

**Independent Competition
and
Regulatory Commission**

Statement of Intent

2015-16

INDEPENDENT COMPETITION AND REGULATORY COMMISSION

The Independent Competition and Regulatory Commission (the Commission) is a Territory Authority established under the *Independent Competition and Regulatory Commission Act 1997* (ICRC Act). The Commission is constituted under the ICRC Act by one or more standing commissioners and any associated commissioners appointed for particular purposes. Commissioners are statutory appointments and the current Commissioners are Senior Commissioner Malcolm Gray and Commissioner Mike Buckley. In the absence of Senior Commissioner Malcolm Gray, Mike Buckley is the Senior Commissioner. We, the Commissioners who constitute the Commission until 29 February 2016 under current arrangements, take direct responsibility for delivery of the outcomes that are foreshadowed in this Statement of Intent.

This Statement of Intent for 2015-16 has been prepared in accordance with Section 61 of the *Financial Management Act 1996*.

The responsible Minister, Mr Andrew Barr MLA, was consulted during the preparation of the Statement of Intent.

The Statement of Intent, which focuses on the 2015-16 Budget year, has been developed in the context of a four year forward planning horizon to be incorporated, as far as practicable, into the Independent Competition and Regulatory Commission strategic and business planning processes.

The Independent Competition and Regulatory Commission 2015-16 Statement of Intent has been agreed between:

Malcolm Gray
Senior Commissioner

May 2015

Andrew Barr MLA
Treasurer

May 2015

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Purpose

We have responsibilities for a broad range of regulatory and utility administrative matters. We have responsibility under the *Independent Competition and Regulatory Commission Act 1997* (ICRC Act) for regulating and advising government about pricing and other matters for monopoly, near-monopoly and ministerially declared regulated industries, providing advice on competitive neutrality complaints and government-regulated activities, and arbitrating infrastructure access disputes under the ICRC Act.

Our objectives are set out in section 7 of the ICRC Act and section 3 of the *Utilities Act 2000* (Utilities Act).

Section 7 of the ICRC Act sets out our objectives as:

- promoting effective competition in the interests of consumers;
- facilitating an appropriate balance between efficiency, environmental and social considerations; and
- ensuring non-discriminatory access to monopoly and near-monopoly infrastructure.

The Utilities Act provides for the licensing of electricity, natural gas, water and sewerage utility services. In discharging our responsibilities under this legislation, our objectives are to:

- encourage the provision of safe, reliable, efficient and high-quality utility services at reasonable prices;
- minimise the potential for misuse of monopoly power and promote competition in the provision of utility services;
- encourage long term investment, growth and employment in utility services; and
- protect the interests of consumers.

Nature and scope of activities

In discharging our responsibilities under our enabling legislation we conduct the following activities:

- Water and sewerage services pricing arrangements
 - As a regulated industry under the ICRC Act, prices for water and sewerage services in the ACT are determined by us, or are determined by an Industry Panel and implemented by us;

- The Treasurer tabled in the Legislative Assembly on 05 May 2015 the final report and price direction of the Industry Panel. We are required to comply with the Industry Panel's Price Direction. We will be implementing a price change to be effective by 01 July 2015 and thereafter annual price resets to be effective on 01 July of each year as set out in the Industry Panel's Price Direction. The Industry Panel has also mandated that we are to undertake a review of water tariff structures before 30 June 2018 and seek terms of reference for the next regulatory period by January 2017.
- Retail electricity pricing arrangements
 - From 01 July 2012 responsibility for regulating retail electricity substantially transferred to the Australian Energy Regulator (AER), except for technical regulation, complaints handling and retail electricity pricing. We will in 2015-16, pursuant to government policy, continue to determine prices for retail prices for franchise electricity customers.
 - In June 2015, we will adjust prices as set out in our price direction for the period commencing 01 July 2015 to 30 June 2016.
 - In January 2016, we will seek a terms of reference for the next regulatory period.
- Electricity feed-in tariff arrangements
 - The *Electricity Feed-in (Renewable Energy Premium) Act 2008* (Electricity Feed-in Act) establishes a scheme for feed-in from renewable energy generators to the electricity network. We provide independent advice to assist the Minister for the Environment on the scheme's implementation as well as its progress.
- Competition policy
 - In 2015-16 we will continue to respond to the ACT Government's requirements for advice on competition policy matters.
 - In 2015-16 we will also continue our role in handling competitive neutrality complaints, as described in the National Competition Policy Agreements and the ACT Competitive Neutrality Statement.
- Utilities regulatory regime
 - We have a statutory responsibility to ensure that utilities authorised to provide services in the Territory comply with their obligations in and arising from licence conditions and industry and technical codes made under the Utilities Act. During 2015-16, the ACT licensing regime will continue to apply to electricity and gas distribution activities and water and sewerage services. We will continue to assess licence applications, maintain the licensing regime, and monitor and report on retail utilities' compliance with licence conditions.

Risks

Effective risk management is one of the keys to achieving our purpose. We regard managing risk to be a fundamental activity, performed at all levels.

Our approach to risk management is that 'risk is everyone's business'.

We have developed an enterprise wide risk management approach to identifying, managing or mitigating risks. Specific areas of risk include:

- Operational risk
 - Operational risk arises from inadequate internal processes, people and systems, or from external events such as non-performance under contracts. We have instituted policies and procedures that proactively manage third-party risk through continuous evaluation of risk factors across the decision continuum. The cyclical nature of our work has placed and continues to place pressure on our people.
 - We face the organisational risk of sustainability and our reliance on a few staff increases the risk of loss of organisational capacity and knowledge when those staff utilise leave under relevant work place agreements or seek opportunities elsewhere.
 - A key operational risk in the 2015-16 financial year, arises from the completion of the terms of appointment of both Senior Commissioner Gray and Commissioner Buckley. This increases the operational risk of business continuity.
- Financial risk
 - Financial risk arises from inadequate cash reserves to meet our financial commitments. We have appropriate risk management procedures to identify and manage financial risk including actively monitoring credit risk in areas such as cash and other receivables, and have instituted procedures for purchasing appropriate to our nature, scale and size.

Performance measures and targets

Key Performance Indicators for 2015-16 to 2018-19

Table 1 – Key performance indicators for 2015-16 to 2018-19

Item	Measure	
	2015-16	2015-16 to 2018-19
Water and sewerage services pricing	Price adjustment	Price adjustments, undertaking and completion of tariff review, new terms of reference and consideration of matters raised by the Industry Panel in the Industry Panel's final report.
Retail electricity pricing	Price adjustment	Price determinations and price adjustments
ACT Electricity Feed-in activity summary	Quarterly reports	Quarterly reports
Utilities compliance and performance	1 report ¹	Annual reports
Utility licence fees (water, sewerage services, and energy sector utilities not subject to energy industry levy)	1 determination Collection of licence fees	Annual licence fee determinations as required and annual collection of licence fee
Utility levies (energy sector)	3 determinations	Annual levy determinations as required
Advice on referred matters	Subject to receipt of references	Subject to receipt of references

Notes:

1. We will include the compliance and performance report for licensed electricity, gas, water and sewerage services utilities as part of our Annual Report.

Assessment of performance against 2014-15 objectives

Table 2 - Comparison of estimated performance at 30 June 2015 and the Statement of Intent for 2014-15

Item	Measure	Estimated performance
Water and sewerage services determination	Price adjustments	The Commission's Price Direction was suspended by the Industry Panel. ¹
Retail electricity determination	Price determination	1 price determination
Feed-in tariff advice	Annual report	4 quarterly reports
Utilities compliance and performance	1 report	1 report ²
Greenhouse gas emissions and targets	1 report	1 report
Utility licence fees (water, sewerage services, and energy sector utilities not subject to energy industry levy)	1 determination	1 determination
Utility levies (energy sector)	3 determinations	3 determinations
Advice on referred matters	Subject to receipt of references	No references were received in 2014-15

Notes:

1. The water and sewerage services price determination for the period commencing 1 July 2013 provided for a biennial recalibration for commencement on 01 July 2015. The Industry Panel on an application by Icon Water to have the biennial recalibration process set aside, acceded to Icon Water's application. We published water forecasts in accordance with our 2013 water and sewerage services price determination.
2. We will include the compliance and performance report for 2014-15 for licensed electricity, gas, water and sewerage utilities as part of our Annual Report for 2014-15.

Employment profile

Table - Estimated staffing profile at 1 July 2015

Level	No of positions	PT/FT	FTE
Senior and standing Commissioners	2	PT	n/a
SES	1	FT	1.0
SOG A	1	FT	1.0
SOG B	1	FT	1.0
SOG C	0	0	0.0
ASO 6	0	0	0.0
ASO 5	1	FT	1.0
ASO 4	0	0	0.0
Total FTE¹			4.0

Note:

1. The estimated staffing profile makes no provision for additional staffing resources that may be required in the event that we are allocated and funded for new responsibilities in 2015-16. The FTE estimated reflects our decision to meet our non recurrent workload by appointing temporary staff rather than using external contractors and consultants.

Monitoring and reporting

We shall satisfy the requirements of the Chief Minister's Annual Reports Directions and our Annual Report will, amongst other things, report against the requirements of this Statement of Intent.

The *Financial Management Act 1996* authorises the Treasurer to obtain financial and other statements from us for a stated period including annual, quarterly and monthly reporting.

Quarterly Reporting

To enable consolidated whole of Government reporting requirements to be met on a quarterly basis, we will ensure the availability to the Treasurer, through the Chief Minister, Treasury and Economic Development Directorate (by the eighth working day of each quarter), information, in the prescribed form and detail, in respect of the previous quarter:

- a) Operating Statement
- b) Balance Sheet
- c) Statement of Changes in Equity
- d) Cash Flow Statement
- e) Operating Statement material variance explanations against seasonal budget provided by the Authority (by the eighth working day of each quarter).
- f) Status Report to supplement performance reporting to the Assembly and provide stakeholders with a summary on progress against budget highlights, significant initiatives and major projects (by the tenth working day of each quarter).
- g) Management Discussion and Analysis of our results to date, forecast results and related issues that may impact on our financial condition (by the tenth working day of each quarter).

Monthly Reporting

In addition to the quarterly information required as identified above, on a monthly basis we will ensure the availability to the Treasurer through the Chief Minister, Treasury and Economic Development Directorate (by the eighth working day of each month) the financial statements, in the prescribed form and required detail, in respect of the previous calendar month.

Annual Reporting

As part of preparations for end of year reporting the Chief Minister, Treasury and Economic Development Directorate will advise us the dates when the following documents are required at the Chief Minister, Treasury and Economic Development Directorate and at the Auditor-General's Office:

- a) Certified financial statements
- b) Management discussion and analysis

- c) A full and accurate set of audited financial records for the preceding financial year in the form requested
- d) Consolidation packs relating to the annual financial statements, draft and final.

Financial Arrangements

Our financial plan is included in the budget estimates for the financial year and the forward estimates. We have no borrowings or guarantees, are not part of any joint venture arrangement and we have no overdraft or other credit facilities. We own no assets, other than our furniture and fittings. Furniture and fittings are depreciated annually as shown in our Annual Report.

We receive Government funding through purchase agreements with the Chief Minister, Treasury and Economic Directorate. The ICRC and Utilities Acts provide mechanisms for us to recover the cost of our activities above the base fixed costs that are funded through the purchase agreement with the Chief Minister, Treasury and Economic Directorate.

In 2015-16, our cost of regulating energy utilities will be largely funded through direct appropriation. Regulatory costs for water and sewerage services will be met through utility licence fees. The costs of inquiries and other referred activities are recovered from regulated industries or from the ACT Government subject to Section 19 of the ICRC Act. Where we enter into arrangements with third parties, the costs associated with the provision of our expert advice and assistance is subject to Section 12 of the ICRC Act.

Financial Statements

Budgeted financial statements for the 2015-16 Budget year, as well as forward estimates for the three financial years commencing 2016-17 appear below. These general purpose financial statements have been prepared in accordance with the ACT's Model Financial Statements and include:

- a) Operating Statement
- b) Balance Sheet
- c) Statement of Changes in Equity
- d) Cash Flow Statement
- e) Notes to the Financial Statements as appropriate.

**Independent Competition and Regulatory Commission
Operating Statement**

2014-15 Budget \$'000		2014-15 Est'd outcome \$'000	2015-16 Budget \$'000	Variance%	2016-17 Estimate \$'000	2017-18 Estimate \$'000	2018-19 Estimate \$'000
Revenue							
548	Government Payment for Outputs	534	541	1	563	574	586
905	Taxes, Fees and Fines	757	778	3	802	824	825
478	User Charges - ACT Government	659	537	-19	417	487	494
52	Interest	48	48	-	48	48	48
1,983	Total Revenue	1,998	1,904	-5	1,830	1,933	1,953
Expenses							
896	Employee Expenses	862	796	-8	817	845	852
128	Superannuation Expenses	91	81	-11	83	83	85
857	Supplies and Services	1,145	942	-18	845	920	931
50	Depreciation and Amortisation	50	50	-	50	50	50
1,931	Total Expenses	2,148	1,869	-13	1,795	1,898	1,918
52	Operating Result	-150	35	123	35	35	35
52	Total Comprehensive Income	-150	35	123	35	35	35

**Independent Competition and Regulatory Commission
Balance Sheet**

Budget at 30/6/15 \$'000		2014-15 Est'd outcome \$'000	Budget At 30/6/16 \$'000	Variance%	Estimate At 30/6/17 \$'000	Estimate At 30/6/18 \$'000	Estimate At 30/6/19 \$'000
Current Assets							
2,299	Cash and Cash Equivalents	1,998	2,111	6	2,221	2,330	2,439
462	Receivables	10	10	-	10	10	10
2,761	Total Current Assets	2,008	2,121	6	2,231	2,340	2,449
Non Current Assets							
355	Property, Plant and Equipment	350	300	-14	250	200	150
355	Total Non Current Assets	350	300	-14	250	200	150
3,116	TOTAL ASSETS	2,358	2,421	3	2,481	2,540	2,599
Current Liabilities							
179	Payables	60	60	-	60	60	60
261	Employee Benefits	190	196	3	197	196	195
625	Other Provisions	560	576	3	592	609	626
1,065	Total Current Liabilities	810	832	3	849	865	881
Non Current Liabilities							
29	Employee Benefits	15	21	40	28	35	42
58	Other	65	65	-	66	67	68
87	Total Non Current Liabilities	80	86	8	94	102	110
1,152	TOTAL LIABILITIES	890	918	3	943	967	991
1,964	NET ASSETS	1,468	1,503	2	1,538	1,573	1,608
REPRESENTED BY FUNDS EMPLOYED							
1,964	Accumulated Funds	1,468	1,503	2	1,538	1,573	1,608
1,964	TOTAL FUNDS EMPLOYED	1,468	1,503	2	1,538	1,573	1,608

**Independent Competition and Regulatory Commission
Cash Flow Statement**

Budget at 30/6/15 \$'000	2014-15 Est'd outcome \$'000	Budget At 30/6/16 \$'000	Variance%	Estimate At 30/6/17 \$'000	Estimate At 30/6/18 \$'000	Estimate At 30/6/19 \$'000	
CASH FLOWS FROM OPERATING ACTIVITIES							
Receipts							
548	Cash from Government for Outputs	534	541	1	563	574	586
905	Taxes, Fees and Fines	779	778	..	802	824	825
478	User Charges	970	537	-45	417	487	494
52	Interest Received	48	48	-	48	48	48
86	Other Receipts	86	86	-	86	86	86
2,069	Operating Receipts	2,417	1,990	-18	1,916	2,019	2,039
Payments							
880	Related to Employees	1,056	801	-24	826	855	862
112	Related to Superannuation	75	44	-41	40	36	38
965	Related to Supplies and Services	1,025	931	-9	839	918	929
101	Other	101	101	-	101	101	101
2,058	Operating Payments	2,257	1,877	-17	1,806	1,910	1,930
11	NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	160	113	-29	110	109	109
11	NET INCREASE / (DECREASE) IN CASH HELD	160	113	-29	110	109	109
2,288	CASH AT THE BEGINNING OF REPORTING PERIOD	1,838	1,998	9	2,111	2,221	2,330
2,299	CASH AT THE END OF REPORTING PERIOD	1,998	2,111	6	2,221	2,330	2,439

**Independent Competition and Regulatory Commission
Statement of Changes in Equity**

2014-15 Budget \$'000		2014-15 Est'd outcome \$'000	2015-16 Budget \$'000	Variance%	2016-17 Estimate \$'000	2017-18 Estimate \$'000	2018-19 Estimate \$'000
	Opening Equity						
1,912	Opening Accumulated Funds	1,618	1,468	-9	1,503	1,538	1,573
1,912	Balance at the Start of the Reporting Period	1,618	1,468	-9	1,503	1,538	1,573
	Comprehensive Income						
52	Operating Result for the Period	-150	35	123	35	35	35
52	Total Comprehensive Income	-150	35	123	35	35	35
0	Total Movement in Reserves	0	0	-	0	0	0
	Closing Equity						
1,964	Closing Accumulated Funds	1,468	1,503	2	1,538	1,573	1,608
1,964	Balance at the End of the Reporting Period	1,468	1,503	2	1,538	1,573	1,608

Notes to the Financial Statements

Significant variations are as follows:

Operating Statement

- **Supplies and Services:** the increase of \$0.288 million in the 2014-15 estimated outcome from the original budget is primarily due to estimated cost increases in the Environment and Planning Directorate and Act Civil and Administrative Tribunal for regulatory activities performed under the Utilities Act.

Balance Sheet

- **Cash and Cash Equivalents:** the decrease of \$0.301 million in the 2014-15 estimated outcome from the original budget reflects:
 - The Commission providing additional analysis and advice on greenhouse gas emissions with an approximate value of \$0.190 million that was not covered in the original service agreement with the Environment and Planning Directorate. These additional services related to the Government's Greenhouse Gas Emissions Action Plan 2 and were provided in consultation with the Environment and Planning Directorate and agreed with the Minister for the Environment; and
 - The Commission reviewing its costing model early in 2014-15 and revising the recoverable income accrued at the end of 2013-14 down by \$0.125 million. This downward adjustment recognised the cyclical nature of the Commission's operations.
- **Receivables:** the decrease of \$0.452 million in the 2014-15 estimated outcomes from the original budget is due to the Industry Panel suspending the Commission's 2015 biennial recalibration process for Regulated Water and Wastewater Services. The biennial recalibration was scheduled to be completed in June 2015, with actual costs recovered in 2015-16.

Statement of Changes in Equity

Variances in the statement are explained in the notes above.

Cash Flow Statement

Variances in the statement are explained in the notes above.

Glossary of terms and abbreviations

AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
Electricity Feed-in Act	<i>Electricity Feed-in (Renewable Energy Premium) Act 2008</i>
ICRC Act	<i>Independent Competition and Regulatory Commission Act 1997</i>
The Commission	Independent Competition and Regulatory Commission
Utilities Act	<i>Utilities Act 2000</i>