administration of a registry of abatement certificates.

As Scheme Administrator, IPART must monitor and report annually to the Minister for Energy on the compliance of accredited abatement certificate providers with the Act, the regulations, the greenhouse gas benchmark rules and any conditions of accreditation. It may also conduct audits.

Energy Savings Scheme

The Energy Savings Scheme (ESS) is designed to create a financial incentive to reduce the consumption of electricity by encouraging energy saving activities. It sets out energy savings targets, and imposes an obligation on NSW electricity retailers (and certain other parties) to surrender sufficient energy savings certificates to meet their individual energy savings targets. The ESS commenced on 1 July 2009 under the *Electricity Supply Act 1995*.

IPART functions as both the ESS scheme administrator and the ESS scheme regulator, and is responsible for assessing applications, accrediting parties to undertake eligible activities and to create certificates, monitoring ESS compliance and monitoring the performance of the ESS participants. IPART also manages the registration and transfer of certificates created from recognised energy savings activities.

Appendix B

Decisions under s16A of the Independent Pricing and Regulatory Act

Under section 16A of the Independent Pricing and Regulatory Tribunal Act, the portfolio Minister for a government agency may direct IPART to include in a price determination or price methodology the efficient costs of complying with a requirement imposed on the agency by the portfolio Minister. The requirement may only be one that is imposed by or under a licence or authorisation, by ministerial direction under an Act, or some other requirement imposed by or under an Act or statutory instrument. Once IPART is given a direction under s16A, it must comply with the direction and explain in its report the manner in which it has complied with the direction.

In 2009/10, there were no directions given to IPART under section 16A of the Act.

Appendix C

Tribunal Meetings, Public Forums and Submissions

Tribunal meetings

During 2009/10, the Tribunal held 44 meetings.

Delegated Tribunal Meetings

The Tribunal held 16 Delegated meetings, 12 Greenhouse Gas Reduction Scheme Tribunal meetings and 16 Energy Savings Scheme Tribunal meetings.

Dr Michael Keating, Chairman (resigned September 2009) attended 8 Tribunal meetings and 2 other meetings.

Mr James Cox, CEO and Full Time Member and Acting Chairman from September 2009, attended 44 Tribunal meetings, 16 Delegated Tribunal meetings, 12 Greenhouse Gas Reduction Scheme Tribunal meetings, 16 Energy Savings Scheme Tribunal meetings and 17 other forums.

Ms Sibylle Krieger, Part Time Member attended 41 Tribunal meetings and 15 other sessions.

Mr Eric Groom, Principal Adviser attended 16 Delegated Tribunal meetings, 12 Greenhouse Gas Reduction Scheme Tribunal meetings and 16 Energy Savings Scheme Tribunal meetings.

Public hearings and workshops 2009/2010

The Tribunal also hosted 8 Public Hearings, 2 Stakeholder Forums, 2 Roundtables and 7 Workshops.

| DATE | INVESTIGATION | VENUE |
|-----------|---|--------|
| | Transport | |
| 12 Apr 10 | Review of fares for Taxis from July 2010 | Sydney |
| 11 Nov 09 | Review of metropolitan and outer metropolitan bus services | Sydney |
| 11 Nov 09 | Review of the Stockton and Private Ferries Fares | Sydney |
| | Energy | |
| 03 Apr 10 | Review of regulated gas retail tariffs and charges 2010 – 2013 | Sydney |
| 02 Feb 10 | Review of regulated electricity retail tariffs and charges 2010 – 2013 – Draft Report and Draft Determination | Sydney |
| 01 Sep 09 | Review of regulated electricity retail tariffs and charges 2010 – 2013 | Sydney |
| | Water | |
| 23 Dec 09 | Review of Prices for State Water Corporation from 1 July 2010 | Sydney |
| 18 Dec 09 | Review of Sydney water Corporation's Operating Licence | Sydney |
| 2 Dec 09 | Review of Prices for State Water Corporation from 1 July 2010 | Moree |
| 25 Nov 09 | Review of Prices for State Water Corporation from 1 July 2010 | Dubbo |

| DATE | INVESTIGATION | VENUE |
|------------|---|----------------|
| 23 Nov 09 | Review of Prices for State Water Corporation from 1 July 2010 | Griffith |
| 18 Nov 09 | Review of Prices for Country Energy (Broken Hill) Water and Sewerage Service from 1 July 2010 | Broken Hill |
| | Greenhouse Gas Reduction Scheme | |
| 10 Dec 09 | Auditor training | Sydney |
| | Other Industries | |
| 16 Sept 09 | Review of the revenue framework for Local Government | Lake Macquarie |
| 11 Sept 09 | Review of the revenue framework for Local Government | Dubbo |
| 08 Sept 09 | Review of the revenue framework for Local Government | Wagga Wagga |
| 02 Sept 09 | Review of the revenue framework for Local Government | Sydney |
| 18 Aug 09 | Review of the revenue framework for Local Government | Coffs Harbour |

Submissions to projects during 2009/10

The Tribunal invited stakeholders and the public to make submissions to the projects in progress during 2008/09, and received a total of 601 submissions.

Closure date = day submissions close

| CLOSURE DATE | INVESTIGATION | SUBMISSIONS |
|--------------|---|-------------|
| | Energy | |
| 14 May 2010 | Draft Report – Review of regulated gas retail tariffs and charges 2010 – 2013 – April 2010 | 11 |
| May 2010 | Draft Guideline – Retail price disclosure guideline – For retail suppliers of small retail customers – May 2010 – Gas | 11 |
| May 2010 | Draft Guideline – Retail price disclosure guideline – For retail suppliers of small retail customers – May 2010 - Electricity | 11 |
| 04 Feb 2010 | Draft Report and Draft Determination – Review of regulated electricity retail tariffs and charges 2010 – 2013 | 116 |
| 18 Dec 2009 | Issues Paper – Review of regulated gas retail tariffs and charges 2010 – 2013 | 10 |
| 18 Sep 2009 | Draft Methodology Paper – Review of regulated electricity retail tariffs and charges 2010 – 2013 | 13 |
| 03 Aug 2009 | Issues Paper – Review of regulated electricity retail tariffs and charges 2010 – 2013 – July 2009 | 16 |

| CLOSURE DATE | INVESTIGATION | SUBMISSIONS |
|--------------|---|-------------|
| | Transport | |
| 30 Apr 2010 | Discussion Paper – 2010 Review of Taxi Fares in NSW – Annual review of fares and consideration of flat fares between Sydney Airport and Sydney CBD – March 2010 | 11 |
| 16 Nov 2009 | Draft Report and Draft Determinations – Review of fares for metropolitan and outer metropolitan bus services from January 2010 | 30 |
| 14 Oct 2009 | Fact Sheet – 2009 Review of fares for private ferries and the Stockton ferry – Review process and indicative fare outcomes | 4 |
| 07 Oct 2009 | Fact Sheet – 2009 Review of fares for rural and regional buses – Review process and indicative fare outcomes | 2 |
| July 2009 | Draft Report and Draft Decision – NSW Rail Access Undertaking – Review of rate of return and remaining mine life from 1 July 2009 | 3 |
| | Water | |
| 20 Sept 2010 | End of term review of the operating licence for Sydney Catchment Authority 2010 | 1 |
| 23 June 2010 | Water Industry Competition Act – Licence application – Veolia (Bingara Gorge) | 7 |
| 16 June 2010 | Bulk Water Prices for State Water Corporation and Water Administration Ministerial Corporation from 1 October 2006 to 30 June 2010 - Determination | 52 |
| 15 June 2010 | Water Industry Competition Act – Licence application – Putt Town Water Factory | 6 |
| 3 June 2010 | Water Industry Competition Act – Licence application – Sydney Desalination Plant Pty Ltd | 4 |
| 16 Apr 2010 | Draft Determination and Draft Report – Review of Bulk Water Charges for State Water Corporation from 1 July 2010 to 30 June 2014 – March 2010 | 31 |
| 16 Apr 2010 | Draft Determination and Draft Report – Review of Prices for Country Energy's Water and Sewerage Services - March 2010 | 6 |
| 24 Mar 2010 | Water Industry Competition Act – Licence application – Veolia (Darling Walk) | 5 |
| 23 Nov 2009 | Issues Paper – Review of the Operating Licence for Sydney Water Corporation – September 2009 | 20 |
| 23 Oct 2009 | Issues Paper – Review of Prices for State Water Corporation - July 2009 | 106 |
| 23 Oct 2009 | Issues Paper – Review of Prices for Water Administration Ministerial Corporation – From July 2010 – July 2009 | 53 |
| 14 Oct 2009 | Annual Audit of Operating Licence – Sydney Water | 0 |
| 14 Oct 2009 | Annual Audit of Operating Licence – Sydney Catchment Authority | 0 |
| 14 Oct 2009 | Annual Audit of Operating Licence – Hunter Water | 0 |

| CLOSURE DATE | INVESTIGATION | SUBMISSIONS |
|--------------|---|-------------|
| 14 Oct 2009 | Annual Audit of Operating Licence – State Water | 0 |
| 09 Oct 2009 | Issues Paper – Review of prices for Country Energy's water and sewerage services from 1 July 2010 | 9 |
| 19 Aug 2009 | Water Industry Competition Act – Licence application – Simmonds and Bristow | 5 |
| | Other | |
| 31 Mar 2010 | Averaging the WACC parameters for the costs of capital | 2 |
| 31 Mar 2010 | IPART's cost of capital after the AER's WACC review | 3 |
| 31 Dec 2009 | Alternative approaches to the determination of the cost of equity | 3 |
| 18 Sept 2009 | Draft Report – Review of the Revenue Framework for Local Government – July 2009 | 72 |

Appendix D

Publications

| DATE | PUBLICATION |
|------------|--|
| | Gas |
| 25/06/2010 | Final Report – Review of regulated retail tariffs and charges for gas 2010-2013 – June 2010 |
| 08/06/2010 | Draft Guideline – Retail price disclosure guideline – For retail supplier of small retail customers – May 2010 – Gas |
| 16/04/2010 | Draft Report – Review of regulated retail tariffs and charges for gas 2010-2013 – April 2010 |
| 09/03/2010 | Natural Gas Retail Supplier Reporting Manual – March 2010 |
| 09/03/2010 | Natural Gas Reticulator Reporting Manual – March 2010 |
| 09/03/2010 | Natural Gas Standard Supplier Reporting Manual – March 2010 |
| 06/11/2009 | Issues Paper – Review of regulated gas retail tariffs and charges 2010 to 2013 – November 2009 |
| | Electricity |
| 08/06/2010 | Draft Guideline – Retail price disclosure guideline – For retail suppliers of small retail customers – May 2010 – Electricity |
| 18/03/2010 | Final Determination – Review of regulated retail tariffs and charges for electricity 2010-2013 – March 2010 |
| 18/03/2010 | Final Report – Review of regulated retail tariffs and charges for electricity 2010 to 2013 – March 2010 |
| 08/03/2010 | Electricity Distribution Network Service Provider Reporting Manual – March 2010 |
| 08/03/2010 | Electricity Retail Supplier Reporting Manual – March 2010 |
| 08/03/2010 | Electricity Standard Supplier Reporting Manual – March 2010 |
| 15/12/2009 | Draft Report and Draft Determination – Review of regulated retail tariffs and charges for electricity 2010 to 2013 – December 2009 |
| 19/08/2009 | Draft Methodology Paper – Review of regulated retail tariffs and charges for electricity 2010-2013 – August 2009 |
| 03/07/2009 | Issues Paper – Review of regulated retail tariffs and charges for electricity 2010-2013 – July 2009 |
| | Water |
| 18/06/2010 | Determination – Review of bulk water charges for State Water Corporation – From 1 July 2010 to 30 June 2014 – June 2010 |
| 18/06/2010 | Final Report – Review of Bulk Water charges for State Water Corporation – From 1 July 2010 to 30 June 2014 |

| DATE | PUBLICATION |
|------------|--|
| 10/06/2010 | Final Determination and Report – Review of prices for Country Energy’s water and sewerage services from 1 July 2010 to 30 June 2013 |
| 15/03/2010 | Draft Determination and Draft Report – Review of Bulk Water Charges for State Water Corporation from 1 July 2010 to 30 June 2014 – March 2010 |
| 15/03/2010 | Draft Determination and Draft Report – Review of Prices for Country Energy’s Water and Sewerage Services – March 2010 |
| 05/02/2010 | NOW Letter and Supplementary Submission – Compliance with 2006 Determination – Reports for 2006-2007 – 2007-2008 – 2008-2009 |
| 08/01/2010 | Compliance Report – Hunter Water Corporation Operational Audit 2008/09 – November 2009 |
| 08/01/2010 | Compliance Report – State Water Corporation Operational Audit 2008/09 – November 2009 |
| 08/01/2010 | Compliance Report – Sydney Catchment Authority Operational Audit 2008/09 – November 2009 |
| 08/01/2010 | Compliance Report – Sydney Water Corporation Operational Audit 2008/09 – November 2009 |
| 07/10/2009 | IPART Stakeholder – FAQs |
| 15/09/2009 | Issues Paper – Review of the Operating Licence for Sydney Water Corporation – September 2009 |
| 30/07/2009 | Issues Paper – Review of Prices for Water Administration Ministerial Corporation – From July 2010 – July 2009 |
| 23/07/2009 | Issues Paper – Review of prices for Country Energy’s water and sewerage services from 1 July 2010 |
| 17/07/2009 | Final Determinations and Final Report – Review of prices for water, sewerage, stormwater and other services for Hunter Water Corporation – July 2009 |
| 17/07/2009 | Issues Paper – Review of Prices for State Water Corporation – July 2009 |
| | Transport |
| 28/06/2010 | Final Report and Recommendations – 2010 Review of Taxi Fares in NSW – Annual review of fares and consideration of flat fares between Sydney Airport and Sydney CBD – June 2010 |
| 28/06/2010 | Guide to the Taxi Cost Index Model – Review of fares for Taxis from July 2010 – June 2010 |
| 31/03/2010 | 2009 Guide to the Private Ferry Cost Index Model |
| 22/03/2010 | Discussion Paper – 2010 Review of Taxi Fares in NSW – Annual review of fares and consideration of flat fares between Sydney Airport and Sydney CBD – March 2010 |
| 11/01/2010 | Recommendation to the Minister of Transport - Mid year review of fuel costs for taxis in NSW 2009 – December 2009 |
| 18/12/2009 | Determination – Review of fares for rural and regional buses from January 2010 – December 2009 |
| 18/12/2009 | Report – Review of fares for rural and regional buses from January 2010 – December 2009 |
| 14/12/2009 | Final Determinations – Review of metropolitan and outer metropolitan bus services from January 2010 |

| DATE | PUBLICATION |
|------------|--|
| 14/12/2009 | Final Report – Review of metropolitan and outer metropolitan bus services from January 2010 |
| 14/12/2009 | Report and Determination – Review of fares for Private Ferry and Stockton Ferry Service 2010 |
| 08/12/2009 | Final Report – CityRail prices and services report 2009 – December 2009 |
| 13/10/2009 | Draft Report and Draft Determinations – Review of fares for metropolitan and outer metropolitan bus services from January 2010 |
| 02/10/2009 | Statement Of Reasons for ARTC Compliance with the NSW Rail Access Undertaking 2007-08 |
| 05/08/2009 | Final Report and Decision – NSW Rail Access Undertaking – Review of Rate of Return and Remaining Mine Life from 1 July 2009 |
| | Research |
| 22/04/2010 | Final Decision – IPART’s weighted average cost of capital – April 2010 |
| 01/03/2010 | Information Paper – Addressing the affordability of regulated prices – March 2010 |
| 11/11/2009 | Discussion Paper – Alternative approaches to the determination of the cost of equity – 11 November 2009 |
| 11/11/2009 | Discussion Paper – Averaging the WACC parameters for the cost of capital – 11 November 2009 |
| 11/11/2009 | Discussion Paper – IPART’s cost of capital after the AER’s WACC review – 11 November 2009 |
| 11/11/2009 | Research Paper – Comparison of financial models – IPART and Australian Energy Regulator – November 2009 |
| 09/11/2009 | Review of IPART’s approach to incentive based regulation |
| 17/07/2009 | Information Paper – Measuring Inflation for Industry Price Determinations – Change in Calculation Method – July 2009 |
| | Other Industries |
| 23/07/2009 | Draft Report – Review of the Revenue Framework for Local Government – July 2009 |
| 23/07/2009 | Information Paper – Comparative analysis of local government revenue and expenditure in Australia – July 2009 |
| 02/07/2009 | Final Report – Review of NSW Climate Change Mitigation Measures – Volume 1 |
| 02/07/2009 | Final Report – Review of NSW Climate Change Mitigation Measures – Volume 2 |
| | Other Documents (not related to specific industries or projects) |
| 04/03/2010 | IPART Annual Report 2008-2009 |
| 03/08/2009 | Compliance and Operation of the NSW Greenhouse Gas Reduction Scheme during 2008 – Report to Minister – July 2009 |

Appendix E

Staffing and Consultants

Equal Employment Opportunity

EEO statistics (total staff by level and employment basis)

| NUMBER OF EMPLOYEES BY CATEGORY, AND COMPARISON TO PRIOR THREE YEARS AS AT 30 JUNE 2010 | | | | |
|---|-----------|-----------|-----------|-----------|
| | 2010 | 2009 | 2008 | 2007 |
| Chairman and Chief Executive | 1 | 2 | 2 | 2 |
| Directors & General Managers | 8 | 6 | 6 | 5 |
| Program Managers | 12 | 12 | 12 | 9 |
| Managers | 4 | 4 | 4 | 4 |
| Analysts | 45 | 41 | 40 | 39 |
| Graduates analysts | 5 | 8 | 4 | 2 |
| General Counsel | 1 | 1 | 1 | 1 |
| Legal Officers | 0 | 2 | 1 | 2 |
| Support Officers | 15 | 14 | 13 | 11 |
| Total number of staff includes full time, part-time, temporaries and graduates | 90 | 90 | 83 | 75 |
| Part-time Tribunal Members | 1 | 1 | 1 | 1 |
| Temporary Members | 0 | 0 | 1 | 0 |
| Total number of Staff including members | 91 | 91 | 85 | 76 |

| | TRENDS IN THE REPRESENTATION OF EEO GROUPS | | | | |
|--|--|------------------|------|------|----|
| | Target as % | % OF TOTAL STAFF | | | |
| | 2010 | 2009 | 2008 | 2007 | |
| Women | 50 | 56 | 57 | 52 | 45 |
| Aboriginal people and Torres Strait Islanders | 2 | 0 | 0 | 0 | 0 |
| People whose first language was not English | 20 | 19 | 21 | 16 | 11 |
| People with a disability | 12 | 0 | 2 | 4 | 3 |
| People with a disability requiring work-related adjustment | 7 | 0 | 0 | 0 | 0 |

| | DISTRIBUTION INDEX | | | | |
|--|--------------------|------|------|------|------|
| | Benchmark Target | 2010 | 2009 | 2008 | 2007 |
| Women | 100 | 103 | 99 | 96 | 98 |
| Aboriginal people and Torres Strait Islanders | 100 | 0 | 0 | 0 | 0 |
| People whose first language was not English | 100 | n/a | n/a | n/a | n/a |
| People with a disability | 100 | n/a | n/a | n/a | n/a |
| People with a disability requiring work-related adjustment | 100 | 0 | 0 | 0 | 0 |

Notes

1. Staff numbers are as at 30 June 2010.
2. Excludes casual staff.
3. A Distribution Index of 100 indicates that the centre of the distribution of the EEO group across salary levels is equivalent to that of other staff. Values less than 100 mean that the EEO group tends to be more concentrated at lower salary levels than is the case for other staff. The more pronounced this tendency is, the lower the index will be. In some cases the index may be more than 100, indicating that the EEO group is less concentrated at lower salary levels. The Distribution Index is automatically calculated by the software provided by ODEOPE.
4. The Distribution Index is not calculated where EEO group or non-EEO group numbers are less than 20.

EEO outcomes for the reporting period

International Women's Day was celebrated with an afternoon workshop on self defence. The workshop was conducted by a key representative of the Self Protection Consultancy, Australian Women's Self Defence Academy. Practical demonstrations such as using the body to block attacks formed the basis of the 2 hour workshop.

The Lucy Mentoring program received further support this year, providing experience and advice in the agency's Analysis and Policy work are conducted for one female in her final year of studies.

Bullying and harassment prevention workshops were held during this reporting period. The targeted workshops numbered 3 for general staff, 1 workshop for managers and 1 workshop for executive managers. Agency's policies are currently under review.

Multicultural Policies and Services Programs

The agency commissioned the translation of the explanation about the energy price comparison website into 21 community languages. The translation is to provide equitable access to members of the community to effectively use and compare energy retail prices.

A complaints Resolution policy and procedures were developed. These are designed to assist IPART staff in successfully respond to external feedback and resolving complaints. For the complaint process to be a fair one it must be accessible to the agency's diverse stakeholders. The Translating and Interpreter Service (TIS) was introduced and is readily available for those who wish to benefit from the service.

Disability Action Plan Outcomes

Appropriate support provided to staff with disabilities requiring adjustments – staff members are encouraged to raise needs in this area with their manager or the human resources manager. Issues are addressed quickly and confidentially with regular follow up on action plans for reported cases.

Monitor issues with difficulties accessing agency services such as access to building or website – visitors attending hearings or workshops on our premises or other function centres are encouraged to discuss any special needs or requirements so that suitable arrangements can be made.

Interim measures are in place for any issues arising regarding the visibility of website reports. Visitors to our website are encouraged to contact our office directly for personal assistance should they experience difficulties. Specifications to comply with level AA in the W3Cs Web content guidelines are included in the planning and preparations for the new agency website. The new website is scheduled to undergo rigorous testing before release in 2011.

Industrial Relations Policies and Practices

Some minor variations to IPART's award were made by consent on 1 July 2010. A number of policies were issued or revised following consultation with the Joint Consultation Committee.

Code of Conduct

The Professional Standards and Behaviour Policy underwent a formal review with assistance from an internal focus group. Focus group members provided valuable feedback and a link for staff consultation on the updated document.

Flexible work practices

IPART's flexible work practices include flexi-time and permanent part-time arrangements continue to prove beneficial for both the employee and the organisation providing staff with flexibility to balance work and family responsibilities.

Occupational health and safety

The agency is committed to care for the health, welfare and safety of all staff, visitors and stakeholders in the workplace. There were no prosecutions under the Occupational Health and Safety Act for IPART during this year. Highlights for 2009/1009 include:

- > Active OH&S Committee to monitor responsibilities and communicate information to staff.
- > Agency wide individual ergonomic reviews were conducted to raise personal awareness on how to correctly use workstation equipment and minimise injuries.
- > Quick tips on health, safety and wellbeing called 'Bullet breaks' was introduced on all staff desktops. The messages appear on the computer screen in the bottom right corner and fade away a few seconds later. Messages include reminders to take regular breaks to relieve muscle strain or repetitive movements.
- > The annual flu vaccine was offered to all staff with 50 employees participating in the health campaign.
- > Sports activities are encouraged including corporate 'touch footy' sports conducted once per week over a term. Up to 20 staff members participate in the company competitions.

Corporate Plan

The Corporate Plan was revised in 2006/07 and published on the website. IPART's strategic directions are outlined in the corporate plan, and progress towards meeting corporate objectives is assessed for each program element at page 19.

Consultants

During 2008/09, IPART engaged the following consultants for a total expenditure of \$3,710,436 (work on some of these consultancies was still proceeding at 30 June):

| CONSULTANTS EQUAL TO OR MORE THAN \$30,000 | | |
|--|---------------------|---|
| Consultant | \$ Cost | Title |
| Information Technology | | |
| The Republic Alliance Pty Ltd | \$34,375.00 | Online Price Comparator calculator |
| Sub Total Information Technology | \$34,375.00 | |
| Environmental | | |
| LECG | \$40,000.00 | Assist IPART with a study into Externalities for Buses |
| Sub Total Environmental | \$40,000.00 | |
| Engineering | | |
| Environ Australia Pty Ltd | \$49,725.00 | Assist with the implementation of the Energy Savings Scheme |
| ERM Australia | \$210,997.50 | Assist with the implementation of the Energy Savings Scheme |
| GHD Pty Ltd | \$160,990.00 | 2009 Operational Audit of Sydney Water |
| Halcrow Pacific | \$124,628.00 | 2009 Operational Audit of State Water Corporation |
| M J Williams | \$46,389.88 | Assistance with Energy Savings Scheme secretariat |
| Parsons Brinckerhoff Australia | \$82,340.91 | 2009 Operational Audit of Sydney Catchment Authority |
| t-cAM Consulting | \$104,680.00 | 2009 Operating Audit of Hunter Water Corporation |
| Sub Total Engineering | \$779,751.29 | |
| Finance and Accounting | | |
| Cambridge Economic Policy Associates Ltd | \$50,000.00 | International Review of CPI-X Regulation |
| Centre for International Economics | \$39,600.00 | Assistance with WACC discussion papers |
| Centre for International Economics | \$38,115.00 | Assist with the Review Metropolitan and Outer Metropolitan bus fares 2009 |
| Deloitte Touche Tohmatsu | \$108,534.08 | 2008 ETEF Audit |
| Deloitte Touche Tohmatsu | \$143,207.11 | Assistance with Licence Compliance Audits of NSW Retail Energy Suppliers |

| CONSULTANTS EQUAL TO OR MORE THAN \$30,000 | | |
|---|----------------------------|---|
| Consultant | \$ Cost | Title |
| Deloitte Touche Tohmatsu | \$111,382.27 | Electricity Tariff Equalisation Fund (ETEF): Audit of standard retail suppliers, generators and fund administrator for calendar year 2009 |
| Farrier Swier Consulting Pty Ltd | \$34,188.12 | Assistance with 2010 electricity retail determination |
| Frontier Economics | \$508,462.98 | Assistance with the 2010-2013 determination on regulated electricity tariffs |
| Indec Pty Ltd | \$147,706.00 | Total cost review of regular bus services operated by Sydney Buses |
| McLennan Magasanik Associates | \$150,000.00 | Wholesale Gas Costs Incurred by Standard Retail Gas Suppliers |
| NATSEM | \$40,000.00 | Develop impact assessment model for NSW |
| PricewaterhouseCoopers | \$53,783.65 | Review of Regulatory Efficiency and Prudency Tests of Capital Expenditure |
| PricewaterhouseCoopers | \$137,271.82 | Review of the NSW Office of Water's (NOW) Water Management Expenditure |
| Strategic Finance Group | \$145,934.39 | Assistance with the 2010-2013 determination on regulated electricity tariffs |
| Strategic Finance Group | \$83,495.59 2010 - 2013 | Review of regulated gas retail tariffs and charges |
| Tobumo Pty Ltd Trading as Taverner Research Company | \$178,884.00 | Household Survey SWC Area |
| Walter Turnbull Pty Ltd | \$105,411.65 | Quality Assurance – QA |
| WS Atkins International Limited | \$164,849.75 | Strategic Management Overview & Review of Operating & Capital Expenditure of State Water Corporation |
| Sub Total Finance and Accounting | \$2,240,826.41 | |
| Management Services | | |
| Dr Paul Tridgell Pty Ltd | \$181,580.44 | Hospital Review 2009-10 |
| Sub Total Management Services | \$181,580.44 | |
| Total Consultancies more than \$30,000 | \$3,276,533.14 | |

| CONSULTANTS EQUAL TO OR MORE THAN \$30,000 | |
|---|-----------------------|
| Consultant | \$ Cost |
| Information Technology (1 engagement) | \$18,542.00 |
| Environmental (1 engagement) | \$6,304.32 |
| Engineering (8 engagements) | \$47,869.09 |
| Finance and Accounting (25 engagements) | \$315,888.02 |
| Management Services (3 engagements) | \$45,299.99 |
| Total Consultancies less than \$30,000 | \$433,903.42 |
| Total Consultancies | \$3,710,436.56 |

Contract executive profile

All of IPART's executive staff are employed under contract but 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.

Seven contract positions equivalent to SES 1 (\$141,250 or higher), including 3 held by women, were filled at the end of the financial year. This compares with 6 contracts in the previous year (3 held by women) when executive staff were on secondment.

Salaries of statutory appointees and contract executives

No performance-related payment (bonus) was made to Statutory Appointees or Contract Executive Staff.

In accordance with Treasury Circular TC00/20, the names of officers, position held, and total salary packages (including superannuation) must be disclosed if salary packages exceed the minimum level of SES Level 5 (\$231,951 at 30 June). At IPART, this applies to:

| Name | Position | Total Salary Package |
|-----------------|---|----------------------|
| Michael Keating | Chairman (part-time 3 days per week) | \$263,771 |
| James Cox | Chief Executive Officer and Full Time Member and Acting Chairman from 11 September 2009 | \$365,053 |

Michael Keating

Appointed 17 December 2004 and resigned 11 September 2009.

The Premier has indicated that during 2009/10 Dr Michael Keating met the performance criteria established for the position of Chairman. The key achievements for 2008/09 were:

- > Accountable for the Tribunal's decision-making process and outcomes about pricing determinations, industry inquiries, arbitration of access and competitive neutrality disputes.

- > Managing key external relationships and periodically communicates IPART's vision, values, plans and achievements in partnership with the CEO/Full Time Member.
- > Collaborating closely with the CEO/Full Time Member to ensure teams had the best possible information to conduct the review effectively, and that the technical quality of work being done by the Secretariat met IPART and key stakeholder standards.

James Cox

Appointed on 17 December 2004.

The Premier has indicated that during 2009/10 James Cox met the performance criteria established for the position of Chairman and Chief Executive Officer. The key achievements for 2009/10 were:

- > As the Chief Executive Officer, the Tribunal's professional output and overall operations, including the general conduct and effective, efficient and economical management of the functions and activities of IPART.
- > As the Chairman, accountable for the Tribunal's decision-making process and outcomes about pricing determinations, industry inquiries, arbitration of access and competitive neutrality disputes. He also managed key external relationships and periodically communicated IPART's vision, values, plans and achievements.

Appendix F

External Liaison

Overseas visits

There were no overseas visits by IPART staff in the reporting period.

External presentations

During the year, the following Tribunal Members and Secretariat staff made external presentations on the role and work of IPART:

| TITLE | VENUE | DATE |
|---|---|----------------|
| James Cox, Chief Executive Officer and Full Time Member | | |
| IPART's work in Transport | Tourist & Transport, Level 8, 8-10 Loftus Street, Sydney | 8 July 2009 |
| Case Study – Water Trading from IPART Perspective | Water Pricing and Trading Conference, Rendezvous Hotel, Melbourne | 25 August 2009 |
| Landside Improvement Strategy at Port Botany | Western Australia Transport Infrastructure Summit, Perth | 8 Sept 2009 |
| Review of regulated retail electricity tariffs and charges 2010-2013 | Institute of Public Administration – Melbourne | 28 Jan 2010 |
| Progress in Implementing the Water Industry Competition Act | 5th Annual Water Symposium Darling Harbour | 26 Feb 2010 |
| Review of regulated retail electricity tariffs and charges 2010 – 2013 | Utility Regulators Forum, Melbourne | 19 March 2010 |
| Regulated retail electricity tariffs and charges 2010-2013 | Presentation to RSB Energy Series, Royal Scottish Bank Tower, Sydney | 23 March 2010 |
| Climate policy and energy costs – review of regulated retail electricity and gas tariffs and charges 2010 -2013 | Presentation to CEDA Crowne, Melbourne | 11 June 2010 |
| How a water–short future may influence the economic responsibilities of the water regulator | Australian Academy of Technological Science and Engineering Water Forum, Sydney | 22 June 2010 |
| Colin Reid, Director Water & Compliance | | |
| Water Policy Reform: Markets and Pricing | OZWATER'10, Convention Centre, Brisbane | 9 March 2010 |

Asset management plan

There were no significant changes to the Asset Management plan during the year.

Complaints

All complaints or enquiries are recorded and, where appropriate, registered as submissions to the relevant investigation. This financial year there was a peak in complaints about increases in energy prices and 59 consumers complained about the increases in their energy bills and/or sought information about the reasons. IPART explained the process and factors affecting IPART's most recent Determination. A further 7 complaints were made about the pricing practices or activities of the utilities IPART regulates. When appropriate, these representations were referred to the relevant agency or to the Electricity and Water Ombudsman of NSW.

Complaints about competitive neutrality

There were no complaints about non-compliance with competitive neutrality referred to IPART in 2009/10.

Funds granted to non-government community organisations

IPART granted \$1,000 to sponsor IPART runners in the J P Morgan Chase Corporate Challenge in 2009/10. The money raised is given to charities and institutions that contribute to an overall quality of life.

Privacy plan

There were no changes to IPART's Privacy Plan in 2009/10, nor any complaints or requests for internal reviews. New staff members are briefed on the Plan as it relates to their role at induction. A copy of the plan is available and accessible by all staff and a Privacy Statement is available on the IPART website for public viewing.

Credit Card Compliance

The General Manager Support Services certifies that credit card usage in the agency has met best practice guidelines in accordance with Premier's Memoranda and Treasurer's Directions 205.1 to 205.8. Credit card usage is subject to an annual internal audit.

Risk management

The CEO and Full Time Tribunal Member was able to attest to Treasury by 30 June 2010 that IPART has internal audit and risk management processes in place that are, in all material respects, compliant with the core requirements set out in Treasury Circular NSW TC 09/08, Internal Audit and Risk Management Policy. These processes provide a level of assurance that enables the senior management of IPART to understand, manage and satisfactorily control risk exposures.

The Audit and Risk Committee for IPART is constituted and operates in accordance with the independence and governance requirements of Treasury Circular NSW TC 09/08. The Chair and Members of the Audit and Risk Committee are:

- > Independent Chair – Mr Ian Neale, appointed for 4 years from 28 July 2008.
- > Independent Member – Ms Elizabeth Coombs, appointed for 4 years from 19 November 2008, resigned July 2010 (Mr Paul Crombie was appointed to succeed Ms Coombs for 4 years from 13/08/2010).
- > Non-independent Member – Mr Colin Reid, Director Water, appointed for 4 years from 20 November 2009.

This Audit and Risk Management Committee was established in late 2008. The Committee is responsible for oversight of the organisation's risk management program for development, implementation and monitoring

activities. During the year IPART reviewed the existing risk management framework and conducted audit and risk management strategies based on the revised risk assessment.

Insurance

IPART's insurance for workers compensation, motor vehicles, public liability, property and miscellaneous items is provided by the NSW Treasury Managed Fund. During 2009/10, there were 5 property claims with a net incurred loss of \$5,844.32 and nil motor vehicle, liability or miscellaneous claims.

Internal and external reviews

IPART reviewed the following areas in 2009/10, as part of the internal audit review program. These were:

Security audit of the Greenhouse Gas Abatement Scheme Registry

The Greenhouse Gas Abatement Scheme (GGAS) and Energy Savings Scheme (ESS) Registry website is a web-based database application providing details of accredited abatement certificate providers and the ownership and status of abatement certificates under GGAS and ESS. The website is operated by an external provider on behalf of IPART.

In 2009, Ernst and Young undertook a review of security of the GGAS Registry website including an external network security test of the GGAS system. Based on interviews, examination of documentation and testing the auditor assessed the overall rating for this information security audit of the GGAS website as "Satisfactory". However some specific recommended enhancements, including enforced usage of encrypted http/s channel, were actioned.

Review the ICT monitoring systems, alerts and management reporting

The object of the review was to identify any gaps or improvement opportunities for the internal ICT monthly report and associated automatic alarms and monitoring systems. Ernst and Young reviewed the current monitoring systems, alerts and management reporting to ensure the best preventative management of risk. The auditors' conclusion was that the report was adequate for its purpose and therefore there is a low risk that it would not appropriately support ICT governance. However IPART accepted suggestions for re-structuring the report to better serve the differing needs of IPART management.

Rebuild IPART's systems from documentation and tapes stored off-site

Every 2 years IPART rebuilds the entire ICT system solely from the backed up data and documentation stored off-site, to ensure that timeframes in the disaster recovery plan are realistic and to test the accuracy and currency of the stored documents. In 2010 IPART successfully rebuilt the ICT systems from stored sources within the 3 working day target.

Audit of key financial controls and compliance with IPART's policy on the engagement of consultants

IPART undertakes an annual broad health check of key processes and controls.

The overall objective of the review was to provide assurance to IPART management as to the adequacy and effectiveness of the current internal control environment operating over the Tribunal's key financial and administration processes relating specifically to expenditure.

The auditor concluded that in general terms the internal controls over the specific expenditure types examined are satisfactory with a low risk rating. However, the auditor recommended updates to 2 policies and suggested the value of training staff in complaint resolution procedures. These recommended actions were substantially completed by the end of June 2010.

Audit of the exercise and documentation of delegation of functions from the Tribunal to the Chief Executive Officer and Tribunal Committees

The overall objective of the review was to provide assurance to IPART Management as to the compliance with the Tribunal's delegation of functions to the Chief Executive Officer and various Tribunal Committees. Specifically, the review focused on the following:

- > The exercise and approval of the delegation of functions from the Tribunal to the Chief Executive Officer and other Tribunal Committees.
- > The adequacy of the documentation that supports the delegations of functions from the Tribunal to the Chief Executive Officer and other Tribunal Committees.

Using a risk based approach systems, relevant processes and procedures were assessed to determine whether controls are in place and operating so as to reduce risks to an acceptable level. The Internal Audit Bureau concluded that the Tribunal's delegated functions to the Chief Executive Officer are compliant to section 10(1) of the *Independent Pricing and Regulatory Tribunal Act 1992* and that no recommendations were required.

Report on account payment performance

| AGED ANALYSIS AT THE END OF EACH QUARTER | | | | | |
|--|-------------------------------------|---------------------------------|----------------------------------|----------------------------------|---------------------------------|
| Quarter | Current (ie. within due date) | Less than 30 days overdue | Between 30–60 days overdue | Between 60–90 days overdue | More than 90 days overdue |
| | \$ | \$ | \$ | \$ | \$ |
| September Quarter | 110,247 | 0 | 0 | 0 | 0 |
| December Quarter | 17,525 | 0 | 0 | 0 | 0 |
| March Quarter | 33,883 | 1,092 | 3,234 | 0 | 0 |
| June Quarter | 0 | 0 | 0 | 0 | 0 |

Accounts paid on time within each quarter

| TOTAL ACCOUNTS PAID ON TIME | | | | |
|-----------------------------|--------|--------|-----------|---------------------------|
| Quarter | Target | Actual | \$ | Total amount paid (\$) |
| September Quarter | 88% | 93% | 4,267,364 | 4,362,826 |
| December Quarter | 88% | 96% | 3,282,547 | 3,435,769 |
| March Quarter | 88% | 94% | 3,009,431 | 3,070,351 |
| June Quarter | 88% | 96% | 5,511,296 | 5,752,303 |

During 2009/10, there were no instances where penalty interest was paid in accordance with section 18 of the Public Finance and Audit (General) Regulation 1995.

There were no significant events that affected payment performance during the reporting period.

Waste Avoidance and Resource Recovery

IPART continues to increase the amount of waste material it recycles in line with Government requirements. Actual data on the total quantity of recycled waste material is not available as recycling is managed externally by the building lessor, who does not retain data on this service.

IPART will be reviewing its Waste Reduction and Purchasing Policy Plan during 2010/11.

Energy Management

Whilst IPART is a minimal user of electricity and fuel (being a small agency and primarily office-based), it continues to consider its emissions impact and reduce it where possible. IPART's office accommodation has been designed to incorporate energy efficient features such as timed lighting in general office areas and sensor lights where appropriate.

In relation to office equipment, the number of single purpose printers has been reduced as staff embrace the use of multifunction centres. These have great energy efficiencies and significantly reduced the number of appliances drawing power. Procurement decisions for purchase of office equipment continue to have regard for energy efficient options.

Details of Annual Report production

The total external cost incurred in the production of the report, including editing, design, photography and all printing processes was \$15,310.60 + GST. An electronic copy of this report is available at IPART's website.

This report has been printed on environmentally friendly stock produced from oxygen bleached wood and chlorine-free pulp.

Appendix G

Freedom of Information Act – Statement of Affairs

The *Government Information (Public Access) Act 2009* (the **GIPA Act**) commenced on 1 July 2010, replacing the *Freedom of Information Act 1989* (the **FOI Act**). The GIPA Act requires IPART to provide the following information on its websites:

- > a publication guide – this describes IPART’s structure and functions, the various kinds of information it holds, and how people can access this information
- > documents about IPART that have been tabled in parliament
- > IPART’s policy documents
- > IPART’s disclosure log of formal access applications
- > IPART’s register of government contracts
- > a record indicating the general nature of any open access information that has not been disclosed because of an overriding public interest.

Availability of information

Copies of all documents in IPART’s public access library are available for public inspection at the IPART office, Level 8, 1 Market Street, Sydney NSW 2000, from 9.00 am to 5.00 pm Monday to Friday (inquiries (02) 9290 8400). Copies of all IPART publications are also available from our website at www.ipart.nsw.gov.au.

Where information is not available on IPART’s website, an informal request for this information may be made to IPART by contacting IPART’s Right to Information Officer Meryl McCracken (meryl.mccracken@ipart.nsw.gov.au). Unless there is an overriding public interest against disclosure of the information, IPART will try to release information without the need for a formal access application.

Formal access application

Where information is not available on IPART’s website or not able to be provided by informal request, a formal access application may be made to IPART. This involves downloading and completing the access form (available on IPART’s website) and sending it to the following address:

Ms Meryl McCracken
Right to Information Officer, IPART
Level 8, 1 Market Street
Sydney NSW 2000

The application must be accompanied by an application fee of \$30. Further details about making a formal access application is available on IPART’s website (www.ipart.nsw.gov.au).

Requests made during this year

IPART received 2 new requests for documents under the FOI Act in this financial year.

On 14 October 2009, IPART received an application for access to documents relating to changes between the draft and final pricing determinations for the Review of CityRail fares 2009-12, on the issue of reducing the burden of proposed fare rises on medium and longer distance commuters. IPART released 21 documents in response to this application.

The \$30 application fee was paid by the applicant and no processing charges were sought by IPART. The applicant did not seek a review of IPART’s decision.

On 16 March 2010, IPART received an application for access to all documents submitted by a third party in connection with their application for accreditation under the Energy Savings Scheme established by the *Electricity Supply Act 1995* (NSW). IPART identified 10 documents (some with multiple attachments) within the scope of the request. The \$30 application fee was paid by the applicant and no processing charges were sought by IPART.

IPART consulted with the third party who objected to the release of all documents. IPART made its primary decision on 20 April 2010. IPART decided to release 2 documents in full and decided to deny access to some of the information contained in the remaining 8 documents, granting partial access.

The third party sought internal review of IPART's decision to partially release documents and paid the internal review fee of \$40. IPART made its internal review decision on 27 May 2010. The internal review decided to deny access to further information in 8 of the 10 documents.

As in the previous year, no Ministerial certificates were issued in this financial year and IPART received no requests for amendment or notation of personal records.

Request carried forward from the previous year

No requests for documents under the FOI Act were carried forward from the 2008/2009 financial year.

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