



ANNUAL REPORT

2015



Working to protect and promote
the interests of New Zealanders

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Presented to the House of Representatives pursuant to section 150(3) of the Crown Entities Act 2004.

Commission by the numbers

\$28.4 million
of refunds or compensation

for affected consumers achieved
in court or by settlement

32

mobile trader
inspections

\$1.6 million
of penalties

obtained for breaches of the Acts we enforce

75

product safety
inspection visits

9,044

contacts to our
contact centre

OVER 370

media queries

107

media releases

Official
Information Act
requests
responded to

193

14

clearance applications
taking an average
of **64** working days
to reach a decision

Investigations
completed in
non-regulated
markets

463

5

credit workshops
attended by over
300 consumers

\$14.9 million

spent on
promoting competition and protecting
consumers in non-regulated markets

30

determinations issued
for regulated services

\$15.9 million

spent on
ensuring regulated markets provide
long-term benefits for consumers

252,061

website users



1,180,109

website page views



Highlights

Released draft decision on
**wholesale
broadband prices**
Chorus can charge

Souvenir company prosecutions
concluded with more than
\$1 million
total fines imposed

**Used new
enforcement tools**
including infringement notices

Cost of capital adjustment
saves up to
\$45 million
per annum for consumers
of electricity lines and
gas pipeline services

Crimes Act
Two successful prosecutions

Accepted court-enforceable undertakings
in the Broadlands Finance settlement

Educated businesses in advance of
**changes to the Credit Contracts and
Consumer Finance Act**

Consumers
\$33 million
better off over 3 years
following review of
Wellington Airport pricing

Construction microsite wins
International Competition
Network/World Bank Group
**Competition
Advocacy award**

Charges filed against three finance companies for
fees and repossession practices

\$22.6 million
cash payments
achieved in interest rate swaps investigation

**Set price and
quality controls**
in the electricity sector
for next five years

Hosted international experts
including professors Ingo Vogelsang and Bill Kovacic,
John Pecman, and Lord David Currie

Attracted
**nine high profile
global speakers**
for the second biennial
Competition Matters conference

Court of Appeal upholds
judgment in MTF/Sportzone
case, setting
**key precedent
on credit fees**



OVERVIEW

Introduction

The Commerce Commission is New Zealand's competition, consumer and regulatory agency. Our purpose is to achieve the best possible outcomes in competitive and regulated markets for the long-term benefit of New Zealanders.

We are responsible for enforcing laws relating to competition, fair trading, and consumer credit contracts, and have regulatory responsibilities in the electricity lines, gas pipelines, telecommunications, dairy and airport sectors.

Competition is a key driver for delivering greater productivity and growth in the economy. It incentivises firms to innovate, and rewards efficiencies in business. Through regulation we seek to achieve the same outcomes in markets with little or no competition.

An effective competition agency and regulator helps to ensure:

- there is a level playing field for competitors – the rules are known and players are monitored
- market power is not abused
- the level of competition in a market is not substantially lessened by amalgamation
- consumers are protected, and clear and accurate information is provided to them
- regulated businesses face incentives to provide long-term benefits for consumers.

This annual report provides an overview of the Commission's activity for the past financial year. It details our performance against our accountability frameworks, as set out in our 2014-2018 Statement of Intent (SOI), and the performance measures and budgets set out in our Statement of Performance Expectations 2014/15 (SPE).





Report from the Chairman

The Commission has experienced another demanding but successful year. We concluded a number of high-profile investigations, achieved major regulatory milestones, and launched new education and advocacy programmes on the back of significant legislative changes.

Competition and consumer

Over the past year the competition and consumer teams have had some major achievements and taken on new challenges, including launching a comprehensive education campaign on changes to consumer credit law, initiating a project targeting mobile traders, and undertaking active enforcement of the law.

Changes to the Fair Trading Act (FTA) last year made new enforcement tools available to us. These include the ability to issue infringement notices, seek court-enforceable undertakings and management banning orders, and require compulsory interviews. We have already begun to use these tools, while also looking harder at seeking criminal sanctions against individuals who deliberately mislead or defraud consumers. On this front we successfully concluded two criminal prosecutions over the past year, as detailed later in this report, and we have further cases before the courts. We have also begun to implement new laws relating to the substantiation of claims made about goods and services, the sale of extended warranties, the use of unfair contract terms, and a range of requirements relating to different selling methods.

High-profile investigations

This year we have taken a range of cases enforcing consumer credit laws, the FTA and the Commerce Act.

Of particular note was the completion of our long-running investigation into the sale of interest rate swaps to farmers by ANZ, Westpac and ASB banks. This case presented challenges, not least being that many complaints dated back to actions taken in 2005. The settlements reached with the three banks resulted in payments of \$20 million for complainants and \$2.6 million for Rural Support Trusts. The final payments have now been completed, with over 97 percent of farmers accepting their personal cash settlement offers. We believe the payments made under the settlement are a reasonable approximation of the potential losses the Commission could have recovered through any court process.

In our view, this was the best possible outcome for farmers. Importantly, they will not have to go through the stress of lengthy court proceedings and prove individual losses that occurred up to 10 years ago. The ability to settle proceedings is important in enabling us to achieve the best outcome for consumers in the specific circumstances of a case.

The Commission has also investigated the widespread use of 'opt out' pricing this year – the practice of sellers pre-selecting additional charges during an online sales process. We believe this practice potentially misleads consumers into paying for something they do not want or need. Our investigation into Air New Zealand's use of 'opt out' pricing to sell travel insurance resulted in the airline deciding to end this practice. The ensuing publicity led House of Travel and Nakedbus to follow suit shortly after, while investigations into Jetstar, Ticket Direct and Dash Tickets are ongoing.

High-profile inquiries into Countdown supermarkets and competition in the plasterboard industry were closed late last calendar year. The seriousness of the allegations warranted careful examination, particularly as the supermarket and construction sectors have wide consumer reach. In both investigations, no evidence was found that the conduct we investigated breached the relevant legislation.

Advocacy and education

While the Commission is an enforcement agency, our advocacy and education functions assist businesses and consumers to understand how the law affects them. Prevention remains the best cure and we continue to see real value in investing in education programmes across all the Acts we enforce. These include our Major Trader Programme, construction sector advocacy and credit law workshops.

As noted above, we have continued our work on the implementation of changes to the FTA that progressively came into force in mid 2014 and early 2015, including through updated fact sheets and guidance. In addition, major changes to the Credit Contracts and Consumer Finance Act (CCCF Act) came into force in June 2015 that affect all lenders. Leading up to the law change, we ran a series of workshops across the country, for both lenders and consumer groups, and have complemented this direct engagement by issuing a series of fact sheets. With mobile devices becoming the dominant platform for consumers to seek and receive information, we are exploring new ways to reach vulnerable borrowers and help them understand how the key changes affect them.

Vulnerable consumers

Vulnerable consumers remain a priority for the Commission. In June 2014 we began a 12-month project on mobile traders, commonly referred to as truck shops, operating in Auckland to help us understand these businesses better and improve their compliance with the law. The consumer team visited every mobile trader in Auckland that they identified and recently released a public report describing the industry, the issues they discovered, and the steps taken to improve compliance with existing and changing laws.

Since the report was published one former operator has been arrested and charged under the Crimes Act and FTA. We have also begun to revisit each mobile trader to assess whether they have addressed the issues we raised with them.

Over the past year we have undertaken a number of investigations and cases relating to the enforcement of consumer credit laws, and have put significant effort into educating lenders, including mobile traders, on the changes to the CCCF Act which came into force in June. We will continue to assess compliance with consumer credit laws and take appropriate enforcement action, including criminal and/or civil proceedings in suitable cases.

“We have put significant effort into briefing relevant stakeholders to help them understand the work we do.”

“Improving how we engage and communicate is a continued focus for us”

Regulation

This year was a significant year in the development of our regulatory regime under Part 4 of the Commerce Act. We set the default price-quality paths for 16 electricity distributors for the next regulatory period from 2015 to 2020 and an individual price-quality path for Transpower for the same period. These substantial pieces of work help to promote regulatory certainty and increase predictability.

We have also released our final reports on Wellington and Christchurch airports' pricing re-disclosures, concluded our regular reviews of Fonterra's base milk price calculation and milk price manual, and released our final decision on the weighted average cost of capital (WACC) used for regulated energy businesses. Draft determinations were released on the prices Chorus can charge retail telecommunications service providers for use of its unbundled copper local loop (UCLL) and unbundled bitstream access (UBA) services over the next 5 years.

The input methodologies (IMs) review is underway and we aim to complete this by December 2016. We have been working closely with stakeholders on the IMs review, which will be a priority over the next year. We have also begun the review of the state of competition in the New Zealand dairy industry, which is due to be completed by March 2016.

Stakeholder engagement

The Commission is actively addressing the issues and challenges that we face as an organisation. Improving how we engage and communicate is a continued focus for us and this includes talking more directly and frequently with our stakeholders through public forums, workshops, and analyst and media briefings, and improving the accessibility of our reports and determinations.

The Commission also undertakes international engagement with competition and regulatory agencies in other jurisdictions and works hard to stay connected and up to date with international best practice. Staff and Commissioners have attended or spoken at major events across the Tasman and in Europe, Asia and America. We have also had the privilege of hosting a number of international guests and delegations, including Lord David Currie, Chairman of the UK Competition and Markets Authority; Professor Ingo Vogelsang from Boston University; John Pecman, Commissioner of Competition at the Canadian Competition Bureau; and Professor William (Bill) Kovacic, member of the UK Competition and Markets Authority and ex-Chairman of the United States Federal Trade Commission.

Timeliness

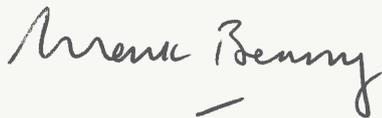
We understand the impact that our processes and decisions have on businesses. We are therefore focused on the timeliness of our work. We continually review our internal settings to make sure any barriers that are slowing us down are identified and removed, and our limited resources are properly prioritised to achieve the greatest impact. In addition, we recognise that managing expectations around the time it takes to undertake large or complicated investigations and merger clearance applications is increasingly important to avoid prolonged uncertainty.

Governance

Lastly, we welcomed Graham Crombie as an Associate Commissioner in July 2015 and look forward to welcoming a new, yet familiar, Commissioner in Dr Jill Walker in December. Jill has served two terms as a Commissioner with the Australian Competition and Consumer Commission (ACCC) and has been an Associate Commissioner of the New Zealand Commerce Commission since 2010. Her existing knowledge of our work will make for a very smooth transition.

Jill will replace Pat Duignan, who will be leaving the Commission at the end of the year. Pat has had a hugely influential role working across the broad spectrum of regulation decisions. His expertise has been highly valued during his tenure and we wish him well.

The past 12 months have seen some major milestones achieved across the organisation. We have a great team of people, led by Chief Executive Brent Alderton, who work tirelessly on behalf of New Zealanders. As Chairman, I take pride in our past achievements and look forward to the year ahead.



Dr Mark Berry
Chairman

“We understand the impact that our processes and decisions have on businesses.”



Report from the Chief Executive

The Commission has a pivotal role in maintaining the integrity of New Zealand's markets.

We understand the impact our decisions have on businesses and consumers. We are also aware that businesses, as consumers and market players, benefit from our role in ensuring they are able to compete fairly and that markets with limited competition are regulated appropriately.

Our reputation as a fair and competent regulator is tied to our performance and each decision we make. In line with ministerial expectations, we are looking for ways to improve how business is done and continue to review and assess our performance to ensure we are operating effectively and efficiently.

Backing our people

Critical to delivering the best competition, consumer and regulatory outcomes is our ability to attract and retain the best people. Over the past year we have continued to seek new ways to improve our organisational capabilities and ensure our systems and structure support our staff, whether through access to training and international experts or making environmental adjustments that aid productivity.

One of the significant projects rolled out this year was the introduction of new mobile devices for all staff. Taking advantage of tablet technology gives our staff improved flexibility, better facilitates collaboration and is more efficient and effective for staff working in the field. We will be introducing new tools and software in the year ahead to build on the capabilities this project has provided.

Our employee survey produced encouraging improvements in areas we have been focused on. We have maintained strong overall engagement levels, as shown in our health and capability measures on page 64. I am particularly pleased with the significant uplift in our staff wellbeing scores. In addition, staff are positive about their direct managers and feel they are being recognised for their hard work. The areas we are keen to focus on for the next 12 months are internal communication and greater collaboration between our teams.

“We have continued to seek new ways to improve our organisational capabilities and ensure our systems and structure support our staff”

Increased focus on Auckland

Over the past decade there has been a noticeable increase in activity in Auckland, which is the logical result of our largest city's continued growth. It now hosts the bulk of company head offices and is clearly the centre of New Zealand's commercial activity. As a consequence, we have made the strategic decision to close our small Christchurch office by July 2016 and direct more resource to Auckland. This does not signal a shift to doing less in Christchurch and we will maintain our focus on the construction sector during the rebuild. We continue to work closely with affected staff during this transition.

To accommodate the increased staff numbers in Auckland and reflect our growing presence in this city we have recently secured new office space. The move to the new accommodation is expected to be complete in February 2016 and will enhance our ability to operate efficiently in this market.

The Commission is continuously adapting to the demands and pressures we face. Our reputation is built on our ability to respond to ever-changing markets and I am proud of the high standards we have set and met this year.



Brent Alderton
Chief Executive

“Our reputation is built on our ability to respond to ever-changing markets.”

Our structure and role

The Commission is an Independent Crown Entity, with some quasi-judicial functions established under the Commerce Act. We are primarily accountable to the Minister of Commerce and Minister for Communications for our performance. We are not subject to direction from the government in carrying out our enforcement and regulatory control activities. This independence requires us to be an impartial promoter and enforcer of the law. Where relevant, we use our experience to provide advice on policy development and legislative reviews.

The Commission is made up of three branches which work together to achieve our purpose and outcomes; the competition and consumer branch, the regulation branch, and the organisation performance branch. The diagram below shows the three outcomes our operational branches aim to achieve.



Competition and consumer

We play a key role in promoting competitive markets in New Zealand, promoting fair trading and competition, and protecting the interests of consumers.

As a competition authority, the Commission enforces, and provides information and guidance on, three key pieces of legislation:

Commerce Act 1986 (Parts 2, 3 and 5)	Fair Trading Act 1986	Credit Contracts and Consumer Finance Act 2003 (CCCF Act)
Prohibits anti-competitive behaviour and acquisitions that substantially lessen competition in markets.	Prohibits false and misleading behaviour by traders and a range of other unfair business practices. It also requires that consumers are given specified information about certain products and promotes product safety. Amendments to the Act came into force progressively in 2014 and early 2015. These changes expanded the Commission's investigation and enforcement powers, updated laws relating to a range of sales methods, prohibited unsubstantiated representations and banned the use of unfair contract terms in standard form consumer contracts.	Protects the interests of consumers in relation to consumer credit contracts, consumer leases and buy-back transactions of land. It includes provisions relating to disclosure and unforeseen hardship, and sets out rules about interest, payments and credit fees. Significant amendments to this Act came into force in mid 2015. They included amendments to existing disclosure requirements, introduction of new requirements for responsible lending, and updated repossession laws.

Regulation

We play a key role in regulating markets where competition is limited. When competition is limited, there is the risk that consumers are overcharged or do not receive the appropriate quality of service they would expect in a competitive market.

As a regulatory agency, the Commission has responsibility under three key pieces of legislation:

Commerce Act 1986 (Part 4)	Telecommunications Act 2001	Dairy Industry Restructuring Act 2001
Part 4 provides for the regulation of price and quality of goods and services in markets where there is little or no competition, and little or no likelihood of a substantial increase in competition. Sectors that are currently subject to the provisions of Part 4 are electricity distribution and transmission, gas pipelines, and selected airport services.	Regulates the supply of certain wholesale telecommunications services in New Zealand.	Promotes the efficient operation of dairy markets in New Zealand by regulating the activities of Fonterra to ensure New Zealand markets for dairy goods and services are contestable.

New Zealand's competitive and regulated markets

Structural or environmental changes to New Zealand's economy impact on competitive markets and business behaviour. It is important we stay abreast of trends in our markets and how they may influence our priorities and business planning.

Competition and consumer

New Zealand consumers are generally well-served by our competitive markets

New Zealand consumers are generally well served by our competitive markets.

New Zealand is currently ranked 17th on the Global Competitiveness Index and has improved each year since 2011. We are ranked sixth in goods and labour market efficiency and we are in the top ranks for the ethical behaviour of firms.

There are approximately 450,000 businesses in New Zealand. The longer-term trend has seen businesses closing outnumbering businesses opening in New Zealand in each of the last 5 years.

Structural characteristics like these can lead to more mergers and acquisitions being planned and facilitate domestic cartel formation and conduct. Over the last 3 years we have noted a rise in the number of merger clearance applications, although numbers are still down from pre-Global Financial Crisis levels, and an increase in leniency requests seeking immunity from prosecution for domestic cartel conduct.

Our 2015 Consumer Issues report, released in September 2015, goes into greater detail on the factors that impact the Commission's work, and the consumer and competition issues we are currently dealing with. One of the trends identified is the ongoing rise in online trading activity.

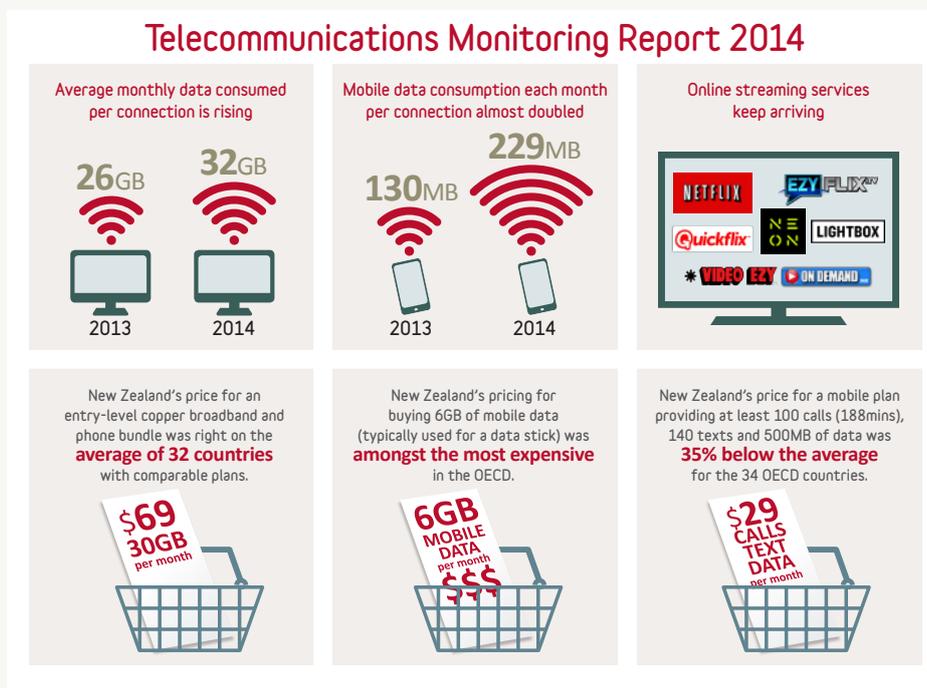
A Bank of New Zealand report found that online sales have increased by approximately 20% for the third quarter of 2014 (purchases from offshore retailers are up 28%), when compared with the previous year. By comparison, store-based retail sales grew by approximately 3.5% for the same period. Domestic online retailers account for approximately 58% of online sales. While the ease of online trading has benefits for consumers, it also poses risks and is an area that will require increased attention.

Regulation

Understanding the state of the markets that regulated suppliers operate in is an important part of ensuring the effectiveness of our regulatory regimes.

The Global Competitiveness Index rates the efficiency of our regulated markets among the highest in the world, with electricity and telecommunications infrastructure rated at 5.8 against a top rating of 7.

The OECD ranks New Zealand 15th out of 34 OECD countries for fixed-line broadband subscriptions per 100 of population, above the OECD average and ahead of the US and Australia. The Commission's 2014 Annual Telecommunications Monitoring report shows competition is strong in the sector while consumer demand for improved broadband quality and speeds is delivering results. The monitoring report provides in-depth information about telecommunications markets, trends over time and comparisons with other OECD countries.

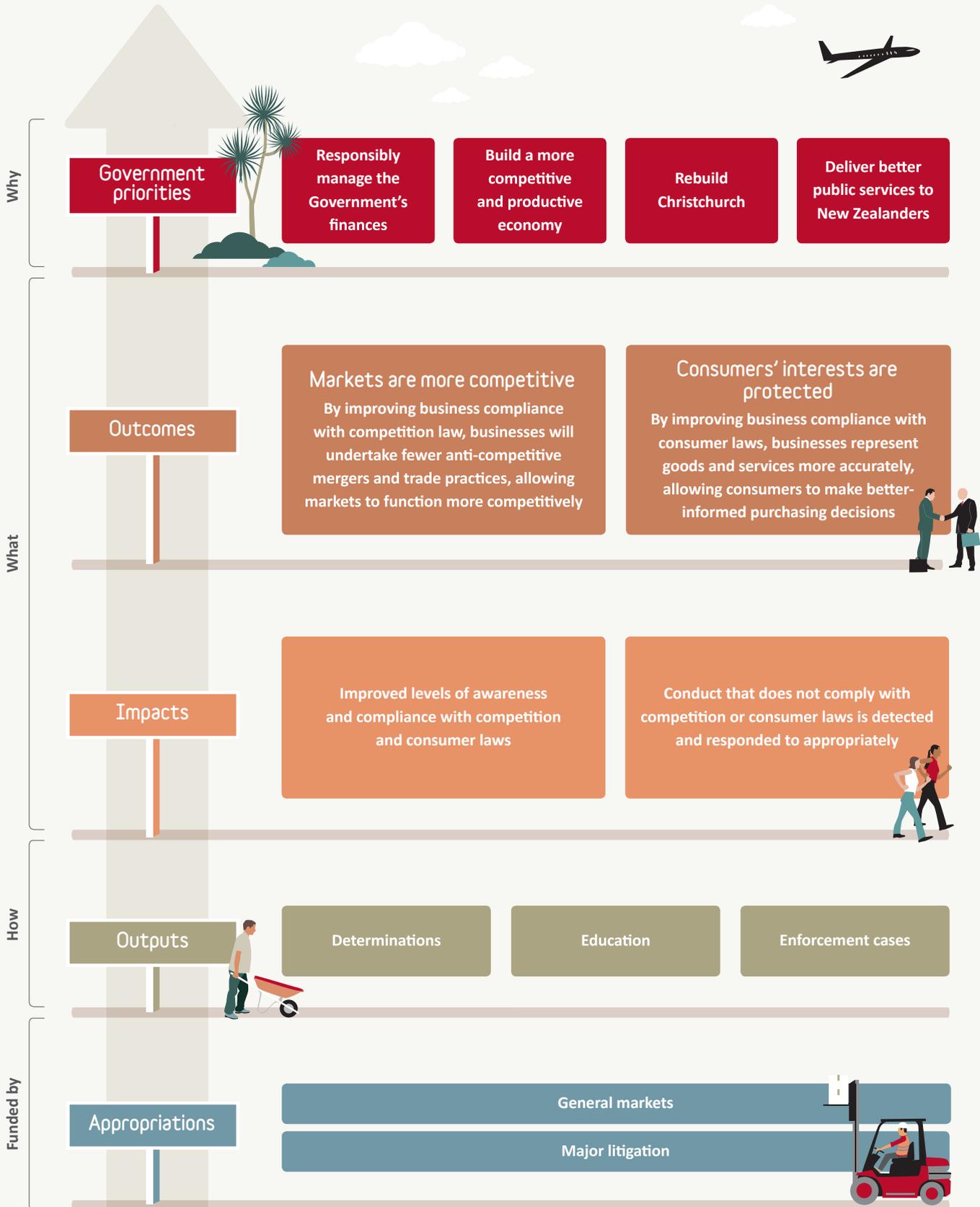


LINK: [Telecommunications Monitoring Report 2015](#)

Consumer demand for improved broadband quality and speeds is delivering results.

COMPETITION AND CONSUMER

Accountability framework



Outcomes/Review of year

Improving business compliance with competition and consumer laws is vital to protecting the integrity of New Zealand's markets. Our focus is on reducing behaviours that harm consumers. This includes tackling anti-competitive mergers and trade practices, allowing markets to function more competitively, and ensuring greater transparency in the pricing and description of goods and services for the benefit of consumers.

The outcomes the Commission seeks to contribute to are:

- Consumers' interests are protected
- Markets are more competitive.

Consumers' interests are protected

The Commission's focus remains on targeting our limited resources where we can have the greatest impact, ensuring consumers' interests are protected and that the most harmful behaviours are deterred and punished.

Our priorities over the past year have included building our understanding of the emerging issues consumers face, working with vulnerable consumers and targeting trader conduct which impacts them most, addressing false and misleading claims, and undertaking effective enforcement, including using the new enforcement powers granted to us as part of the changes to the Fair Trading Act. We have also been more deliberate in utilising the Crimes Act when prosecuting individuals responsible for misleading or defrauding consumers.

Building our understanding of consumer issues

For this year, we created a consumer issues report to enhance our understanding of the issues consumers face and inform our work programme. It was the first time this level of analysis had been undertaken to identify current and emerging areas of consumer risk and rank them in order of priority. The 2014 report identified 145 risks affecting consumers. Eighteen of these risks were prioritised and included in our 2014/15 business plan. Those risks included the continued increase in online trading and risks associated with consumer credit, particularly credit issues affecting vulnerable consumers.

We have committed to undertake this analysis annually and release the report to the public.

Addressing credit issues facing vulnerable consumers

A particular focus for the Commission has been to identify and tackle key issues affecting vulnerable consumers. Consumer credit issues have featured prominently in intelligence we have gathered about issues affecting consumers and in discussions we have had with concerned community organisations and other stakeholders.

In June 2014 we began a 12-month project investigating the business practices of mobile traders, commonly referred to as truck shops, with a particular focus on south Auckland. Our aim was to identify as many traders as possible using this business model, better understand how they operate, ascertain the issues causing difficulties for consumers, and determine the extent to which the laws that we enforce apply to them. We also sought to monitor and improve mobile traders' compliance with those laws. A detailed report on this project was published in August 2015.

Our focus is on reducing behaviours that harm consumers.



LINK: [Consumer Issues 2015 report](#)

Of 32 traders identified and visited, 31 did not comply, to varying extents, with all of their obligations under the FTA and CCCF Act. While some breaches related to minor disclosure issues, the more serious included operators; obtaining multiple signed direct debit forms, continuing to take payments after an item was paid for, and making misleading and confusing representations. We also found that many of the mobile traders did not appear to be sufficiently prepared for changes to the FTA and CCCF Act.

We have laid criminal charges against one former mobile trader. We also sent compliance advice to 29 businesses advising them of changes to business practices that we considered were required to comply with existing law and upcoming changes to the law. A follow-on project has now been initiated focusing on continued enforcement, and we have begun revisiting all of the mobile traders identified in the initial project to assess whether they have changed their behaviour. Any enforcement outcomes will be publicised once they are known next year.

A number of our other activities relating to consumer credit have also had a significant focus on lender conduct impacting on vulnerable consumers. We expect this to continue, particularly with the recent introduction of responsible lending requirements under the CCCF Act.

Credit law implementation

In addition to our mobile trader project, we have undertaken a range of other advocacy and enforcement activities throughout the year. We aimed to collect information about issues of concern to borrowers and their advisers, improve education for lenders and borrowers, clarify principles of law, and achieve appropriate penalties and remedies for breaches of the CCCF Act.

In November 2014 we held a well-attended workshop in Mangere, south Auckland, to hear directly from the community about their credit related concerns. Unlawful lending and repossession practices continue to cause harm in vulnerable communities and we have been proactive in engaging with consumer advocates and lenders to raise awareness of the new law changes that took effect in June 2015.

Before the law changes took effect, we developed a campaign to educate consumer groups and lenders on the changes. We hosted over 50 workshops with businesses, consumer advocacy organisations and government agencies, published nine new fact sheets in five languages and ran advertisements in targeted community newspapers.

Educating vulnerable consumers on their rights when signing up to loans or purchasing goods on credit will be a continued focus for us over the coming year. We are also continuing to update fact sheets and guidance to provide practical assistance to lenders and improve compliance and consumer protection.

In addition, we have been active in enforcing the CCCF Act where appropriate, taking a number of prosecutions and civil proceedings seeking compensation for consumers. Enforcement of established and new consumer credit laws will continue to be a priority next year.



Lender prosecutions

Where we have identified harmful behaviour, we have been active in taking court action against lenders.

In December 2014 the Commission filed criminal proceedings in Auckland District Court against finance companies Budget Loans Limited and Evolution Finance Limited. The two companies were charged under the Fair Trading Act over their repossession and debt recovery practices. The charges include allegedly adding interest and costs to loan balances after debtors' property had been repossessed and sold, and repossessing property they did not have rights to.

In March 2015 we filed proceedings against Sunway Finance Limited and Yuan Rong Yang for entering into credit contracts without providing any disclosure to debtors. Mr Yang pleaded guilty on 14 July and was sentenced in October. He was banned indefinitely from being a lender, fined \$22,500 (against a maximum available penalty of \$30,000) and ordered to pay \$3,000 to the complainant in his case. A further six credit contracts he had with debtors were quashed. There has been no appearance by Sunway Finance, which is deemed to have pleaded not guilty.

In April 2015, Twenty Fifty Club Ltd and its sole director, Gavin John Marsich, appeared in the Manukau District Court facing 17 charges in relation to its pay-day loans business. The Commission alleges Twenty Fifty Club was targeting vulnerable communities, charging unreasonable fees, misrepresenting debtors' rights and avoiding its legal obligations.

Addressing false and misleading claims

Consumers rely on accurate information when purchasing goods and services. We continue to receive large numbers of complaints about pricing across a broad range of retail and service industries.

Transparent pricing, particularly for sales promotions, remains a focus for our Major Trader Programme – a forum where we work with selected large retailers and service providers to address and prevent issues that trigger complaints. We have also investigated other pricing practices, including pre-selection, also known as 'opt out'.

'Opt out' pricing successfully targeted

The Commission has investigated the widespread use of 'opt out' pricing, in which additional charges are pre-selected for consumers when buying tickets online. We believe that consumers could be misled into purchasing something they do not want because the onus is on them to 'opt out' during the online sales process. Our investigation into Air New Zealand's sale of pre-selected travel insurance resulted in a warning in March and Air New Zealand agreeing to end the practice. House of Travel and Nakedbus later followed suit. All three companies changed to an 'opt in' method, giving customers a genuine choice and removing any risk of them being misled in breach of the Fair Trading Act.

'Opt out' pricing impacts on consumers every day, so we were pleased these companies have responded positively to our concerns. We are continuing to investigate Jetstar, Ticket Direct and Dash Tickets.



This year we completed our investigation into ANZ, Westpac and ASB banks' marketing of interest rate swaps, achieving \$22.6 million in cash payments for complainants.

The prosecutions resulting from our 2011 investigation into the misrepresentation of alpaca and merino wool products by souvenir companies have also now concluded. The companies involved claimed products were made in New Zealand when they were not, or claimed they exclusively or predominantly contained alpaca or merino wool fibre when they did not. In total, eight companies and seven directors were sentenced, with fines imposed by the court across all prosecutions totalling \$1.15 million. In August 2014 the High Court rejected an appeal by four companies and four individuals who had been successfully prosecuted as a result of this investigation. Enforcement activity in this industry continues.

In addition, we have also applied for a declaration in the High Court relating to dietary supplements that we hope will further clarify the legal test for "made in New Zealand" claims. Maintaining the integrity of country of origin labelling is important to New Zealand consumers as well as overseas visitors and the tourism industry.

Under the FTA it is now illegal to make a representation about a good or service without a reasonable basis. Businesses that make unsubstantiated claims about their goods or services may be prosecuted. We have issued 13 requests to businesses to substantiate representations made about their products or services. We expect this number to increase as consumers and competitors become more familiar with this requirement and lay complaints.

Online sales and other online activity

The number of complaints we have received about online trading has almost doubled over the last 5 years. There were almost 1,800 complaints to the Commission about non-compliant website-based trading this year. These made up 33% of all complaints and 36% of all Fair Trading Act complaints. We have identified online trading as a priority risk to consumers due to the significant increase in transactions and the ease with which new traders can set up and operate without a physical location and the accountability that is present with face-to-face sales. It is important that consumers can rely on online traders being genuine and able to deliver on their sales.

Online musical instrument retailer pleads guilty

In May, online musical instrument retailer Andrew Marquet Taylor was sentenced to 9 months' home detention, ordered to pay more than \$91,000 in compensation and fines, and banned from using the internet for 3 months for misleading and defrauding consumers who purchased goods through his website.

Of 94 complaints made to the Commerce Commission about purchases made from Mr Taylor's GlobalSoundTrade New Zealand and Australian websites, only four complainants received the goods they paid for and seven received a refund after their orders were not fulfilled. The other 83 customers received no goods and no refund.

Mr Taylor pleaded guilty to four charges we brought under the Fair Trading Act and Crimes Act. The charges related to misleading customers, accepting payment for goods he never intended to supply, and failing to respond to a statutory notice.



Our research into issues affecting consumers through online trading has also highlighted the prevalence of online scams and the limitations of enforcing New Zealand law against scammers based overseas. We have identified some disruption tools available to us to help protect consumers, including engaging with search engines (eg, Google or Bing) to demote a website's search result and working with banks to prevent consumer payments being made to known non-compliant sites. As we employ these tools more frequently in the future we expect to gain a better understanding of how effective they are in disrupting online scams.

The Commission has also been active in enforcing the recently introduced requirement that online sellers disclose their trader status if they are in trade according to the Fair Trading Act.

Enforcement

Our complaints and screening processes help us to identify appropriate matters for investigation and enforcement. We continue to engage a range of enforcement tools applying the principles described in our Enforcement Response Guidelines and considering the circumstances of each individual case. We often address minor matters with compliance advice letters which explain how we consider that the trader's conduct is at risk of breaching the laws that we enforce. In most cases these provide an effective and efficient method of educating traders and modifying their conduct for the future. The majority of our investigations over the past year were resolved in this manner. Other investigations warrant more formal enforcement measures such as criminal prosecution under the FTA, CCCF Act or Crimes Act and/or civil proceedings seeking compensation for affected consumers.

This year we secured a number of convictions against traders. A number of traders also made payments to consumers. The Commission often agrees compensation arrangements where we consider that this sanctions the trader while at the same time delivering an effective remedy to consumers without the need for lengthy and complicated court proceedings.

Following our first prosecution under the Crimes Act in late 2013, we completed further successful prosecutions under this Act against Andrew Marquet Taylor and John Garnett this year. Their cases are highlighted on page 20 and below respectively. Filing charges under the Crimes Act enables us to seek home detention, community service or prison sentences, in addition to fines and compensation for consumers. Other Crimes Act proceedings are presently before the courts.

Free range claim ends in court

Consumers were tricked into buying cage eggs when John Garnett, owner of the now-defunct Forest Hill Farm in Northland, falsely labelled his cage eggs as "free range" or "barn-laid" and sold them to retailers. The retailers, including several large supermarkets, believed the claims, and sold them to customers as genuine free range product. An estimated 206,000 dozen of the falsely labelled eggs, with a retail value of \$1 million, were sold.

The Commission brought 20 Crimes Act charges against Mr Garnett for false and misleading conduct. After pleading guilty to falsely packaging and selling cage eggs as free range or barn-laid eggs in June, Mr Garnett was sentenced to 12 months' home detention and 200 hours' community service in August 2014.

Our complaints and screening processes help us to identify appropriate matters for investigation and enforcement.



LINK: [Product safety standards guidelines](#)

Recent changes to the Fair Trading Act provided us with a suite of new enforcement tools. These include the ability to issue infringement notices for selected breaches of the FTA, require compulsory interviews and seek court-enforceable undertakings.

We have now issued 24 infringement notices, including eight in March to three separate motor vehicle dealers in Auckland and Christchurch for failing to display Consumer Information Notices (CIN) and not disclosing their trader status when selling online. An infringement notice has also been issued relating to water efficiency labelling of taps.

We have conducted a number of interviews under statutory compulsion and this power has greatly assisted the efficiency of our investigation processes.

Court-enforceable undertakings were used in the case against Broadlands Finance, which resulted in \$3.3 million in overcharged interest and fees being repaid to customers. We expect that they will continue to prove useful in facilitating efficient resolution of some matters that can be resolved satisfactorily without prosecution.

We have also been given new powers of inspection in relation to product safety, which have assisted projects targeting children's clothing, toys and cigarette lighters. We published new guidance to traders aimed at assisting them to understand their responsibilities when selling or supplying products that are subject to regulation. Our investigators have undertaken 75 inspection visits this year. A small number of retailers, importers and suppliers found selling non-compliant products are now under investigation.



Markets are more competitive

The Commission's competition investigations team enforces the Commerce Act, with the exception of Part 4 (regulation of monopolies), which rests with our regulation branch. Our mandate is to promote and defend competition for the benefit of consumers. Strong competition is vital for a healthy market economy. Greater consumer choice keeps prices down, improves the quality and performance of goods and services, and drives business innovation.

As an organisation we are focused on constantly improving and developing our investigative techniques. We have strengthened relationships with other international enforcement agencies, including hosting a Cartel Workshop, attending the International Competition Network in Sydney and visiting our counterparts in the UK and the Netherlands.

Conducting investigations

By their nature, competition investigations are often highly complex, particularly where they involve multiple parties and markets. As with all investigations that have the potential to result in legal proceedings, it is important that we are thorough in our approach and gathering and testing the evidence can be time consuming. The nature of these investigations is that evidence is generally hidden and hard to detect. We largely rely on informants coming forward confidentially. Our cartel leniency programme has also been effective for this purpose.

The past year has seen several high-profile and long-running cases concluded. In late 2014 we completed our investigation into allegations of anti-competitive and intimidating behaviour by Progressive Enterprises Ltd, operator of the Countdown supermarket chain, towards their suppliers. We did not find any evidence that the conduct we investigated breached the Commerce Act or the Fair Trading Act.

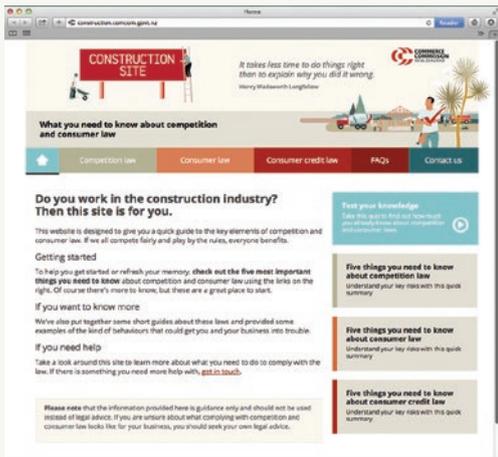
We have also completed our investigation into alleged price-fixing agreements made prior to the introduction of the National Animal Identification Tracing Act in 2012. Court proceedings have now been filed against PGG Wrightson, Elders New Zealand and five former and current staff members.

No further action in plasterboard investigation

In 2013 the Commission received two complaints about Winstone Wallboards' rebates and pricing for its GIB plasterboard products. The complaints raised two potential ways in which Winstone may have breached the Commerce Act, either through agreements that shut out competitors or through predatory pricing. We interviewed and gathered information from a number of industry participants including Winstone, merchants, Winstone's present and past competitors, builders, BRANZ and Christchurch City Council.

In December 2014, after thoroughly assessing the facts, we announced that we would not be taking any further action in this case. Our investigation found Winstone's very high market share was driven by a number of factors, including brand recognition and product reputation. We found no evidence to suggest Winstone had breached the Commerce Act through exclusive agreements with merchants, rebates offered or an anti-competitive predatory strategy.





LINK: construction.comcom.govt.nz

Educating to prevent anti-competitive behaviour

The Commission continues to work closely with businesses and industry associations in the sectors we are focused on. The construction industry remains a priority for us as it continues to expand, with the Christchurch rebuild ongoing and strong growth in Auckland. The risk of anti-competitive or cartel behaviour remains.

As well as providing educational material and continuing to push for businesses to establish strong compliance programmes, we have hosted presentations, including the first 'build your knowledge' workshop, spoken at industry events and conferences, and worked hard to drive traffic to our construction microsite. The microsite has been a significant success as an educational tool and this year won the International Competition Network/

World Bank Group Competition Advocacy award for 'promoting awareness of competition benefits in a time of crisis'.

Use of our cooperation powers

We are able to request information from other competition agencies in certain situations. This year we obtained permission from the ACCC to inspect protected information under section 155AAA of the Australian Competition and Consumer Act. This related to a cartel investigation into potential breaches of sections 27 and 30 of the Commerce Act. The ACCC is undertaking a similar investigation.

Approving mergers

The number of merger applications continues to increase. The Commission received 14 merger applications this year, the most since the 2008 financial year. All merger clearance applications received are assessed to determine whether competition would be substantially lessened in the markets involved as a result of the merger. We declined two applications this year, our first declines since the 2013 financial year. Connor Healthcare Limited, the applicant for one of the declines, subsequently reapplied and was granted clearance subject to a divestment undertaking.

Lubricant merger declined

In 2014 Reckitt Benckiser, owners of Durex, sought clearance to buy Johnson & Johnson's K-Y brand. The application presented a challenging set of issues as the proposed merger would mean the two leading personal lubricant brands would come under the same ownership. While this proposed merger had been approved in other jurisdictions where more brands had a footing in the market, the New Zealand market is unique because of its size and lack of suppliers. In our view, price increases in supermarkets and pharmacies could not be ruled out as a direct result of approving this merger. We ultimately declined the application for this reason and it was not appealed. The UK's inquiry into the merger has since reached similar conclusions.



We also received two authorisation applications, the first for 4 years. Approval was granted for members of the Infant Nutrition Council (INC) to follow their Code of Practice that restricts advertising and marketing of infant formula for children under 6 months of age. The Cavalier Wool application to acquire New Zealand Wool Services International’s wool scouring business and assets is ongoing and expected to be concluded shortly.

The time taken to reach decisions on clearance and authorisation applications can be lengthy (see pages 31-32) but we are committed to working with stakeholders to look at ways we can improve the timeliness of our decisions. One thing that can help us with the decision process is the quality of information provided in the application and the responsiveness to our enquiries of parties and industry participants.

In January 2014 we introduced a new approach to ex post merger reviews. Instead of only considering whether a particular decision was right or wrong, we focused on our original analysis to see which predictions held true. In particular, we looked at whether market conditions developed as we predicted, with the aim of learning which of our analysis techniques and types of evidence best serve their purpose.

This year we reviewed 18 past mergers involving 40 markets. The results are outlined in the table below.

Table 1: Summary of results – 18 reviewed merger clearances, entailing 40 markets, May 2008-July 2013

Key reason for clearance – corresponding question	Number of markets for which this was a key reason for the clearance	Number of markets for which the response to the question was yes
Was there entry or expansion?	17	12*
Did the competitors in the market at the time of the merger stay in the market, gain market share or otherwise provide competitive constraint?	20	18**
Did the divested product or entity become a competitive alternative in the market?	2	2
Were the buyers able to sponsor entry?	1	1***

* There was entry in one additional market but it was of limited scale and geographic reach.

** In one market, the one remaining competitor exited two years after the merger; two years after that exit, there was entry by another player. In the other market, competitive constraint from imports varied with exchange rate fluctuations.

*** Entry did not occur but the primary purchaser continues to indicate that it would sponsor entry were prices too high.



Achievement of the targets is indicated using the symbols below

- ✓ = Target achieved
- ◆ = Some aspects not achieved/not able to assess target
- ✗ = Target not achieved

Impacts

The work of the Commission has two direct impacts which contribute to the achievement of our competition and consumer outcomes:

1. Improved levels of awareness and compliance with competition and consumer laws.
2. Conduct that does not comply with competition or consumer laws is detected and responded to appropriately.

These are measured through four impact measures. We recognise that there are some issues with the surveys used to measure our impacts and are reviewing the measures for our next SOI and SPE.

Impact 1: Improved levels of awareness and compliance with competition and consumer laws

An important aspect of our work is helping businesses understand their competition and consumer obligations and creating incentives to encourage compliance. We also work hard to ensure consumers understand their rights. By improving awareness, we hope to reduce deliberate and accidental non-compliance. The tools we use to achieve this goal include:

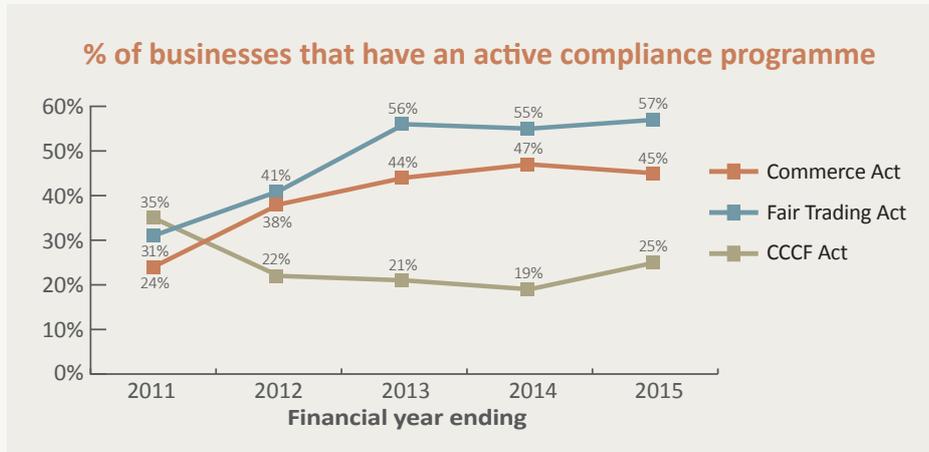
- assisting and encouraging businesses to develop in-house compliance programmes
- targeting specific industry sectors (eg, construction) and engaging with influential stakeholders
- hosting workshops and speaking at industry events or conferences
- developing and publishing guidelines, online resources and fact sheets.

Measuring our impact

We measure the effectiveness of our impact on improving levels of awareness and compliance with competition and consumer law through three impact measures:

- The percentage of businesses that have an active compliance programme under the Commerce Act, Fair Trading Act and Credit Contracts and Consumer Finance Act increases over time.
- Targeted sector surveys indicate that a higher proportion of businesses are aware of and understand competition and consumer law than before the intervention.
- Targeted sector surveys indicate that a higher proportion of consumer stakeholder groups are aware of and understand consumer and credit law than before the intervention.

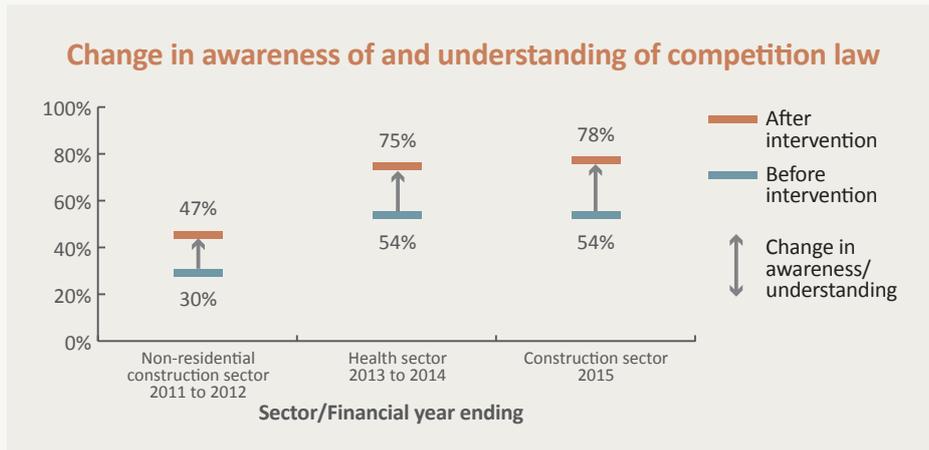
The percentage of businesses that have an active compliance programme under the Commerce Act, Fair Trading Act and Credit Contracts and Consumer Finance Act increases over time.



TARGET
Year-on-year increase

Businesses with 100 or more employees were surveyed to find out how many have an active compliance programme under the Commerce Act, Fair Trading Act and Credit Contracts and Consumer Finance Act. Those with an active compliance programme under the Commerce Act and Fair Trading Act have remained static for the last few years. The percentage of businesses with a CCCF Act compliance programme has increased slightly this year. This survey was conducted online, as in previous years. The survey was sent to 860 businesses with 150 responding, a response rate of 17%.

Targeted sector surveys indicate that a higher proportion of businesses are aware of and understand competition and consumer law than before the intervention.



TARGET
Year-on-year increase in targeted sector

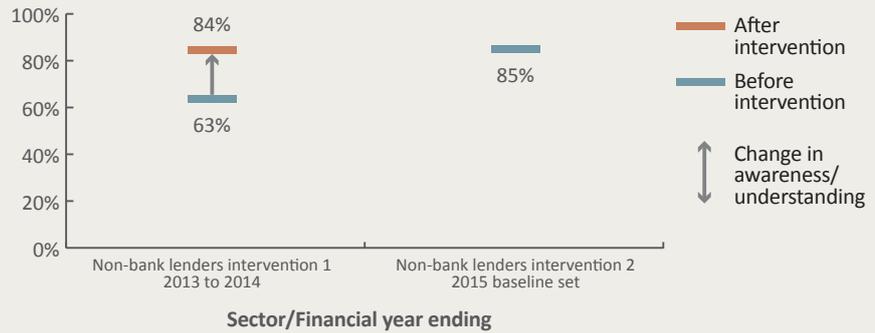
This survey was conducted on a small group of stakeholders and suggests that our advocacy has raised awareness and understanding of competition law for the targeted stakeholder groups.

Our figures for the construction sector are the result of surveying participants before and after attending a workshop, a slight change from the online survey approach used in previous years. This means that the before and after results for the construction sector were both collected within the same financial year. Of the 10 participants at the workshop, 100% completed the first survey, and 90% completed the follow-up survey.

TARGET

Year-on-year increase in targeted sector ◆

Change in awareness of and understanding of consumer law



We have continued our focus on the non-bank lenders sector, through a second intervention with a different group of stakeholders. We have completed the initial surveys, with our education to follow next year. We delayed our education due to the changes in the CCCF Act which came into effect in June 2015.

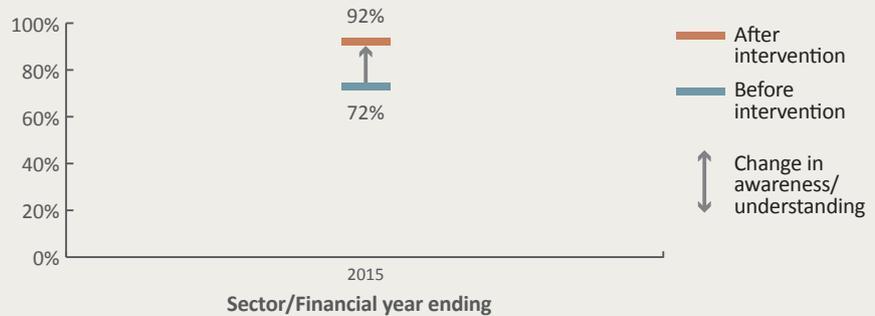
In our initial survey of two groups, 85% of respondents answered the questions correctly. Of the 169 possible respondents, 56 stakeholders completed the survey, a response rate of 33%.

.....
Targeted sector surveys indicate that a higher proportion of consumer stakeholder groups are aware of and understand consumer and credit law than before the intervention.

TARGET

Baseline to be set ✓

Change in awareness of and understanding of consumer and credit law

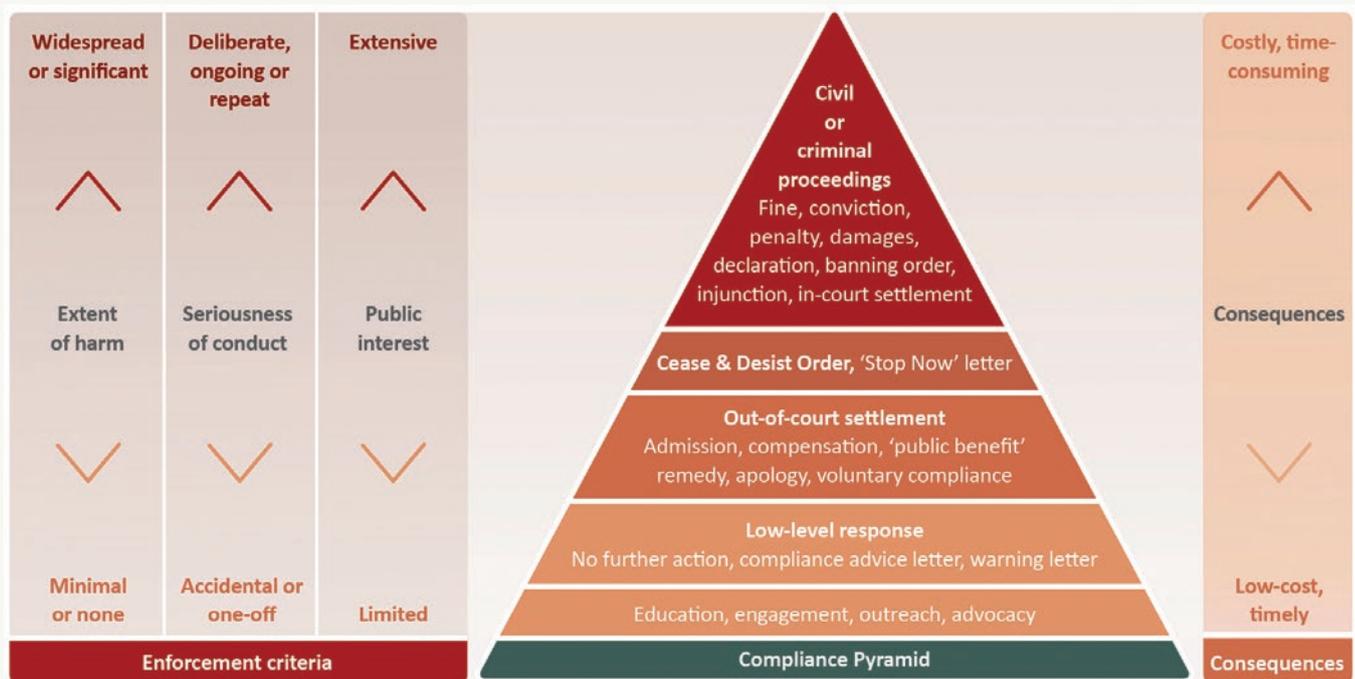


The consumer group surveyed had a high existing understanding of consumer and credit law. Survey responses indicate our engagement with them has strengthened their knowledge. We surveyed a budgeting service before and after a workshop on credit law. The first survey was conducted online and was sent to 85 people with 16 responding, a response rate of 19%. Fourteen people attended the workshop and all of these attendees completed the second survey at the conclusion of the workshop.

Impact 2: Conduct that does not comply with competition or consumer laws is detected and responded to appropriately

As well as proactively encouraging businesses to comply with competition and consumer laws, we also investigate potential breaches of legislation. At the end of an investigation we undertake an assessment to determine the appropriate response to take. This includes sending a compliance advice or warning letter, undertaking a settlement, or filing court proceedings.

The diagram below details the escalating enforcement options we can choose from.



We believe most businesses want to comply with the law and therefore the vast majority of our enforcement responses are to provide advice to businesses on how they can comply. Where necessary, we will take stronger enforcement action to end the behaviour and seek penalties, compensation or criminal charges. This year we obtained 22 judgments and settlements (including appeals, withdrawn appeals and judgments that were not appealed), and issued six warnings and infringement notices to seven businesses (some of these received multiple notices). In addition, we provided 408 pieces of compliance advice to support compliance with the law.

Measuring our impact

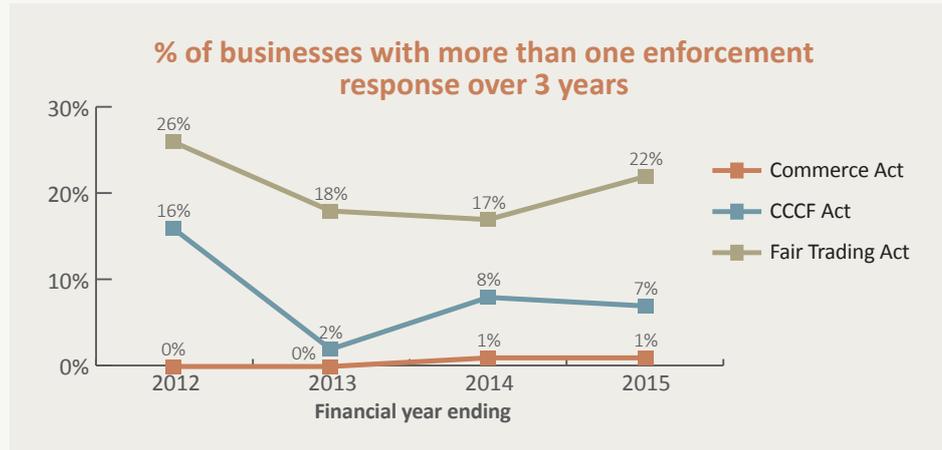
We measure the effectiveness of our impact on ensuring conduct that does not comply with competition or consumer laws is detected and responded to appropriately through one key impact measure:

→ As a result of our interventions, the percentage of businesses who receive more than one enforcement response over 3 years decreases.

As a result of our interventions, the percentage of businesses who receive more than one enforcement response over 3 years decreases.

TARGET

Year-on-year decrease



This measure aids our understanding of whether the information we provide helps businesses understand the law and comply with it. This year the calculation includes infringement notices, which we started issuing following the recent law change enabling this new enforcement response. Also included in this measure are compliance advice letters, warnings, settlements and prosecutions.

The increase in the Fair Trading Act result may in part reflect the changes to consumer law which we are focusing a lot of our enforcement effort on. We expect that this will improve over time as traders become more educated about the new laws.



Outputs

In our competition and consumer work we provide outputs in three areas:

- Determinations
- Education (Advocacy)
- Enforcement.

These outputs are outlined below along with our performance on the measures set out in our Statement of Performance Expectations 2014/15. These measures also match the measures in the Estimates of Appropriations 2014/15 under the Vote Commerce and Consumer Affairs: Enforcement of General Market Regulation appropriation.

Determinations

Clearance and authorisation applications are demand driven. Businesses can apply for either a clearance (when a merger will not lessen competition) or an authorisation (when a merger or restrictive trade practice will reduce competition but has other more significant public benefits). Receiving a clearance or authorisation protects businesses from further investigation by the Commission under the Commerce Act.

	2015 target	2015 actual	2014 actual	2013 actual	2012 actual
Quantity					
Number of clearance applications processed	10-22	14	13	9	8
Number of authorisation applications processed	0-4	1	0	0	3
Quality and timeliness					
Percentage of successfully defended determinations appeals over 5 years	100%	100%	100%	100%	100%
Average number of working days from date of registration to date of decision for merger clearance applications	40 days	63.6 days	59.6 days	66.8 days	63.7 days
Average number of working days from date of decision to date of publication of reasons for declined clearance applications	10 days	33.5 days	N/A no declines	25.5 days	N/A no declines

We declined two clearance applications this year. These were complex cases requiring detailed reasons to be drafted, so we did not meet our 10-day target for publication of reasons.

We continue to struggle to meet our target of 40 working days for merger clearance applications. This is due to a range of reasons, including aspects outside the Commission's control such as the complexity of applications, the international liaison required, and awaiting information from stakeholders. We are also working to improve the efficiency of our internal processes.

Over the next year we will look at ways to reframe this measure to ensure measurement focuses on the timeliness of the Commission's processes rather than just the overall time taken on the determination.

Our longest-running determinations were complex and involved significant consultation. Details of these determinations and the consultation we undertook are provided below.

Tuakau Proteins/Graeme Lowe Protein and Kakariki Proteins (62 days)

The transaction was varied five weeks after receiving the original application. The structure of the transaction was complex and the Commission considered seven markets in detail and conducted around 20 interviews. There was some strong opposition to the merger by other market participants, and we interviewed market participants multiple times to verify evidence.

Connor Healthcare/Acurity Health (73 days)

We declined this application after an extensive investigation into whether the merger would substantially lessen competition for a number of different medical procedures. We conducted 46 interviews, including with medical specialists, insurance companies, Accident Compensation Corporation and District Health Boards. We issued around 28 information requests, including for market share data across all the different specialties, from the parties and market participants.

Expedia Inc/Wotif.com Holdings Ltd (75 days)

Market participants expressed concern about the loss of Wotif from the market for online accommodation booking services to New Zealand accommodation providers, with the acquisition resulting in the merger of the number 2 and 3 players in this market in New Zealand. We conducted 27 third-party interviews and issued 11 information requests, including extensive liaison with overseas-based entities about their future operational plans in New Zealand.

Atlas Copco South Pacific/Ash Air Businesses (82 days)

This acquisition was going to cause a substantial structural change in this market and three market participants opposed the merger. We interviewed 35 parties and made four separate requests for information to the applicant. It took offshore market participants some time to confirm their positions to us and for the parties to provide sufficient information for us to reach a decision.

Reckitt Benckiser/Johnson & Johnson (224 days)

This application was our longest of the year because of the time it took for applicants to respond to the letter of issues and letter of unresolved issues phases of this investigation – these phases took 77 and 74 working days respectively. We also experienced delays from both parties waiting for information from overseas head offices. In total, we conducted 20 interviews, interviewing a number of retailers and other suppliers. We issued around 45 information requests, including for market share data, across 12 participants.

Education (Advocacy)

Businesses that understand the law are more likely to comply with it, so we put a lot of effort into proactively informing businesses and consumers of their rights and responsibilities under competition and consumer laws. This includes updating businesses and consumers when there are changes to the laws we enforce.

Where we see emerging issues or identify areas of concern, we target our efforts in these sectors. This includes producing fact sheets and guidelines, engaging with stakeholder groups, and contributing to industry publications. Publicising and explaining our enforcement decisions and determinations also helps improve public understanding of our approach.

	2015 target	2015 actual	2014 actual	2013 actual	2012 actual
Quantity					
Number of Commission guidelines or fact sheets published	5-20	17	25	16	20
Number of substantial pieces of advice provided to inform policy design	5-15	10	8	11	20
Quality and timeliness					
Percentage of stakeholders that find our publications clear and useful	Target to be set once baseline established	92%	92%	Not measured	Not measured

The Commission uses its knowledge and experience to provide advice and expert input to policy makers and Parliament on policy development and legislative reviews. As an Independent Crown Entity the Commission does not provide policy advice directly to ministers. We liaise closely with policy officials from various government agencies in respect of the laws we enforce. For example, we provided advice to the Ministry of Business, Innovation and Employment (MBIE) on the operational implications of the Credit Contracts and Consumer Finance Law Reform Bill and comments to the Ministry of Transport on the proposed repeal of the Commerce Act exemption for civil aviation.

We have completed a large number of guidelines and fact sheets, particularly in the 2014 financial year, due to changes to consumer laws (Fair Trading Act and CCCF Act). This work is largely complete so we have reduced our target for next year. We will continue to revise and improve existing guidelines or fact sheets where required.



Enforcement

Where possible, we prefer to achieve compliance with the law without the need for enforcement action. But when we find companies or individuals operating outside of the law, our focus is on ending the concerning behaviour and, depending on the severity of the harm in question, seeking penalties, compensation or criminal charges.

	2015 target	2015 actual	2014 actual	2013 actual	2012 actual
Quantity¹					
Number of market structure cases	0-5	2	1	2	3
Number of coordinated behaviour cases	8-14	8	11	10	9
Number of unilateral conduct cases	2-6	3	3	1	2
Number of Fair Trading Act cases	200-300	281	259	412	462
Number of product safety and information standards cases	100-150	129	68	48	56
Number of CCCF Act cases	40-60	40	40	47	49
Quality and timeliness					
Percentage of investigations undecided for more than 18 months (at any point during the year)	0%	2%	3%	3%	2%
Percentage of investigations decided within 12 months of the investigation being opened	90%	95%	91%	95%	Commerce Act: 92% FTA, Product Safety and CCCF Act: 98%
Percentage of surveyed businesses that have received a compliance advice or warning letter from the Commission in the last 12 months that report the Commission's communications and guidance are clear and useful	95%	91%	70%	84%	95%

We completed a large number of investigations this year. This was partially a result of our proactive work in response to changes in consumer law, including utilising our new powers around product safety issues. We have also continued to make good progress in improving the timeliness of our investigations over the past year, although we are still working to resolve a number of longer-term investigations (over 18 months) that remain open. As is normal, we conducted more investigations in the consumer area (fair trading, product safety, and credit contracts and consumer finance) than in competitive markets (market structure, coordinated behaviour and unilateral conduct). Investigations into potential breaches of competition law are generally longer and more complex processes, which require additional Commission resources.

1. In the Estimates of Appropriations 2014/15, the wording used for these quantity measures is slightly different from our SPE 2014/15 but the measures themselves are the same. For example the wording used in the Estimates of Appropriations for the measure on market structure cases is 'Market structure cases completed'.

In addition to the cases concluded this year, we have also worked on a number of other investigations that extend beyond the end of the year. As at 30 June 2015 we had 202 investigations ongoing.

Our stakeholder survey showed a great improvement in the percentage of businesses who received a compliance advice or warning letter that reported that the Commission’s communications and guidance are clear and/or useful. This improvement may indicate how helpful businesses have found our publications, particularly those released in response to the consumer law reform. These have greatly enhanced the guidance we have available to provide to businesses.

This year we surveyed businesses in two tranches over the year rather than just once at the end of the year. We also included the compliance advice or warning letter and any guidance sent originally to refresh people’s memories of the information provided. These changes resulted in an improved response to our survey. This year we sent the survey to 392 businesses, with an overall response rate of 26% and a response rate of 16% for the particular questions that make up this measure. Our response rate last year was 9% for the survey overall and 2% for the specific questions that make up this measure.

Quality measure for all outputs

	2015 target	2015 actual	2014 actual	2013 actual	2012 actual
Number of successful legal challenges of the Commission’s processes	0	0	0	0	0



Finances

Our competition and consumer work is primarily funded by the Crown, through the Vote Commerce and Consumer Affairs: Enforcement of General Market Regulation appropriation.

We also receive revenue which funds this work from third party application fees, interest revenue, cost awards from successful litigation cases, and cost recoveries for shared corporate services with other state sector agencies.

The following table outlines the income and expenditure relating to the delivery of the competition and consumer outputs:

	2015 Actual \$000	2015 Budget \$000
Operating revenue		
Crown revenue	13,935	13,935
Other revenue	1,716	907
Total operating revenue	15,651	14,842
Operating expenses		
Determinations	2,624	2,661
Enforcement cases	9,511	9,505
Advocacy	2,562	2,499
Reports to ministers	168	673
Total operating expenses	14,865	15,338
SURPLUS/(DEFICIT)	786	(496)

The competition and consumer output class surplus was higher than budget mainly as a result of unbudgeted cost awards received and higher interest income (other revenue). The budget also allowed \$673,000 for the commencement of a Part 4 inquiry (contained within reports to ministers output category) which did not eventuate. Part 4 inquiries are one-off reviews which we are not separately funded for, and must be funded from the Commission's general reserves if our funding for this output class is insufficient.

Expenditure on determinations and enforcement cases needed to be carefully managed and finished the year close to budget.

Appropriation funding

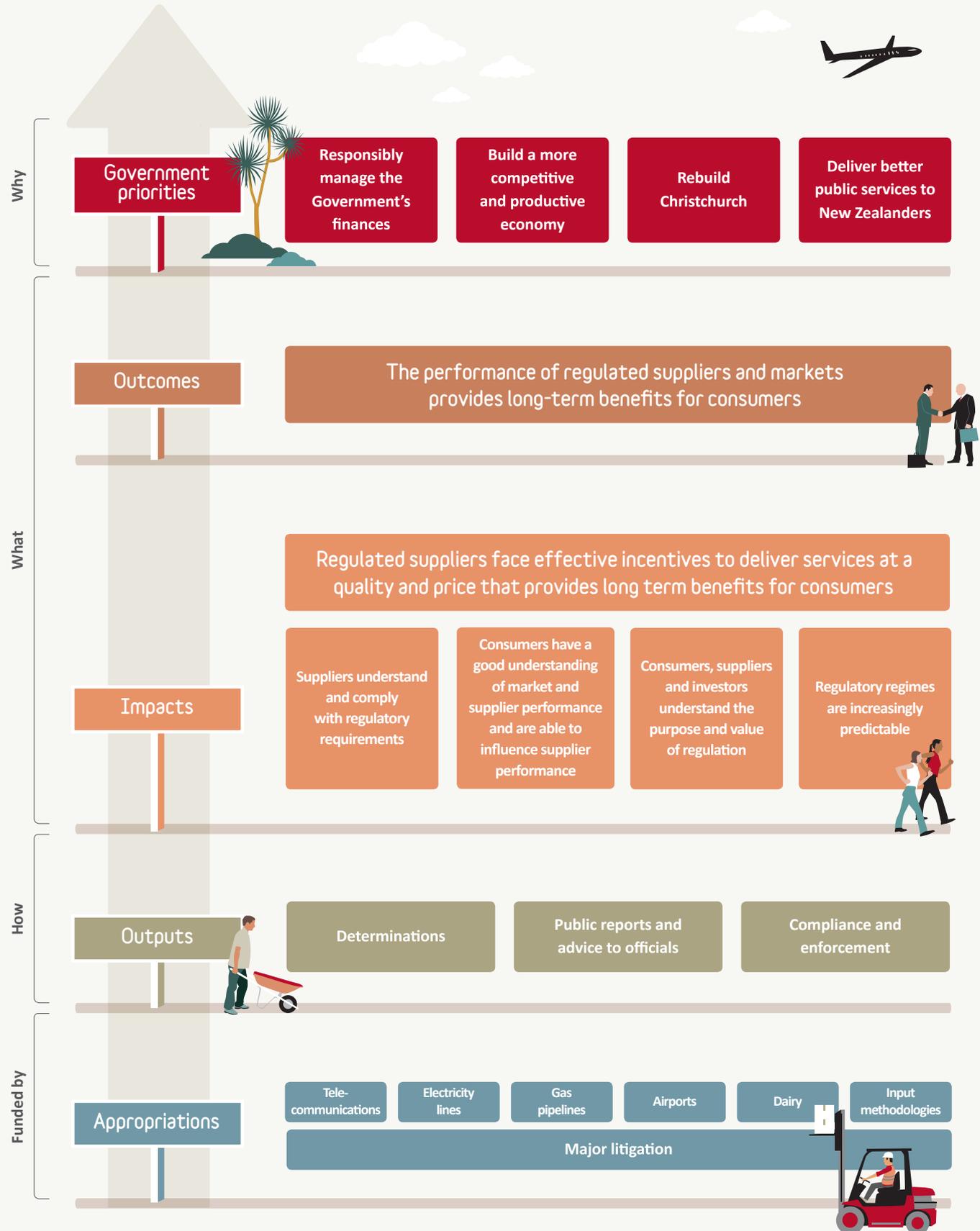
The table below shows the Crown funding made available by the Crown through the Estimates and Supplementary Estimates compared with that recognised by the Commission in the year for the appropriation Vote Commerce and Consumer Affairs: Enforcement of General Market Regulation.

	Estimates \$000	Supplementary Estimates \$000	Actual \$000	Difference vs Supplementary Estimates \$000
Crown revenue	13,935	13,935	13,935	0
Total	13,935	13,935	13,935	0



REGULATION

Accountability framework



Outcomes/Review of year

Our desired outcome is that the performance of regulated suppliers and markets provides long-term benefits for consumers.

For economic regulation to be effective, we must put in place appropriate incentives for suppliers to deliver outcomes that are for the long-term benefit of consumers. We have a range of ways mandated by our legislation to create incentives for suppliers. This can include setting price and quality paths, providing public commentary on the performance of suppliers, and/or undertaking compliance and enforcement activities.

We work hard to ensure consumers and investors understand regulated markets, supplier performance, and the value and purpose of regulation. Suppliers in turn understand their compliance obligations and trust that the regulatory regime is becoming increasingly predictable.

This has been another significant year for the Commission's regulatory work, with several important milestones reached and major determinations concluded.

Telecommunications

In the telecommunications sector, the year has been dominated by our work to determine the wholesale price Chorus can charge for use of its unbundled copper local loop (UCLL) and unbundled bitstream access (UBA) services. This has been an important process and one that we have dedicated significant resources to. We understand that the industry and consumers want certainty in this area but also want to know that the final prices determined are robust. We are working to achieve these objectives.

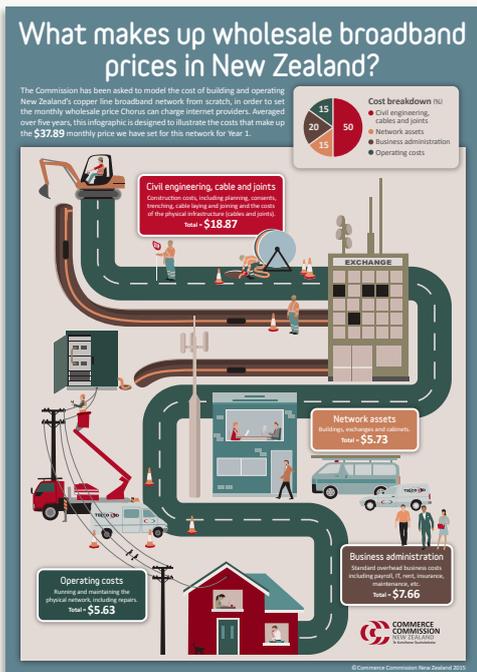
Setting the wholesale broadband price

Under our responsibilities in the Telecommunications Act, we are tasked with determining the prices Chorus can charge retail telecommunications service providers (RSPs) for use of its UCLL and UBA services. These are wholesale prices that Chorus charges retail telecommunications companies for use of its local copper lines and broadband service. The prices make up roughly half of the average household's broadband bill. We have a responsibility to ensure our decisions on the wholesale prices deliver the right long-term outcomes for consumers.

These regulatory decisions are a significant undertaking for the Commission, marking the first time we have developed a comprehensive model to calculate how much it would cost to build and operate a new network from scratch in New Zealand. We published our first draft models in December 2014 and, following additional consultation, we released further draft determinations in early July this year.

This has been another significant year for the Commission's regulatory work, with several important milestones reached and major determinations concluded.

We have a responsibility to ensure our decisions on the wholesale prices deliver the right long-term outcomes for consumers.



LINK: [Wholesale broadband prices](#)

To illustrate the components that make up the costs of wholesale broadband prices in New Zealand we developed an infographic, shown here. We also commissioned an expert report from consultants TERA to provide greater insight into why the costs in New Zealand are higher than some countries we might like to compare ourselves with. Together, the infographic and this new information assisted us with explaining our approach and draft decision to stakeholders.

We amended the deadline for these determinations, which were originally scheduled for April, to December. This change in deadline was to enable full consultation on non-recurring charges and to provide additional time for consultation on new material put before us. Striking the right balance between appropriate consultation and ensuring a timely process remains a challenge and is something we will continue to discuss with stakeholders. We are on track to publish our final determinations in December 2015.

Telecommunications Monitoring Report

The eighth annual Telecommunications Monitoring Report was released in June 2015 as part of the Commission's monitoring of the development of competition in the New Zealand telecommunications sector. The report helps consumers to quickly understand marketplace changes and costs.

The report shows that data revenues continue to rise while voice-related revenues are in decline, reflecting the importance of fixed and mobile internet access for New Zealand households. We also compared retail prices with those in other OECD and similar countries for various levels of monthly consumption and found New Zealand consumers are getting comparatively good value.

Part 4 (Electricity, gas and airports)

We have continued to develop and embed the Part 4 regulatory regime. In electricity we have transitioned to a new phase with the setting of the default price-quality paths for electricity businesses for the next regulatory period.

Price-quality regulation

Price-quality regulation applies to Transpower, 17 electricity distribution businesses and 5 gas pipeline businesses across New Zealand. This means the Commission limits the revenue a regulated business can earn or sets the maximum average prices it can charge, as well as setting service quality standards that must be met.

In 2014 the Commission set default price-quality paths for 16² electricity distribution businesses (EDBs) and an individual price-quality path for Transpower for the period 2015-2020. The impact of the Commission's decision on nationwide distribution prices will see a modest decrease of 1.1% across EDBs; however, the regional variation is significant, ranging from an increase of 12.5% through to a decrease of 14.0% for consumers of individual distributors.³

2. Orion was not included in this work as it operates on a customised price-quality path that was set in 2013.

3. For more information see <http://www.comcom.govt.nz/regulated-industries/electricity/electricity-default-price-quality-path/default-price-quality-path-from-2015/>

Weighted average cost of capital

In October 2014 we concluded our review of the weighted average cost of capital (WACC) percentile for electricity lines and gas pipeline businesses. The WACC sets the level of compensation for capital investment in regulated businesses and this work is another important step in bedding down the Part 4 regime.

Our decision built on substantial evidence not available during the initial input methodology development. This resulted in the WACC uplift, or margin, for price-quality regulation being set at the 67th percentile, down from the 75th percentile. This will lead to an expected saving for consumers of up to \$45 million per annum, while ensuring businesses still have incentives to invest. The new WACC took effect in the price-quality paths for EDBs and Transpower from April 2015, and will take effect for gas pipeline businesses from 2017.

Summary and analysis

The Commission's summary and analysis of disclosures is intended to promote greater understanding of the performance of individual regulated suppliers, their relative performance, and changes in performance over time. In May 2015 we released a database of 2013/14 information disclosures by electricity distributors.

Information disclosure for airports

Airport regulation is managed through information disclosure, the lightest form of regulation available to us. The Commission completed its final reports into the pricing disclosures of Christchurch and Wellington international airports in 2015.

Information disclosure yields positive results at Wellington airport

Wellington, Auckland and Christchurch international airports are subject to information disclosure regulation under Part 4 of the Commerce Act. The Commission does not regulate the prices the three airports charge. Airports may set prices as they see fit, but they must consult with customers on any major capital expenditure that will impact future prices and on pricing generally on a 5-year cycle.

In 2013 the Commission reviewed Wellington International Airport's performance under section 56G of the Commerce Act and found that information disclosure was not effective in limiting excessive profits for Wellington airport. Wellington airport responded positively to the report by re-consulting on and then reducing its landing fees for the period from 1 June 2014 to 31 March 2019. Our review of its revised pricing was finalised in June 2015 and we estimate consumers will now be \$33 million better off over a 3-year period, 2014-2017. As a result of this process, Wellington airport is now targeting returns that fall within the estimated range of acceptable returns.

The WACC sets the level of compensation for capital investment in regulated businesses and this work is another important step in bedding down the Part 4 regime



Input methodologies review

We have begun our review of input methodologies (IMs) – the rules, requirements and processes for the supply of specified goods and services that apply to the Commission and the sectors regulated under Part 4 of the Commerce Act. The initial phase of the review has focused on stakeholder consultation to define the problems and develop a clear picture of what the review needs to address.

The IM review is expected to be completed by December 2016; however, in response to requests from regulated businesses in their submissions, the Commission will fast track elements of the review to provide greater certainty to regulated sectors.

Dairy

In the dairy sector this year, we successfully completed our statutory review of Fonterra's 2013/14 base milk price calculation and our review of Fonterra's 2014/15 milk price manual. The Dairy Industry Restructuring Act 2001 (DIRA) requires the Commission to undertake these two reviews every dairy season under the milk price monitoring regime. Our two reports concluded that:

- the 2013/14 base milk price calculation was not consistent with the purpose provisions of the milk price monitoring regime, principally due to a material adjustment made in that season to the farm gate milk price by Fonterra's Board
- the 2014/15 milk price manual was largely consistent with the purpose provisions of the milk price monitoring regime.

In June 2015 we received a request from the Minister for Primary Industries to review the state of competition in the dairy sector. Our review will look at whether the state of competition in the relevant dairy markets is sufficient to ensure the efficient and contestable operation of these markets in the absence of certain DIRA regulations. This is a statutory requirement under the DIRA and we will report back to the Minister by 1 March 2016.



Impacts

The work of the Commission has four direct impacts that contribute to the achievement of our overarching impact: regulated suppliers face effective incentives to deliver services at a quality and price that provides long-term benefits for consumers. The four impacts are:

1. Consumers have a good understanding of market and supplier performance and are able to influence supplier performance.
2. Regulatory regimes are increasingly predictable.
3. Suppliers understand and comply with regulatory requirements.
4. Consumers, suppliers and investors understand the purpose and value of regulation.

These are measured through five impact measures. This year, in order to improve the quality and quantity of results, we reviewed the way we collected data to measure our success. We reduced the number of questions in our stakeholder survey and refined the list of participating stakeholders to focus on those with a direct interest in the work of the Commission. We recognise that there are still some issues with our measures and are reviewing these for our next SOI and SPE.

Impact 1: Consumers have a good understanding of market and supplier performance and are able to influence supplier performance

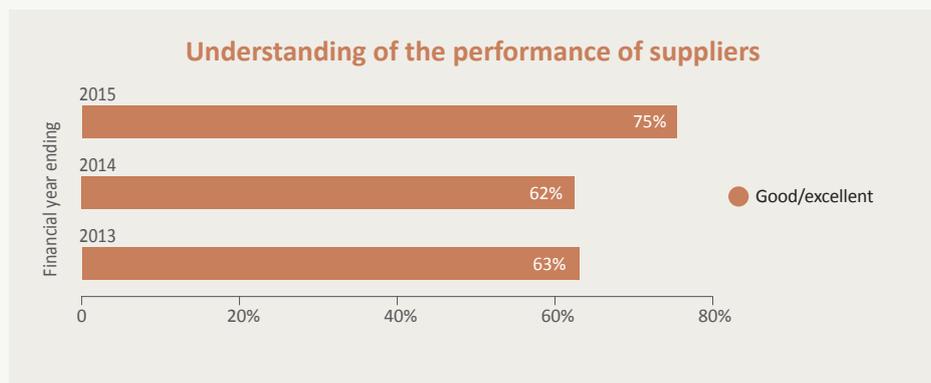
Providing analysis and commentary on supplier and market performance can create incentives for suppliers as it allows public recognition of good performance as well as the exposure of poor performance. Our work on public reports, including monitoring, summary and analysis, and information disclosure reports, influences this impact.

Measuring our impact

We assess the effectiveness of this impact through one key measure:

- Understanding of the performance of regulated services by targeted business and consumer groups increases over time.

Understanding of the performance of regulated services by targeted business and consumer groups increases over time



Achievement of the targets is indicated using the symbols below

- ✓ = Target achieved
- ◆ = Some aspects not achieved/not able to assess target
- ✗ = Target not achieved

TARGET
Year-on-year increase ✓

Of the stakeholders who responded to our targeted survey, 75% indicated they felt their understanding of the performance of regulated sectors was either excellent or good. In addition, over 70% of respondents felt that the Commission's understanding of the performance of regulated sectors was good or excellent.

This question asked stakeholders to rate their understanding of the performance of suppliers out of 5 (excellent, good, average, poor, very poor). The response rate to this question was 56% (69 respondents out of 124 stakeholders who received the survey). This year we refined the list of stakeholders invited to participate in the survey to focus on those with a strong interest in the work of the Commission. This has improved our response rate from only 19% in 2014 (45 respondents out of 240 stakeholders who received the survey). The changes to the stakeholder list may have affected our performance on this measure.

Impact 2: Regulatory regimes are increasingly predictable

By increasing the predictability of our regulatory decisions, we improve incentives to invest in the supply of regulated services as suppliers understand how their potential investments are likely to be treated.

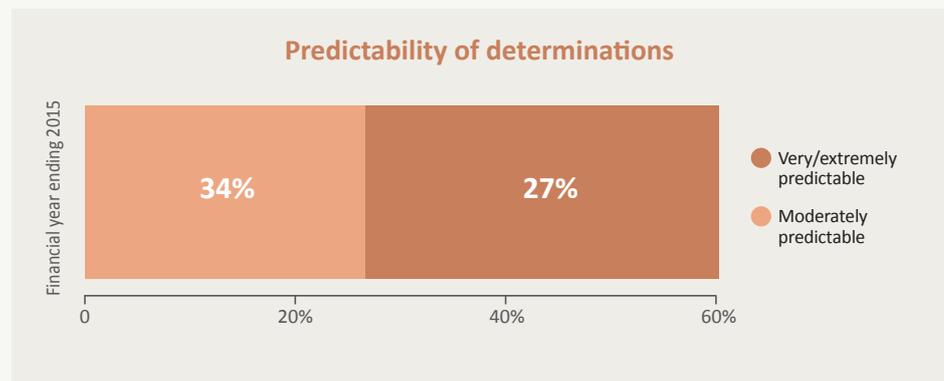
We aim to enhance predictability through transparent and timely processes and clarity about the criteria for our decision making. We release draft determinations with supporting reasons and publish all stakeholders' submissions and cross-submissions to our regulatory decisions on our website. This year we have continued to host analyst briefings on some of our draft and final determinations to explain our reasoning and assist analysts to understand and predict our approach. We also consult directly with stakeholders throughout our processes, and seek feedback to understand what aspects of our processes worked well and what could be improved.

Measuring our impact

We assess the effectiveness of this impact through one key measure:

- Percentage of market analysts and advisers who are able to predict our regulatory price setting determinations based on publicly available information.

Percentage of market analysts and advisers who are able to predict our regulatory price setting determinations based on publicly available information



TARGET

Year-on-year maintenance or increase



This is the first year we have measured views on the predictability of our determinations. The result is an average across four questions asking respondents to rate the predictability of specific determinations out of five options (extremely, very, moderately, slightly or not at all predictable). In total there were 41 responses from 16 market analysts or advisers across the four questions (excludes 'have not read' responses). The survey was sent to 38 analysts and advisers.

We also asked stakeholders to indicate whether they felt it was getting easier or more difficult to predict the Commission's regulatory price setting determinations, based on the publicly available information. Approximately 24% of the 70 stakeholders indicated it was getting easier, while a further 40% did not think it was getting either easier or harder to predict our regulatory price setting determinations (excludes 'don't know' responses).

Impact 3: Suppliers understand and comply with regulatory requirements

Regulation can only be effective if all parties meet their requirements. Our aim is to achieve voluntary compliance wherever possible, largely achieved through education and engagement when we are developing rules. Compliance assessments are undertaken each year. If a regulated business is not compliant we can take enforcement action in the form of a warning letter, reaching a settlement, or seeking penalties or compensation through the courts.

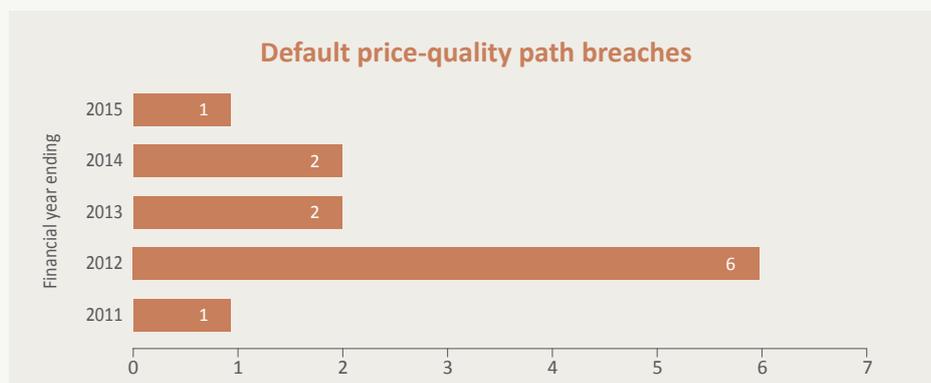
Measuring our impact

We assess the effectiveness of this impact through two key measures:

- Breaches of the regulatory requirements by businesses reduce over time: Number of default price-quality path breaches.
- Breaches of the regulatory requirements by businesses reduce over time: Information disclosure breaches.

Breaches of the regulatory requirements by businesses reduce over time: Number of price-quality path breaches

The price-quality regulation in place since 2010 has applied to 17 of the 29 electricity distribution businesses. Default price-quality paths were set for 5 gas pipeline businesses in 2013 but there have been no breaches so far. This regulation aims to limit the ability of suppliers to earn excessive profits, while also ensuring that required standards for service quality are met.



TARGET
Year-on-year decrease ✓

Vector Limited's electricity distribution business reported non-compliance with the quality standard for the assessment period ending 31 March 2015. Further instances of non-compliance with the requirements for the assessment periods above may be identified at a later stage by the Commission.

In September 2014 the Commission reached an out-of-court settlement with Horizon Energy for earning more than its price path allowed in the year ended 31 March 2012 by \$645,686 or 3%. As a result of the settlement, the amount Horizon can earn in the year ending 31 March 2016 will reduce by at least \$737,934 to compensate consumers for the amount it over charged.

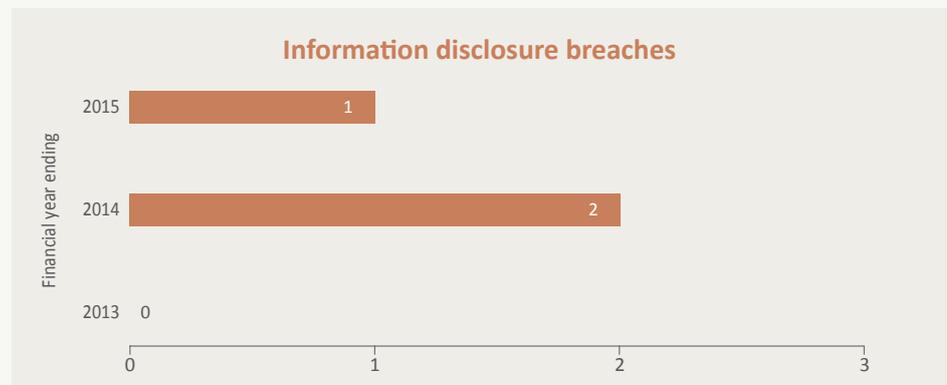
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Breaches of the regulatory requirements by businesses reduce over time: Information disclosure breaches

Information disclosure applies to electricity distribution, gas pipeline and airport services. It enables interested persons to assess whether the purpose of Part 4 of the Commerce Act is being met. Where the information disclosed is not consistent with the requirements, the ability of interested persons to perform an accurate assessment is diminished and a breach has occurred.

Telecommunications suppliers liable for the Telecommunications Development Levy are required to comply with information specifications under Part 3 of the Telecommunications Act. This information is used to allocate an industry levy between suppliers and missing or inaccurate information can impact the allocation of this levy. Four telecommunications network operators are also required to disclose information about their fibre networks under Part 4AA of the Telecommunications Act.

TARGET
Year-on-year decrease ✓



A civil infringement notice was issued to WorldxChange for breach of Telecommunications Act information disclosure requirements. This resulted in the payment of an infringement penalty of \$2,000.

Impact 4: Consumers, suppliers and investors understand the purpose and value of regulation

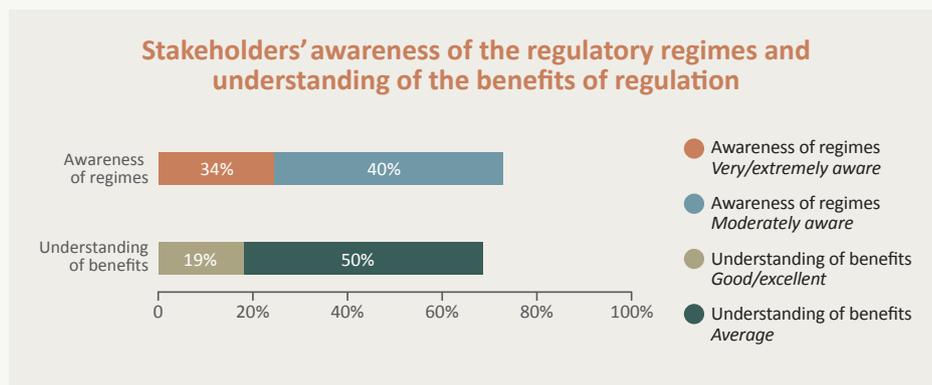
Improving understanding of the purpose and value of regulatory regimes is a priority for the Commission. Over the past year we put considerable effort into improving the quality of our reports and timeliness of our engagement with stakeholders. The development of plain English presentations has had a big impact and we are pleased with the success of our analyst and media briefings. The highly specialised nature of our work and the complexity of the issues present a barrier to widespread public engagement. Accurate media coverage is important in assisting the general public to understand our decisions and the cost of using regulated services.

Measuring our impact

We assess the effectiveness of this impact through one key measure:

- Stakeholders' understanding and awareness of the regulatory regimes and the benefits of regulation increases over time.

Stakeholders' understanding and awareness of the regulatory regimes and the benefits of regulation increases over time



This data is not comparable with previous years as the way it was collected has changed. The changes, plus revision of the stakeholders surveyed, have increased the survey response rate from 2014. All figures presented are the averages across three questions on different stakeholder groups. The questions were asked of 124 stakeholders, with response rates ranging from 49% to 56%. The questions asked stakeholders to rate awareness of regulatory regimes out of five options (extremely aware, very aware, moderately aware, slightly aware and not at all aware) and understanding of the benefits of regulation out of five options (excellent, good, average, poor, very poor).

TARGET
Year-on-year increase ◆

Outputs

In our regulation work we provide outputs in three areas:

- Determinations
- Public reports and advice to officials
- Compliance and enforcement.

These outputs are outlined below along with our performance on the measures set out in our Statement of Performance Expectations 2014/15. These measures also match the measures in the Estimates of Appropriations 2014/15 under:⁴

Vote Commerce and Consumer Affairs:

- Economic Regulation of Electricity Lines Services 2014-2019 (multi-year appropriation)
- Economic Regulation of Gas Pipeline Services 2014-2019 (multi-year appropriation)
- Economic Regulation of Specified Airport Services 2014-2019 (multi-year appropriation)
- Enforcement of Dairy Sector Regulation and Auditing of Milk Price Setting

Vote Communications:

- Enforcement of Telecommunications Sector Regulation.

Determinations

Under the Telecommunications Act, the Dairy Industry Restructuring Act, and Part 4 of the Commerce Act, the Commission has quasi-judicial functions and makes determinations to support the operation of regulated markets and services. Determinations are formal, binding decisions covering a range of activities, for example:

- setting and enforcing price-quality paths (which specify maximum revenue and quality standards) for electricity lines and gas pipeline businesses
- determining the price and terms of supply for designated access and specified services for the telecommunications sector
- setting input methodologies – the rules, requirements, and processes that apply to the regulation, or proposed regulation, of goods or services under Part 4 of the Commerce Act.



4. Not every measure is included under each appropriation. Sector-specific measures are contained only under the relevant sector appropriation.

	2015 target	2015 actual	2014 actual	2013 actual	2012 actual
Quantity					
Number of determinations (includes determinations, clarifications, reviews and amendments)	Telecommunications: 2-4 Gas: 6-16 Electricity: 10-29 Airports: 2-5 Dairy: 0-1	Total: 30 Telecommunications: 2 Gas: 10 Electricity: 15 Airports: 3 Dairy: 0	24	24	31
Quality and timeliness					
Percentage of Part 4 of the Commerce Act 1986 determinations completed by statutory deadlines	100%	100%	100%	100%	100%
Average time to complete telecommunications determinations ⁵	6 months	4 months	10 months	7 months	5.35 months
Completion date for unbundled bitstream access (UBA) and unbundled copper local loop (UCLL) Final Pricing Principle (FPP) determinations	30 April 2015	31 December 2015	Not measured	Not measured	Not measured
Average time taken to complete dairy determinations	120 working days	N/A – no determinations	N/A – no determinations	N/A – no determinations	N/A – no determinations
Percentage of stakeholders who find the Commission's determinations and supporting reasons clear	80%	45% ⁶	70%	74%	Not measured

The number of determinations we make each year varies as some are statutory requirements (which can be made annually or less often) while others are demand driven, for example where businesses request an amendment to an input methodology or information disclosure requirement.

The average time to complete telecommunications determinations fluctuates each year depending on the complexity of the determinations completed within the year. The figure for 2015 is lower than the previous year as both of the telecommunications determinations completed this year were for accountabilities where similar determinations had been completed in the past and therefore efficiency gains were achieved in the processes this year.

We amended the deadline for the UBA and UCLL FPP determinations, which were originally scheduled for April, to December. This change in deadline was to enable full consultation on non-recurring charges and to provide additional time for consultation on new material put before us.

5. This measure excludes the UBA and UCLL FPP determinations. These determinations are excluded as they are distinct, longer-term processes and inclusion in this measure would skew the average for the year in which they are completed so it was no longer comparable with other years.

6. This is the result for the following appropriations; Vote Commerce and Consumer Affairs: Economic Regulation of Electricity Lines Services 2014-2019, Economic Regulation of Gas Pipeline Services 2014-2019, Economic Regulation of Specified Airport Services 2014-2019, and Enforcement of Dairy Sector Regulation and Auditing of Milk Price Setting; and Vote Communications: Enforcement of Telecommunications Sector Regulation.

Our efforts to improve the response rate to our stakeholder survey included improvements to the method of collecting and calculating the data for our measure on 'percentage of stakeholders who find the Commission's determinations and supporting reasons clear'. Our response rate for this measure was 54%, up from 19% last year. This year we asked stakeholders to indicate if they agreed that the Commission's determinations and supporting reasons in general were clear and easy to understand (out of five options). Previously our result had been calculated based on whether stakeholders found any of our individual determinations/supporting reasons clear and easy to understand. This change means the figure for 2015 is not comparable with previous years and has reset the baseline for comparison on this measure.

Public reports and advice to officials

The Commission produces a range of public reports including monitoring reports, summary and analysis reports, information disclosure reports, and ministerial reports. The number of reports we complete each year varies depending on our work programme, our statutory obligations and demand from officials.

The provision of advice to inform policy design is demand driven and we continue to respond to requests from officials when required. This year we provided advice to officials on potential legislative amendments to support the operation of the Telecommunications Development Levy liability allocation process.

	2015 target	2015 actual	2014 actual	2013 actual	2012 actual
Quantity					
Number of reports completed (monitoring reports, summary and analysis reports, information disclosure reports, ministerial reports)	Telecommunications: 3-8 Gas: 1-3 Electricity: 1-4 Airports: 1-4 Dairy: 2	Total: 7 Telecommunications: 2 Gas: 1 Electricity: 1 Airports: 1 Dairy: 2	12	9	10
Number of substantial pieces of advice provided to officials to inform policy design (demand driven)	Telecommunications: 2-4 Gas: 0-4 Electricity: 0-7 Airports: 1-4 Dairy: 0-2	Total: 1 Telecommunications: 1 Gas: 0 Electricity: 0 Airports: 0 Dairy: 0	3	6	14
Quality and timeliness					
Percentage of stakeholders who rate our reports good or above	80%	60% ⁷	59%	42%	Not measured
Percentage of reports completed by the set date	100%	100%	100%	100%	100%

7. This is the result for the following appropriations; Vote Commerce and Consumer Affairs: Economic Regulation of Electricity Lines Services 2014-2019, Economic Regulation of Gas Pipeline Services 2014-2019, Economic Regulation of Specified Airport Services 2014-2019, and Enforcement of Dairy Sector Regulation and Auditing of Milk Price Setting; and Vote Communications: Enforcement of Telecommunications Sector Regulation.

As part of our efforts to streamline our stakeholder survey this year, we made improvements to the method of collecting the data for our measure ‘percentage of stakeholders who rate our reports as good or above’, so the figures are no longer directly comparable with previous years. Our response rate for this measure was 54%, up from 19% last year.

Compliance and enforcement

As well as setting determinations, the Commission is responsible for the overall compliance of regulated companies with relevant legislation. When required, we undertake investigations into the cause of breaches and take appropriate enforcement action. The tools available include warning letters, civil infringement notices, settlement undertakings and court action.

	2015 target	2015 actual	2014 actual	2013 actual	2012 actual
Quantity					
Number of compliance assessments completed	Telecommunications: 0-4 Gas: 10 Electricity: 48 Airports: 3	Total: 62 Telecommunications: 1 Gas: 10 Electricity: 48 Airports: 3	54	69	33
Number of enforcement cases taken	Telecommunications: 0-1 Gas: 0-1 Electricity: 0-3 Airports: 0-1	0	0	0	1
Quality and timeliness					
Percentage of compliance assessments completed by the set date	100%	100%	95%	90%	60%

Quality measure for all outputs

	2015 target	2015 actual	2014 actual	2013 actual	2012 actual
Number of successful legal challenges of the Commission’s processes	0	0	0	0	2

Finances

Our regulation work is primarily funded by the Crown through five appropriations, with our work under Part 4 of the Commerce Act funded by three multi-year appropriations (MYA), each for an initial 5-year period.

Vote Commerce and Consumer Affairs:

- Economic Regulation of Electricity Lines Services 2014-2019 (MYA)
- Economic Regulation of Gas Pipeline Services 2014-2019 (MYA)
- Economic Regulation of Specified Airport Services 2014-2019 (MYA)
- Enforcement of Dairy Sector Regulation and Auditing of Milk Price Setting

Vote Communications:

- Enforcement of Telecommunications Sector Regulation.

We also receive revenue for this work from cost recoveries for shared corporate services with other state sector agencies, and cost recoveries for specific determinations applied for by third parties.

Consolidated financial information for our regulation area is shown below, along with sector-specific financial information. For the sectors funded by multi-year appropriations, we have also provided graphs showing the proportion of the Crown funding drawn down in 2015.

Consolidated Regulation finances

	2015 Actual \$000	2015 Budget \$000
Operating revenue		
Crown revenue	15,426	16,449
Other revenue	439	45
Total operating revenue	15,865	16,494
Operating expenses		
Determinations	10,359	9,240
Broadband Performance Testing	207	0
Compliance and enforcement	1,529	2,226
Public reports and advice to officials	3,770	5,028
Total operating expenses	15,865	16,494
SURPLUS	0	0

Telecommunications

	2015 Actual \$000	2015 Budget \$000
Operating revenue		
Crown revenue	6,000	5,954
Other revenue	329	15
Total operating revenue	6,329	5,969
Operating expenses		
Determinations	4,487	3,884
Compliance and enforcement	350	318
Public reports and advice to officials	1,492	1,767
Total operating expenses	6,329	5,969
SURPLUS	0	0

Both revenue and expenditure for the Telecommunications output class were higher than budget.

Determinations expenditure was higher than budget due to extensions to the timeframe and scope of the UBA and UCLL FPP projects. We invoiced FPP applicants for a portion of the FPP costs, \$0.308 million, as provided for under the Telecommunications Act.

Compliance and enforcement expenditure was higher than budget due to the unanticipated Boost investigation. The additional spend on the Boost investigation was partially offset by savings on Telecommunications Development Levy (TDL) and Telecommunications Service Obligations (TSO) projects.

Broadband Performance Testing

	2015 Actual \$000	2015 Budget \$000
Operating revenue		
Crown revenue	207	0
Other revenue	0	0
Total operating revenue	207	0
Operating expenses		
Broadband Performance Testing	207	0
Total operating expenses	207	0
SURPLUS	0	0

The Broadband Performance Testing output class was established during the 2014 October Baseline Update to develop and implement a broadband performance testing methodology. Funding available this year was \$1.198 million, an expense transfer from the 2014 Telecommunications output class.

Expenditure included the assessment of both the current performance testing methodology used and that proposed by the New Zealand Telecommunication Forum (TCF). Once agreement on a methodology is reached, a tender process to appoint a provider of testing services will be undertaken. The ongoing cost of the testing will be paid for through the Telecommunications output class.

Dairy

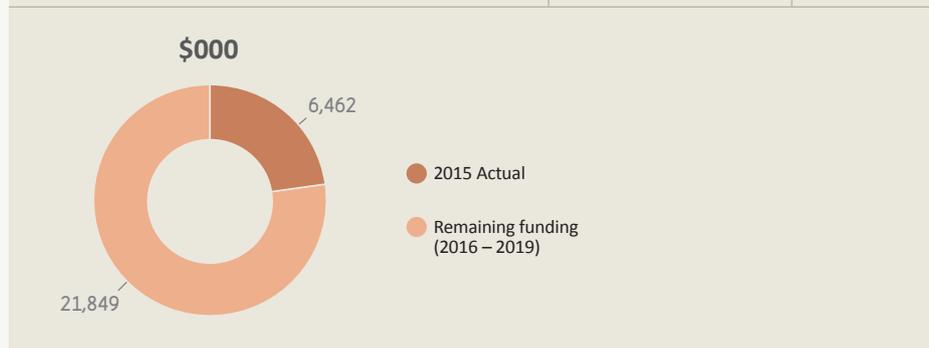
	2015 Actual \$000	2015 Budget \$000
Operating revenue		
Crown revenue	889	1,140
Other revenue	4	3
Total operating revenue	893	1,143
Operating expenses		
Determinations	0	21
Compliance and enforcement	1	43
Public reports and advice to officials	892	1,079
Total operating expenses	893	1,143
SURPLUS	0	0

Expenditure in the Dairy output class was below budget in all areas.

No determinations were required during the year, and only one compliance inquiry was received. Expenditure on completing the reviews of Fonterra's base milk price calculation and milk price manual was also lower than budget.

Electricity lines services

	2015 Actual \$000	2015 Budget \$000
Operating revenue		
Crown revenue	6,462	7,202
Other revenue	76	20
Total operating revenue	6,538	7,222
Operating expenses		
Determinations	4,935	4,616
Compliance and enforcement	859	1,388
Public reports and advice to officials	744	1,218
Total operating expenses	6,538	7,222
SURPLUS	0	0

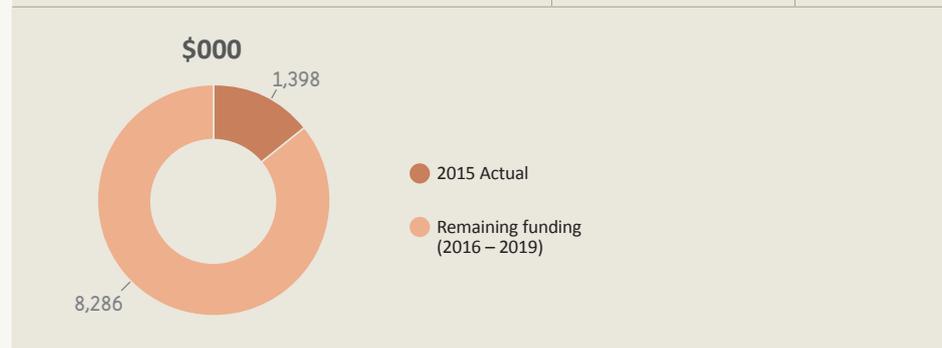


Expenditure in the Electricity output class was less than budget.

Expenditure in the determinations area was higher than expected due to the resets of both the electricity distribution and Transpower price-quality paths, and to unbudgeted WACC percentile review work. Higher determinations costs were offset by lower expenditure in the compliance and public reports work streams.

Natural gas pipeline services

	2015 Actual \$000	2015 Budget \$000
Operating revenue		
Crown revenue	1,398	1,564
Other revenue	23	5
Total operating revenue	1,421	1,569
Operating expenses		
Determinations	816	550
Compliance and enforcement	267	433
Public reports and advice to officials	338	586
Total operating expenses	1,421	1,569
SURPLUS	0	0

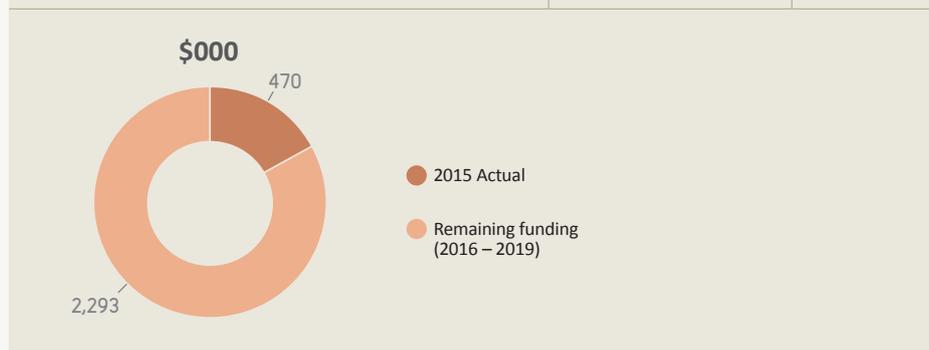


Gas expenditure was below budget.

Expenditure in the determinations work stream was higher than expected due to unbudgeted WACC percentile review work. Significant costs were also incurred in relation to amendments to information disclosure requirements. Higher determinations costs were offset by savings in the compliance and public reports areas.

Airport services

	2015 Actual \$000	2015 Budget \$000
Operating revenue		
Crown revenue	470	589
Other revenue	7	2
Total operating revenue	477	591
Operating expenses		
Determinations	121	147
Compliance and enforcement	52	66
Public reports and advice to officials	304	378
Total operating expenses	477	591
SURPLUS	0	0



Expenditure in the Airports output class was less than budget.

The majority of the underspend was in the public reports and advice to officials work stream, where less time and cost than expected was incurred on reviewing the disclosures and updated price setting of Wellington and Christchurch international airports. Expenditure in the determinations and compliance areas was also less than budget.

Appropriation funding

The table below shows the Crown funding made available by the Crown through the Estimates and Supplementary Estimates compared with that recognised by the Commission in the year for each of our regulation appropriations.

	Estimates \$000	Supplementary Estimates \$000	Actual \$000	Difference vs Supplementary Estimates \$000
Vote Commerce and Consumer Affairs: Enforcement of Telecommunications Sector Regulation				
Crown revenue	6,000	6,000	6,000	0
Vote Commerce and Consumer Affairs: Establishment of New Broadband Performance Testing				
Crown revenue	0	1,198	207	(991)
Vote Commerce and Consumer Affairs: Enforcement of Dairy Sector Regulation and Auditing of Milk Price Setting				
Crown revenue	1,156	935	889	(46)
Vote Commerce and Consumer Affairs: Economic Regulation of Electricity Lines Services 2014-2019 (MYA)				
Cumulative funding to 1 July	0	0	0	0
Crown revenue	7,244	6,770	6,462	(308)
Cumulative funding to 30 June	7,244	6,770	6,462	(308)
Remaining appropriation	21,067	21,541	21,849	308
Total appropriation	28,311	28,311	28,311	
Vote Commerce and Consumer Affairs: Economic Regulation of Gas Pipeline Services 2014-2019 (MYA)				
Cumulative funding to 1 July	0	0	0	0
Crown revenue	1,580	2,088	1,398	(690)
Cumulative funding to 30 June	1,580	2,088	1,398	(690)
Remaining appropriation	8,104	7,596	8,286	690
Total appropriation	9,684	9,684	9,684	
Vote Commerce and Consumer Affairs: Economic Regulation of Specified Airport Services 2014-2019 (MYA)				
Cumulative funding to 1 July	0	0	0	0
Crown revenue	597	598	470	(128)
Cumulative funding to 30 June	597	598	470	(128)
Remaining appropriation	2,166	2,165	2,293	128
Total appropriation	2,763	2,763	2,763	

MAJOR LITIGATION

We undertake litigation across both our competition and consumer, and our regulation functions where we believe this is likely to achieve the most effective outcome. Major litigation funding is used where cases meet the conditions for accessing the fund.

Our litigation workload varies considerably each year based on:

- the number and types of cases we choose to litigate or which are brought against us
- any appeals we defend
- the complexity of the cases we have before us
- the court timetables
- the parties' approaches towards settlement.

We use the litigation fund in accordance with the conditions established for using the fund.

Major litigation is funded by the Crown out of the multi-category appropriation (MCA) Vote Commerce and Consumer Affairs: Commerce Commission Litigation Fund. The internally-sourced litigation category is used to meet the costs of resourcing litigation from our internal capability, while the externally-sourced litigation category is used to meet the external direct costs of resourcing major litigation activity. For our internally-sourced litigation we also receive a share of the revenue from shared services cost recoveries.

We use the litigation fund in accordance with the conditions established for using the fund.

	2015 Actual \$000	2015 Budget \$000
Externally-sourced litigation		
Operating revenue		
Crown revenue	2,414	6,757
Total operating revenue	2,414	6,757
Operating expenses		
Competitive markets	417	2,530
Fair Trading Act	1,168	2,570
CCCF Act	214	302
Regulation	115	855
Total operating expenses	1,914	6,257
SURPLUS	500	500

	2015 Actual \$000	2015 Budget \$000
Internally-sourced litigation		
Operating revenue		
Crown revenue	2,999	3,482
Other revenue	16	13
Total operating revenue	3,015	3,495
Operating expenses		
Competitive markets	1,739	2,290
Fair Trading Act	985	812
CCCF Act	144	167
Regulation	147	226
Total operating expenses	3,015	3,495
SURPLUS	0	0

Externally-sourced litigation expenditure was below budget as less expenditure was incurred than originally budgeted for on the Interest Rate Swaps, Input Methodologies litigation and Chorus UBA Appeal cases. Further, the budgeted provision for new cases, and extra provision released from the original case budgets, was in excess of the requirements for new litigation cases entering the fund during the year.

Internally-sourced litigation expenditure was also less than budget. Settlements in several cases meant that less time was spent on litigation than was expected.

Crown revenue includes additional funding above operating expenditure of \$0.5 million to fund a litigation costs reserve. This reserve is used to manage the impact of adverse costs awards that may be awarded against the Commission, and is capped at \$3.0 million. At 30 June 2015 the balance of the fund was \$2.589 million. Subject to any adverse cost awards, the reserve is expected to reach a balance of \$3.0 million next year.

Appropriation funding

The table below shows the Crown funding made available by the Crown through the Estimates and Supplementary Estimates compared with that recognised by the Commission in the year for the appropriation Vote Commerce and Consumer Affairs: Commerce Commission Litigation Funds MCA.

	Estimates \$000	Supplementary Estimates \$000	Actual \$000	Difference vs Supplementary Estimates \$000
Commerce Commission externally-sourced litigation				
Crown revenue	7,000	7,000	2,414	(4,586)
Commerce Commission internally-sourced litigation				
Crown revenue	3,500	3,500	2,999	(501)
Total	10,500	10,500	5,413	(5,087)

ORGANISATION CAPABILITY AND HEALTH

Our vision and values

The Commission strives for excellence across our organisation. Our values, shown here, are well established and we aim to uphold them in all our actions. These values have also led to the creation of our new vision statement: *Working to protect and promote the interests of New Zealanders*. This single sentence captures what each of us at the Commission strives to achieve in our decision making and performance.

EXCELLENCE

- > We produce excellent work that stands up to scrutiny
- > We continually look for ways to improve
- > We recruit and retain excellent people and support their development

INTEGRITY

- > Our independence inspires the trust and confidence of New Zealanders
- > We are fair, honest and impartial

ACCOUNTABILITY

- > We answer to New Zealanders for the work we do and the money we spend
- > We take individual responsibility to deliver what we say we will

RESPECT

- > We work together, and support and respect each other
- > We value the diversity of people and their opinions

GOOD JUDGEMENT

- > We understand the environment in which we operate and the impact of our actions
- > What we do is relevant and useful
- > We are proactive and flexible and look for common-sense solutions

Developing improved capabilities

Maintaining and improving organisational health and capability is essential in helping us to achieve our outcomes. Providing the right environment, tools, support and leadership enables our people to do their jobs effectively and grow our capability as an organisation. We continue to focus our capability improvement around three themes – connect, people and efficiency.

Connect

- Finalist in two categories at Writemark Plain English Awards
- Held second biennial Commission conference in July 2015
- Held analyst and media briefings on key regulation decisions and determinations
- Engaged with national competition and consumer agencies from around the world
- Commissioners and senior staff have spoken at national and international events

People

- Targeted training for all managers and team leaders
- Employee engagement score well above state sector benchmark
- Staff report they feel strong performance is being recognised
- All managers completed 360 feedback



Efficiency

- Mobile technology deployed to all staff
- Implemented an email management system
- Extended the shared services agreement to support the Electricity Authority with its IT needs
- Agreed to share reception facilities with the Tertiary Education Commission

Being a good employer

We maintain a clear focus on leadership, workforce development, management of people and performance, and engagement with our employees. We have also made the most of the diverse talent pool currently at the Commission by promoting equal employment opportunities (EEO).

To ensure we continue to be a good employer, we have an integrated strategy that includes:

- attracting and retaining capable employees with specialist skills both locally and globally
- providing flexible working arrangements to suit personal needs and circumstances
- completing an annual employee survey to identify areas for improvements
- continuing to reinforce and promote our organisational values
- reviewing and implementing new policies to continue to support our people and culture, our Code of Conduct and our values
- continuing work in the people leadership area to strengthen leadership capability
- providing opportunities for employees to participate in developing and maintaining a positive, safe, professional and enjoyable workplace.

The table below outlines our achievements against the seven key elements of being a good employer, as set out by the New Zealand Human Rights Commission.

Elements	Initiatives
Leadership, Accountability and Culture	<p>We conducted our fourth annual employee survey in March. Overall results were in line with the previous year, although we did see improvements in scores related to employee wellbeing. We remain well placed against the State Sector Benchmark.</p> <p>All managers and team leaders have now completed a management development or people leader programme. We continue to support managers through coaching and other development initiatives.</p> <p>We have developed an EEO programme and policy which link to our values.</p> <p>We have a programme underway to promote cultural awareness and are implementing several initiatives including Te Reo Māori training for staff.</p>
Recruitment, Induction and Selection	<p>We continue to ensure we attract and retain high-calibre people. We are focused on making strategic hiring decisions to enable us to be well placed for the future. We are working with universities to source talented graduate-level employees.</p> <p>We have updated our induction programme to ensure it meets our current and future needs.</p>
Employee Development, Promotion and Exit	<p>Our learning and development framework continues to support our organisational capability. Our Commission-wide training programme provides development opportunities for all employees. This is supplemented with targeted development programmes for individuals.</p> <p>As part of our capability process, all employees have a development plan that is agreed annually.</p> <p>We have created additional career path opportunities for specialist roles.</p>
Flexibility and Work Design	<p>We continue to accommodate and support flexible working arrangements.</p> <p>The deployment of mobile devices to all staff and Commissioners is a key part of the overall drive for improved staff mobility and flexible working arrangements.</p>
Remuneration, Recognition and Conditions	<p>We adhere to the Government's expectations for Pay and Employment Conditions in the State Sector. Our remuneration strategy is reviewed each year to ensure this supports our recruitment and retention strategies.</p>
Harassment and Bullying Prevention	<p>Our values, together with our Code of Conduct and our Harassment Policy, detail our expected behaviours. We have a zero tolerance of harassment and bullying.</p>
Safe and Healthy Work Environment	<p>We have processes in place that ensure the Commission provides a healthy and safe work environment. Our induction programme, trained health and safety representatives, and ongoing health and safety education programmes ensure all employees are well informed about their health and safety.</p> <p>We have initiatives in place that support wellness in our workplace and we are always looking to introduce other options.</p>



Evaluating our capability and health

In our SOI 2014-2018 we set out four measures to monitor our organisational health and capability.

The State Sector Benchmark (SSBM) represents the median score of the public sector agencies that use the same survey as the Commission. While our employee engagement level has remained stable, we remain above the SSBM.

We self-assess our administrative and support costs annually using the Benchmarking Administrative and Support Services framework, though we are not directly involved in the programme. Results for 2015 are not available until after the annual report is published. The percentage increased in 2014 as a result of a slight increase in our administrative and support costs, while our overall running costs decreased significantly.

We do not set targets for the staff turnover and average years of service measures but aim to ensure these reflect a healthy level.

	2015	2014	2013	2012
Overall level of employee engagement shows an improvement year on year	72.4% SSBM: 68.6%	73.4% SSBM: 68.1%	71.7% SSBM: 68.8%	68.8% SSBM: 69.3%
The percentage of total organisation running costs spent on administrative and support functions decreases year on year	Results not available until 2016	14.2%	13.7%	13.2%
Employee turnover	7.5%	13%	15%	16%
The average number of years of experience of our employees	5.5	5.3	6	5.2

Profile of our people

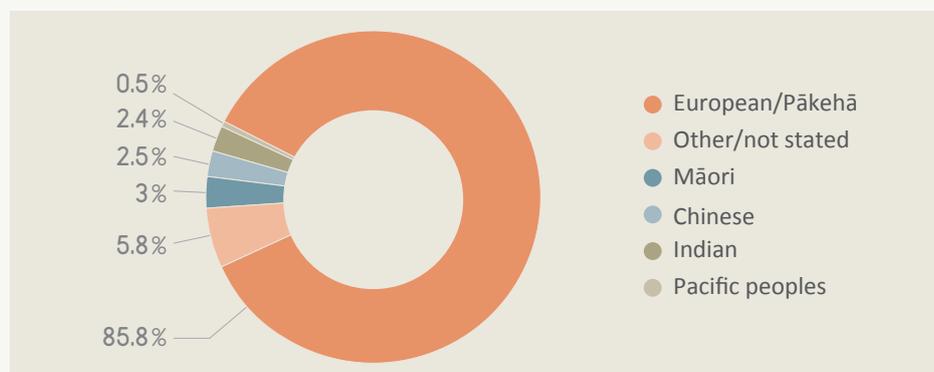
At 30 June 2015

	2015	2014	2013	2012
Number of employees (FTE)	198	178	173	169
Male	58%	55%	54%	50%
Female	42%	45%	46%	50%
Percentage of employees on flexible working arrangements	14.2%	11%	14%	11%

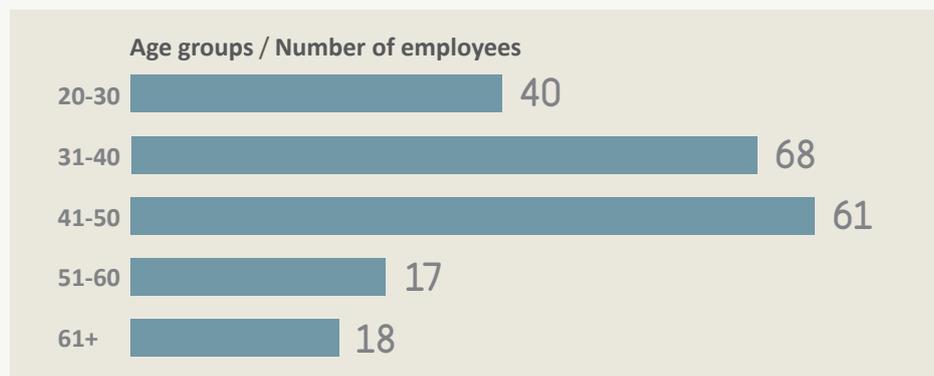
Disability profile:

We are currently supporting employees with disabilities and a disability register is held in case of emergency.

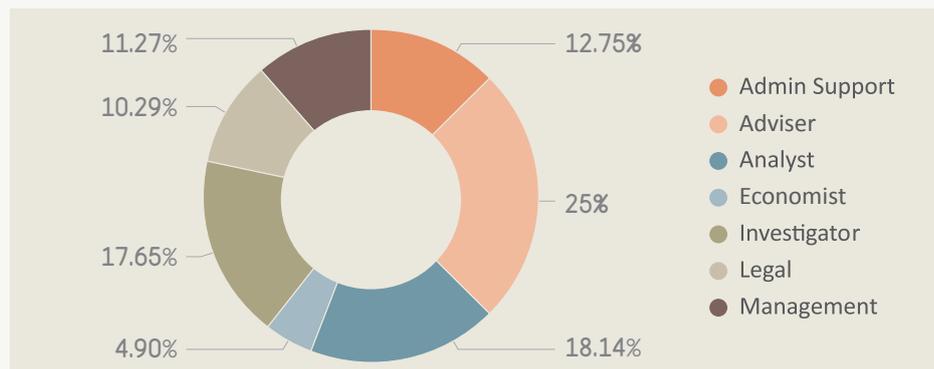
Ethnicity profile:



Age profile:



Occupation profile:

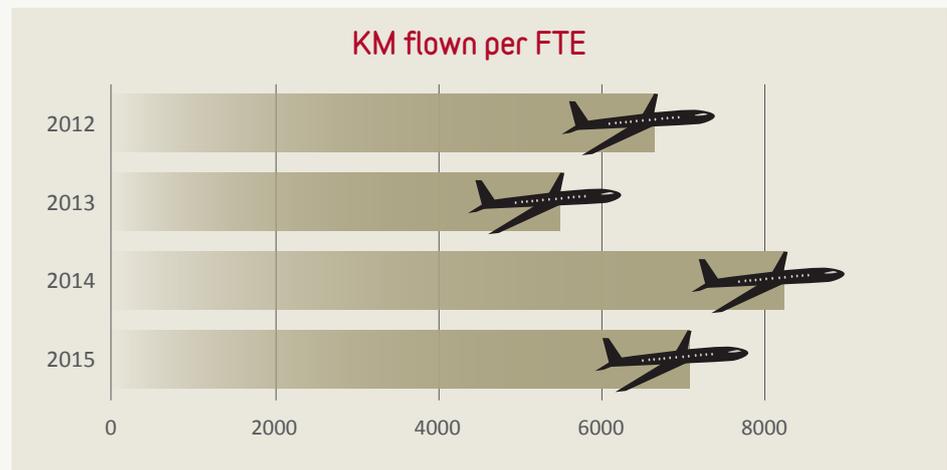
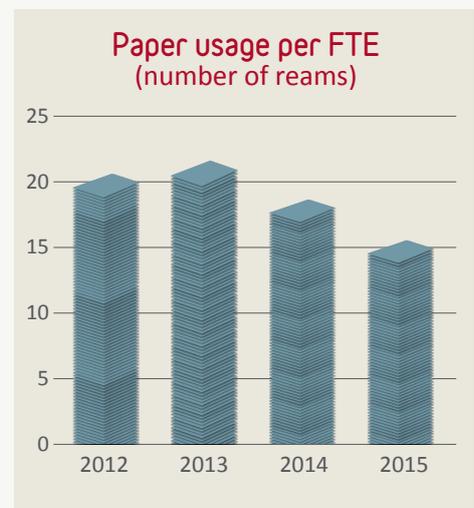
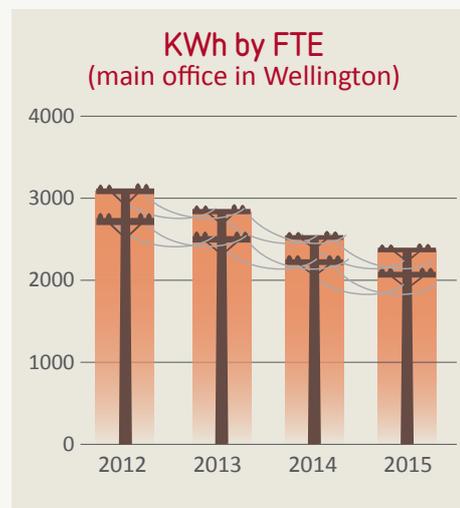


Environmental sustainability

We are committed to sustainability and to minimising our impact on the environment. We monitor our flight, paper and energy use and have implemented or are planning initiatives with sustainability benefits.

We expect to see a reduction in our paper usage following the deployment of mobile devices, with more staff viewing documents on their devices rather than printing documents.

Along with mobile devices, we have also introduced software that will facilitate electronic collaboration (for example, video conferencing and document sharing). We hope to use this technology to facilitate staff collaboration and face-to-face meetings and reduce the need to travel.



GOVERNANCE

Board and Commissioner responsibilities

The Governor-General, on the recommendation of the Minister of Commerce, appoints Commission Members for their knowledge of, and experience in, areas relevant to the Commission's responsibilities. The Telecommunications Commissioner is appointed on the recommendation of the Minister for Communications.

The Board and Commissioners exercise a wide range of functions and powers conferred and limited by legislation. The Board, as a governance body, provides high-quality, effective guidance and is required to comply with the Crown Entities Act 2004 and other applicable legislation.

Decision making

The Commission's functions and powers are conferred and limited by legislation. In performing our functions, we have a wide range of formal decision-making powers. The Board makes decisions and determinations that determine or otherwise significantly affect the legal rights, duties and interests of others. This includes formal decisions made by the Board or Commission Division, such as:

- regulating the supply of electricity lines services, gas pipeline services (distribution and transmission) and specified airport services under Part 4 of the Commerce Act
- making determinations in respect of designated access and specified services under the Telecommunications Act
- giving a clearance or authorising a business acquisition or trade practice under the Commerce Act
- reviewing Fonterra's milk price manual, taking enforcement action and issuing determinations to resolve disputes under the Dairy Industry Restructuring Act.

The Board or Commission Division also makes decisions about whether to commence (or discontinue or settle) legal proceedings or to take other action in relation to matters before them.

Governance of the organisation

The Board discharges the functions and requirements of the Commission in several ways, including:

- monitoring the Commission's performance, considering performance improvements, managing risks and planning our strategic direction
- the Chairman establishing sub-groups of the Board (Commission Divisions) that administer and enforce discrete statutes
- using delegations to make our work more efficient, including delegating authority to the Chief Executive

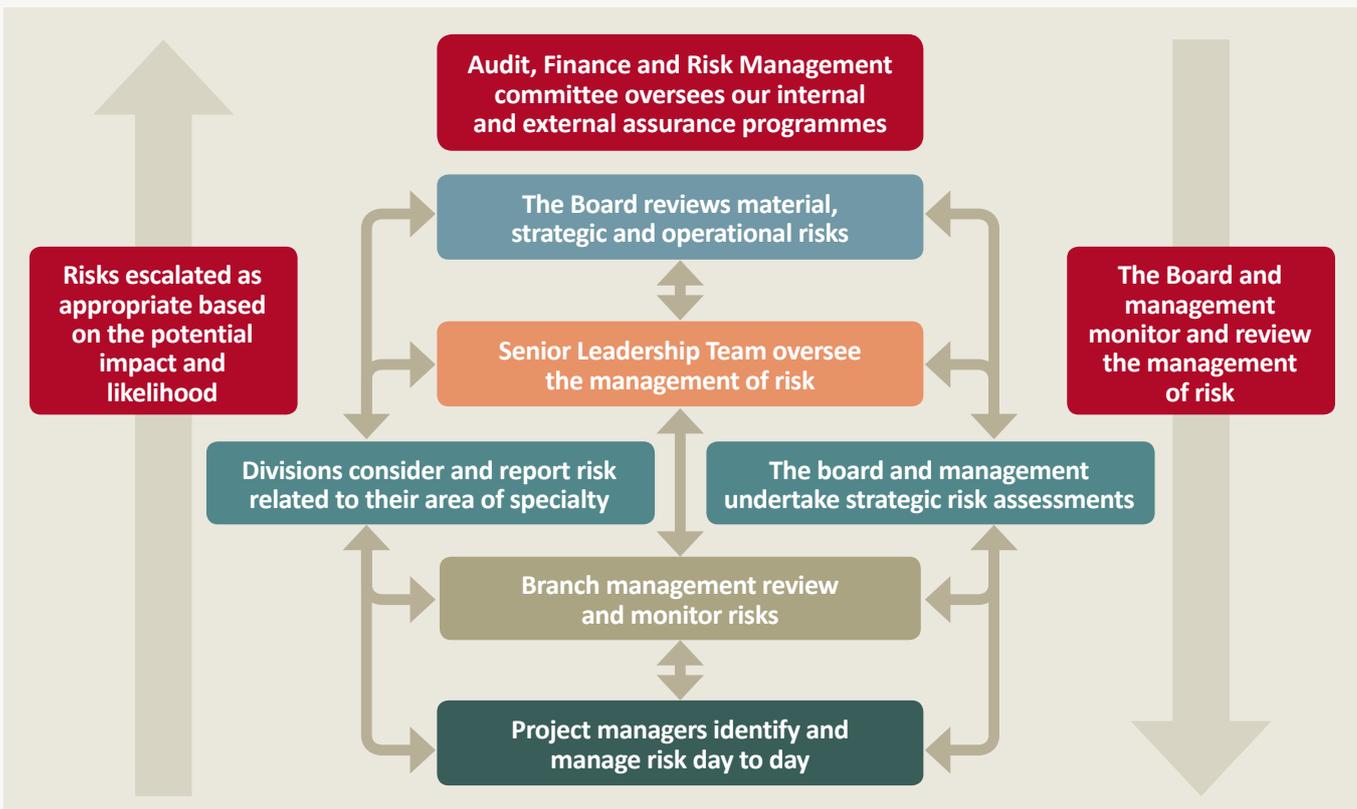
- using advisory committees to the Board, such as the Audit, Finance and Risk Management Committee (AFRM)
- managing any conflicts of interest through robust procedures
- overseeing a broad variety of strategies, policies, processes, systems, frameworks and analytical approaches that help ensure effective decision making
- holding regular Board meetings.

Managing risk

We actively manage risk at the Commission to increase the likelihood of achieving our objectives.

The Board is responsible for reviewing and approving our risk management framework. This year we revised our risk management framework to ensure that we continue to comply with good practice.

The Board delegates day-to-day management of risk to the Chief Executive. This delegation ensures that the day-to-day responsibility for risk management is at the branch level, where risk is seen as part of the overall business process, and a robust framework of identification, evaluation, monitoring and control exists.



Conflicts of interest

The Commission Board maintains a register of interests. The register ensures Board members are aware of their obligation to declare interests in accordance with the relevant provisions of the Crown Entities Act and reflects recent developments in case law and government policy in relation to the management of conflicts of interest.

Ministerial directions

The Commission acts independently of the Government. This independence requires us to be impartial in our administration and enforcement of the law. We are primarily accountable to the Minister of Commerce for our performance (with the delegation for oversight of the Commerce Commission as ownership minister).

Under the Commerce Act and the Telecommunications Act, ministers can communicate statements of economic policy to the Commission. We are required to have regard to such statements when exercising our statutory functions under the Commerce Act and Schedule 3 of the Telecommunications Act. We are currently required to have regard to statements relating to New Zealand's international commitments in relation to telecommunications.

The Minister for Communications and Information Technology communicated a statement of economic policy from the Government to the Commission in October 2011. The Government economic policy statement relates to the incentives of businesses to invest in ultra-fast broadband infrastructure. The statement was given to the Commission under section 19A of the Telecommunications Act (*New Zealand Gazette*, Issue 155: 13 October 2011, p.4440 (New Zealand Department of Internal Affairs)).

The Minister of State Services and the Minister of Finance communicated a direction requiring crown entities to comply with the Government Rules of Sourcing in support of a whole-of-government approach to procurement. The direction was given to the Commission under section 107(2) and 107(2A) of the Crown Entities Act and came into force on 1 February 2015 (*New Zealand Gazette*, Issue 65: 19 June 2014, p.1864 (New Zealand Department of Internal Affairs)).



Commission Member profiles

The Board is made up of Commission Members, appointed by the Governor-General on the recommendation of the Minister of Commerce or, in the case of the Telecommunications Commissioner, on the recommendation of the Minister for Communications. Associate Commissioners are appointed by the Minister of Commerce.

At least one Commission Member must be a barrister or solicitor.

As at 30 June 2015, the Commissioners were: Dr Mark Berry (Chairman), Sue Begg (Deputy Chair), Dr Stephen Gale (Telecommunications Commissioner), Pat Duignan, Elisabeth Welson and Anna Rawlings. Dr Jill Walker was an Associate Commissioner.

There have been recent changes to the Board. Pat Duignan's terms as Commissioner will conclude on 30 November 2015 and he will be replaced by Dr Jill Walker. Graham Crombie has been appointed as an Associate Commissioner and took up his role in July 2015.



Dr Mark Berry *Chairman*

Dr Mark Berry was appointed Chairman in April 2009 and his term expires in March 2019. Mark is a former partner of law firm Bell Gully and former consultant with Chapman Tripp. Mark has been in practice as a barrister sole since 2002 and holds a doctorate from Columbia University, New York. He is a former member of the faculty at Otago University Law School, and is a member of the International Advisory Board at the Institute for Consumer Antitrust Studies at Loyola University Chicago School of Law.



Sue Begg *Deputy Chair*

Sue Begg was appointed as a Commissioner in June 2009, and in July 2010 the Minister of Commerce announced her appointment as Deputy Chair of the Commerce Commission for a 4-year term. This was renewed for a further 5 years in June 2014. She is an economist, whose previous roles include director of the consultancy company Impetus Group Limited, Vice-President and head of the economic advisory unit of the investment banking division of Credit Suisse First Boston NZ Limited (and its predecessor companies) and manager of the Macroeconomic Policy section at the Treasury.



Pat Duignan *Commissioner*

Pat Duignan's terms as Commissioner will conclude on 30 November 2015 but, in accordance with the statutory provisions, he will continue his work on pricing review determinations for the UCLL and UBA services if they are uncompleted at that date. Pat was appointed in June 2009 as an Associate Commissioner and in June 2010 as a Commissioner. He is an economist and corporate financier. His previous roles include General Manager Finance for Telecom Corporation, Director in the Investment Banking Division of CS First Boston NZ Limited, Treasurer of the New Zealand Debt Management Office, and Director Policy Coordination and Development at the Treasury. Pat has a BSc (Hons) in Mathematics and a BCA (Hons) in Economics from Victoria University of Wellington.

Dr Stephen Gale

Telecommunications Commissioner

Stephen Gale was appointed as the Telecommunications Commissioner in July 2012. Prior to that, he had been an Associate Commissioner since July 2010. Stephen has specialised for some years in infrastructure economics (energy, telco and transport) and competition proceedings at the consulting firm Castalia. Before that he was at the New Zealand Institute of Economic Research. He holds a PhD from the University of Cambridge.



Anna Rawlings

Commissioner

Anna Rawlings was appointed as a Commissioner in June 2014. She was previously a partner in the dispute resolution division of Minter Ellison Rudd Watts, where she specialised in contentious and non-contentious aspects of competition, regulatory and consumer law. Anna holds a BA/LLB (Hons) from the University of Auckland and an LLM from the University of Toronto, where her work was focused in law and economics.



Elisabeth Welson

Commissioner

Elisabeth Welson was appointed in September 2012 as Associate Commissioner and as a Commissioner on 19 August 2013. Before joining the Commission, Elisabeth was a senior commercial partner at Simpson Grierson, where she co-led the competition and regulatory group and headed the energy, natural resources and utilities market group. She holds an LLB (Hons) from the University of Auckland and has practised as a Barrister and Solicitor in New Zealand as well as a Solicitor of the Supreme Court of Queensland and Solicitor of the Supreme Court of New South Wales.



Dr Jill Walker

Associate Commissioner

Dr Jill Walker was appointed as Associate Commissioner in November 2010. She is also a Commissioner of the Australian Competition and Consumer Commission. Before joining the ACCC, Jill was a member of the Australian Competition Tribunal and worked as an economic consultant. She holds a Bachelor of Arts in Economics and a PhD in Land Economy from the University of Cambridge. She also holds a Master's degree in Economics from the University of Massachusetts.



The Hon. Sir Bruce Robertson KNZM and Michael Behrens QC are Cease and Desist Commissioners.

In April 2014 Fred Hutchings (FCA) was appointed as our first external Convenor of the Audit, Finance and Risk Management Committee, a role formerly performed by a Commission Member. Fred was a partner with PricewaterhouseCoopers and now holds several governance roles including Chairman of Seeka Kiwifruit Industries Ltd, Chairman of the OAG Audit and Risk Committee, and former Chairman of the MFAT Audit and Risk Committee. He is also President of Chartered Accountants Australia and New Zealand.



Pictured left to right: Dr John Hamill, *General Manager Regulation*; Kate Morrison, *General Manager Competition*; Brent Alderton, *Chief Executive*; Geoff Williamson, *General Manager Organisation Performance*.

Senior leadership team profiles

The Chief Executive is responsible for managing the Commission's operations, supported by a senior leadership team. Our employees have a wide range of skills and experience to ensure the organisation's effective functioning, including people with backgrounds in economics, finance, engineering, business and law, and with a mix of both private and public sector experience.

Brent Alderton

Chief Executive

Brent Alderton is the Chief Executive of the Commerce Commission in New Zealand, a role he has held since January 2011. Brent joined the Commission in 2009 and held the role of General Manager Regulation immediately prior to becoming Chief Executive. Before joining the Commission, Brent gained a broad range of business experience in both the private and public sector in New Zealand. This includes a variety of finance, strategy, policy and analysis roles at organisations such as New Zealand Oil and Gas Limited, Deloitte, the Electricity Corporation, the Treasury and the Department of Social Welfare. Brent has a BA (Hons) in Economics and an MA in Political Studies from the University of Otago.

Dr John Hamill

General Manager Regulation

Dr John Hamill has been the General Manager Regulation since January 2011. He was the Manager for Airports and Input Methodologies in the regulation branch for the previous 2 years. John is an experienced manager with a strong public sector background. He previously worked at the Ministry of Justice and has demonstrable experience in strategy, policy development and organisational/sector performance. John has a PhD in English Literature from Victoria University of Wellington.

Kate Morrison

General Manager Competition

Kate Morrison heads the competition branch. She joined the Commission as the first General Manager Enforcement in December 2009. Kate previously had a London-based career in financial services compliance and was Executive Director, Global Head of Compliance for Mergers and Acquisitions, Equity Capital Markets and Global Control Room at ABN AMRO. She also held a similar role at Deutsche Bank. Kate has a law degree, a BA in English Literature from Victoria University of Wellington and a Master's degree in International Economic Law from the University of Edinburgh.

Geoff Williamson

General Manager Organisation Performance

Geoff Williamson joined the Commission in July 2011 and leads the organisation performance branch. Geoff was previously Director Corporate Services at the Tertiary Education Commission and his previous work experience includes Chief Financial Officer at the National Library of New Zealand and a range of roles with Deloitte. Geoff has a BCA from Victoria University of Wellington and an Executive Masters of Public Administration through the Australia and New Zealand School of Government, and is a Chartered Accountant.

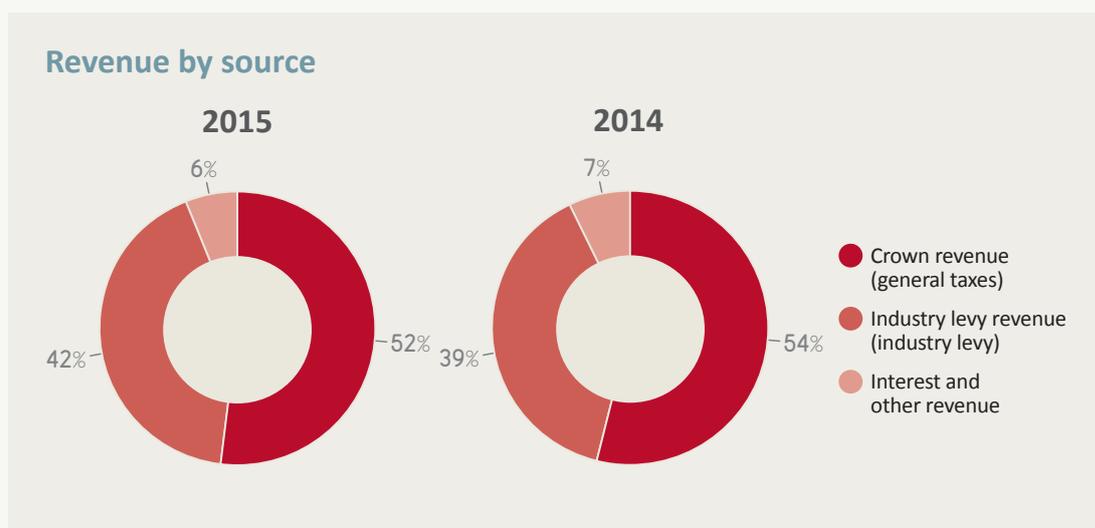
FINANCIAL PERFORMANCE

Financial statements overview

The Commission's financial results and our financial position show that we continue to operate sustainably. This section provides an overview of our financial statements for the year ended 30 June 2015.

Revenue

The Commission recorded revenue of \$37 million, compared to budgeted revenue of \$42 million for the financial year and revenue of \$35 million in the prior year. The largest contribution to our revenue is from the Crown, through a combination of general taxes and industry levies. Other sources of revenue include interest revenue on cash we hold, court cost awards from litigation, and application fees paid by businesses seeking clearances and other determinations.



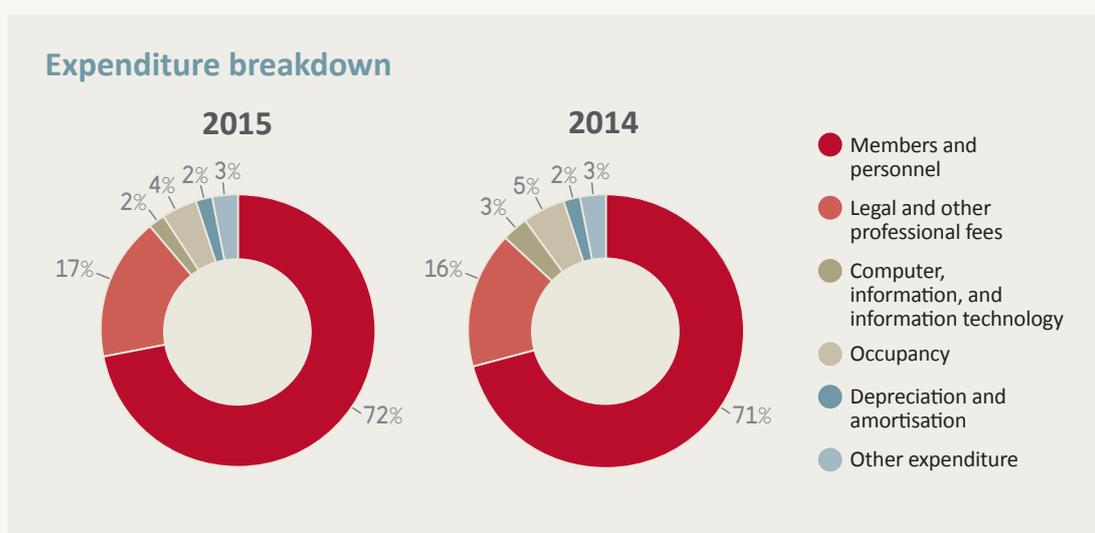
Each year, the Crown provides us with funding for streams of work (via an "appropriation"). The funding is a maximum amount we may spend (excluding revenue from other sources) for each stream. We budget to produce our work within this funding cap. In the earlier part of this Annual Report, we've provided tables for each funding stream showing how much total revenue we have received, and how much we have spent. The table on page 75 shows the Crown funding made available to us for this year, compared to what we actually spent undertaking our business activities. Some of the difference, \$1.3 million, for Regulation activities, can be carried forward to fund costs in future periods. The rest, amounting to \$6.1 million, is a saving to tax and levy-payers.

Crown revenue by funding stream	Provided (\$000)	Actual (\$000)	Difference (\$000)	Available 2016	Saving
General Markets	13,935	13,935	–	–	–
Telecommunications	6,000	6,000	–	–	–
Broadband testing*	1,198	207	991	–	991
Electricity	7,244	6,462	782	782	–
Gas	1,580	1,398	182	182	–
Dairy	1,156	889	267	221	46
Airports	597	470	127	127	–
Major Litigation – Internal	3,500	2,999	501	–	501
Major Litigation – External	7,000	2,414	4,586	–	4,586
Total	42,410	34,774	7,436	1,312	6,124

*Broadband testing was a special one-off funding stream established during 2015 from unspent 2014 Telecommunications funds – the Budget amount is the amount the Crown provided to us.

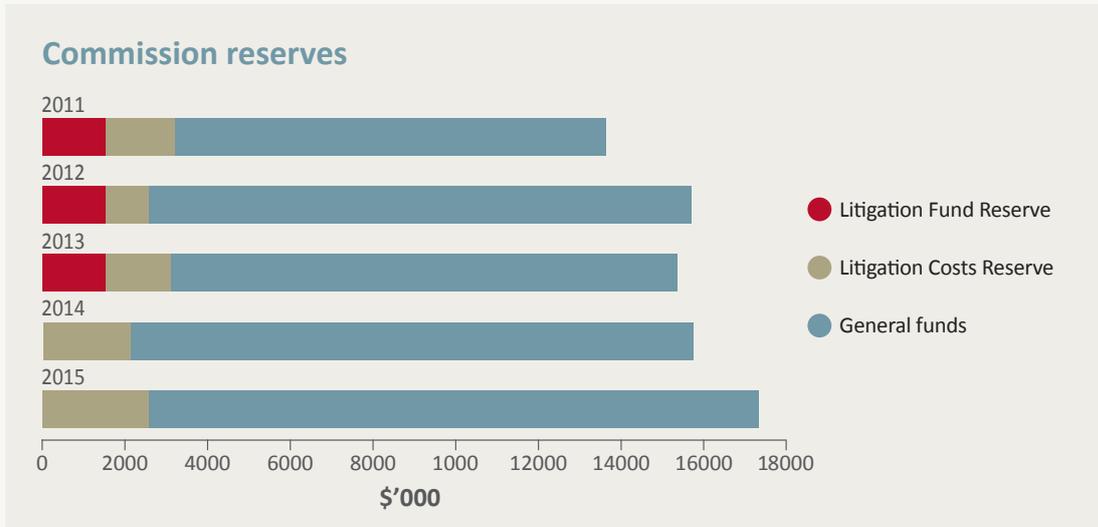
Expenditure

This year we spent a little over \$35 million, compared to a budgeted spend of \$42 million and a prior year spend of \$34 million. The graphs below show a breakdown of our expenditure across type, rather than function.



As an entity our focus is on delivery of services such as determinations and enforcement, which is dependent on skilled people. Our expenditure on personnel makes up nearly three-quarters of our total expenditure. We also spend another fifteen percent on legal and other professional consultants who provide support to us in our work. The remaining ten percent is attributable to costs such as accommodation, information technology, and travel, which are necessary to keep the Commission running.

Financial position



The Commission's equity (or reserves) at 30 June 2015 was \$17.2 million, an increase of \$1.3 million from 30 June 2014. This increase comprised an additional \$500,000 in our Litigation Costs Reserve (for paying cost awards if we lose a major litigation case), and an \$800,000 surplus in our competition and consumer output class.

We maintain reserves at a level which allows us to manage litigation risks and other financial risks. These risks are diverse, but can involve large unanticipated expenditures in a relatively short timeframe. For instance, if we lose a large multi-party litigation case, we may have to pay large adverse cost awards to the winning parties. Alternatively, we may have to incur unplanned expenditure on a Part 4 inquiry, or a large merger clearance while continuing to deliver our business as usual activities.

New accounting standards

This year we transitioned to a new set of accounting standards designed for use by the public sector (entities such as the Commission). This has resulted in some changes to the presentation and disclosures of information in our financial statements, along with some changes to the way we recognise some revenues and expenses. We have recalculated the comparative figures so that they are consistent with these changes. Note 25 at the end of our financial statements gives a breakdown of the significant changes from last year's published figures.

Statement of responsibility

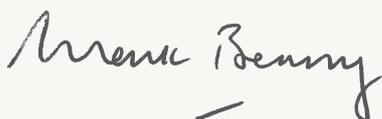
Under the Crown Entities Act 2004, the Board of the Commerce Commission is responsible for the preparation of the Commission's financial statements and statement of service performance, and for the judgements made in them.

In addition, we are responsible for any end-of-year performance information provided by the Commission under section 19A of the Public Finance Act 1989.

The Board of the Commission is also responsible for establishing, and has established, a system of internal controls designed to provide reasonable assurance of the integrity and reliability of the Commission's financial reporting.

In the Board's opinion, these financial statements and the statement of service performance reflect a true and fair view of the financial position, and results of the operations of the Commission, for the year ended 30 June 2015.

Signed on behalf of the Board:



Dr Mark Berry
Chairman – Commerce Commission

15 October 2015



Pat Duignan
Member – Commerce Commission

15 October 2015

Independent auditor's report

To the readers of the Commerce Commission's financial statements and performance information for the year ended 30 June 2015.

The Auditor-General is the auditor of the Commerce Commission (the Commission). The Auditor-General has appointed me, Ajay Sharma, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and the performance information, including the performance information for appropriations, of the Commission on her behalf.

Opinion on the financial statements and the performance information

We have audited:

- the financial statements of the Commission on pages 81 to 105, that comprise the statement of financial position as at 30 June 2015, the statement of comprehensive revenue and expense, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the Commission on pages 26 to 37 and 43 to 60.
- In our opinion:
- the financial statements of the Commission:
 - > present fairly, in all material respects:
 - its financial position as at 30 June 2015;
 - its financial performance and cash flows for the year then ended; and
 - > comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with the Public Benefit Entity Reporting Standards.
- the performance information:
 - > presents fairly, in all material respects, the Commission's performance for the year ended 30 June 2015, including:
 - for each class of reportable outputs:
 - its standards of performance achieved as compared with forecasts included in the statement of performance expectations for the financial year;
 - its actual revenue and output expenses as compared with the forecasts included in the statement of performance expectations for the financial year;
 - what has been achieved with the appropriations;
 - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
 - > complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 15 October 2015. This is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Commissioners and our responsibilities, and explain our independence.

Basis of opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and the performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and the performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the Commission's financial statements and performance information 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 Commission's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Commissioners;
- the appropriateness of the reported performance information within the Commission's framework for reporting performance;
- the adequacy of the disclosures in the financial statements and the performance information; and
- the overall presentation of the financial statements and the performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and the performance information. Also, we did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Commissioners

The Commissioners are responsible for preparing financial statements and performance information that:

- comply with generally accepted accounting practice in New Zealand;
- present fairly the Commission's financial position, financial performance and cash flows; and
- present fairly the Commission's performance.

The Commissioners' responsibilities arise from the Crown Entities Act 2004 and the Public Finance Act 1989.

The Commissioners responsible for such internal control as it determines is necessary to enable the preparation of financial statements and performance information that are free from material misstatement, whether due to fraud or error. The Commissioners are also responsible for the publication of the financial statements and the performance information, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

Independence

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

Other than the audit, we have no relationship with or interests in the Commission.



Ajay Sharma
Audit New Zealand

On behalf of the Auditor-General
Wellington, New Zealand

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

Financial Statements

Statement of comprehensive revenue and expense for the year ended 30 June 2015

	Notes	2015 Actual \$000	2015 Budget \$000	2014 Actual \$000
Operating revenue				
<i>Revenue from non-exchange transactions</i>				
Crown revenue		34,774	40,623	32,862
Court cost awards		599	50	617
Total revenue from non-exchange transactions		35,373	40,673	33,479
<i>Revenue from exchange transactions</i>				
Fees and recoveries		359	50	882
Interest		1,077	757	858
Other revenue		136	108	136
Total revenue from exchange transactions		1,572	915	1,876
Total operating revenue		36,945	41,588	35,355
Operating expenses				
Members and personnel	1	25,627	26,086	23,677
Legal and other professional fees	2	5,897	10,562	5,393
Computer, information, and information technology		579	620	577
Occupancy	3	1,460	1,715	1,651
Depreciation and amortisation		584	890	588
Other expenditure	4	1,512	1,711	1,513
Total operating expenditure		35,659	41,584	33,399
Surplus		1,286	4	1,956
TOTAL COMPREHENSIVE REVENUE AND EXPENSE		1,286	4	1,956

The accompanying statement of accounting policies and notes to the financial statements on pages 85-105 form part of the financial statements.

Statement of changes in equity for the year ended 30 June 2015

	2015 Actual \$000	2015 Budget \$000	2014 Actual \$000
Balance at 1 July	15,891	14,972	15,435
Comprehensive revenue and expense			
Surplus	1,286	4	1,956
Total comprehensive revenue and expense	1,286	4	1,956
Transactions with owner			
Repayment of reserves to the Crown	0	0	(1,500)
Total transactions with owner	0	0	(1,500)
BALANCE AT 30 JUNE	17,177	14,976	15,891

The accompanying statement of accounting policies and notes to the financial statements on pages 85-105 form part of the financial statements.

Statement of financial position

as at 30 June 2015

	Notes	2015 Actual \$000	2015 Budget \$000	2014 Actual \$000
Equity				
General funds	5	14,588	12,387	13,802
Litigation costs reserve	5	2,589	2,589	2,089
Total equity		17,177	14,976	15,891
Current assets				
Cash and cash equivalents	6	2,805	1,052	3,568
Fees and recoveries receivable		633	221	439
Short-term investments		19,000	13,500	18,500
Prepayments		538	305	317
Total current assets		22,976	15,078	22,824
Non-current assets				
Property, plant and equipment	7	851	988	737
Intangibles	8	1,764	2,641	660
Total non-current assets		2,615	3,629	1,397
TOTAL ASSETS		25,591	18,707	24,221
Current liabilities				
Creditors and other payables	9	968	750	611
Accrued expenses		980	890	1,226
Restructuring provision	10	260	0	0
Penalties and cost awards held in trust	11	554	0	145
Crown funding repayable	12	3,870	62	3,869
Employee entitlements	13	1,738	1,781	2,216
Total current liabilities		8,370	3,483	8,067
Non-current liabilities				
Provision for reinstatement of lease occupancy		33	236	236
Other non-current liability		11	12	27
Total non-current liabilities		44	248	263
Total liabilities		8,414	3,731	8,330
Net assets		17,177	14,976	15,891

The accompanying statement of accounting policies and notes to the financial statements on pages 85-105 form part of the financial statements.

Statement of cash flows

for the year ended 30 June 2015

	Notes	2015 Actual \$000	2015 Budget \$000	2014 Actual \$000
Cash flows from operating activities				
Government funding received		38,644	40,685	36,989
Fees and recoveries received		244	208	166
Receipts and payment of penalties and cost awards (net)		1,056	0	(1,488)
Interest received		1,031	779	809
Member and employee payments		(25,681)	(26,199)	(23,496)
Supplier payments		(10,024)	(14,807)	(8,628)
Repayment of Crown funding		(3,869)	(1,232)	(3,023)
Goods and services tax (net)		259	(34)	128
Net cash inflow (outflow) from operating activities	14	1,660	(600)	1,457
Cash flows from investing activities				
Short-term investments receipts/(deposits)		(500)	3,000	(6,000)
Property, plant and equipment sale proceeds		0	0	2
Property, plant and equipment purchases		(566)	(554)	(278)
Intangible asset purchases		(1,357)	(2,401)	(423)
Net cash inflow/(outflow) from investing activities		(2,423)	45	(6,699)
Cash flows from financing activities				
Reserves returned to the Crown		0	0	(1,500)
Net cash inflow/(outflow) from financing activities		0	0	(1,500)
Net increase/(decrease) in cash and cash equivalents				
		(763)	(555)	(6,742)
Opening cash and cash equivalents		3,568	1,607	10,310
CLOSING CASH AND CASH EQUIVALENTS	6	2,805	1,052	3,568

The GST (net) component of operating activities reflects the net GST paid and received from the Inland Revenue Department. We have presented the GST (net) component on a net basis, as the gross amounts do not provide meaningful information for financial statement purposes.

We have presented Receipts and payment of penalties and cost awards as a net item because the Commission holds these funds in Trust in accordance with agreements.

The accompanying statement of accounting policies and notes to the financial statements on pages 85-105 form part of the financial statements.

Statement of accounting policies

for the year ended 30 June 2015

Reporting entity

The Commerce Commission is a Crown entity (as defined by the Crown Entities Act 2004), established under the Commerce Act 1986, and operating solely within New Zealand. The ultimate parent of the Commission is the New Zealand Crown.

The Commission's main objective is to provide public services to the New Zealand public, instead of making a financial return. We provide public services to meet our responsibilities under the Commerce Act 1986, the Fair Trading Act 1986, the Dairy Industry Restructuring Act 2001, the Telecommunications Act 2001, and the Credit Contracts and Consumer Finance Act 2003.

We are a public sector public benefit entity (PBE) for the purposes of the Accounting Standards Framework issued by the New Zealand External Reporting Board, because we are a public entity as defined in the Public Audit Act 2001.

Measurement base and statement of compliance

We have prepared these financial statements to comply with the requirements of the Crown Entities Act 2004. We prepared these financial statements on a historical cost basis for a going concern to comply with New Zealand Generally Accepted Accounting Practice (GAAP). The Commission authorised the financial statements for issue on 15 October 2015.

The financial statements have been prepared in accordance and comply with Tier 1 PBE accounting standards.

These financial statements are the first financial statements presented in accordance with the PBE standards. The material adjustments and restatements we have made on transition to the new standards are recorded in Note 25.

Functional and presentation currency

The Commission's functional currency is the New Zealand dollar, so we have presented these financial statements in New Zealand dollars (rounded to the nearest thousand).

Significant accounting policies

We have applied the significant accounting policies that significantly affect the measurement of comprehensive revenue and expenditure, financial position and cash flows consistently for all reporting periods covered by these financial statements, including the comparative (prior year and budget) information. These are the significant accounting policies.

Revenue – Revenue is measured at the fair value of consideration (eg, money) received or receivable. We earn revenue from providing specific services (known as outputs) for the Crown, for services to other third parties, court cost award recoveries and interest revenue.

Crown revenue – The Commission receives funding via appropriations from the Crown. Crown revenue is a form of non-exchange transaction, because there is no direct relationship between the services we provide (funded through taxation and levies) and the general public we ultimately provide the services to. Our funding is restricted in its use to the purpose of meeting the Commission's objectives and the scope of the relevant appropriations. Crown revenue we receive but do not spend is refunded to the Crown after year end for all output classes except Vote Commerce – General Markets, which the Commission is allowed to retain as reserves. Also, we may retain specific ring-fenced revenue provided to build up our ability to meet the cost of adverse cost awards.

Revenue from the Crown is initially recognised as a liability when received, and then as revenue when we have provided services which entitle us to the funding.

Expenditure – All expenditure we incur in providing services for the Crown or other third parties is recognised in the statement of comprehensive revenue and expense when an obligation to pay arises on an accruals basis.

Foreign currency transactions – Transactions in foreign currencies are converted into the Commission’s functional currency (New Zealand Dollars) at exchange rates on the dates of the transactions. Monetary liabilities in foreign currencies at the reporting date are converted to New Zealand Dollars at the exchange rate on that date.

Leases – The Commission is party to various operating leases as a lessee. As the lessors retain substantially all of the risk and rewards of ownership of the leased property, plant and equipment, the operating lease payments are recognised as expenses only in the period in which they arise. Any lease incentives received or obligations to reinstate the condition of leased premises are recognised in the statement of comprehensive revenue and expense over the term of the lease. At balance date, we recognise any unamortised lease incentive and outstanding obligation for reinstatement as a liability.

The Commission does not enter into, and is not allowed to enter into, any finance leases.

Depreciation and impairment – Depreciation (and amortisation for intangible assets) is provided on a straight-line basis on all assets to allocate the cost of the asset (less any estimated residual value) over its useful life. The residual values and remaining useful lives of property, plant and equipment components are reviewed at least annually. All property, plant and equipment are subject to an annual test of impairment to test the recoverable amount. Any impairment losses are recorded as an expense in the period in which they are first identified.

The estimated useful lives of the major asset classes are:

Computer and office equipment	3-4 years
Furniture and fittings	Up to 5 years
Leasehold improvements	For the period of the lease
Motor vehicles	Up to 5 years
Software and other intangible assets	Up to 5 years

Taxation – The Commission is exempt from income tax under section CW 38 of the Income Tax Act 2007.

Cost allocation – Direct costs are charged directly to outputs. Personnel costs are allocated to outputs based on time records. The indirect costs of support groups, and corporate overhead costs are charged to outputs based on the budgeted relative time records of each output.

Goods and services tax (GST) – All items in the financial statements are presented exclusive of GST, except for receivables, payables, and unearned Crown revenue received in advance, which are presented on a GST-inclusive basis. Where we cannot claim a portion of GST, we recognise the GST portion as part of the related asset or expense.

The net GST recoverable from, or payable to, the Inland Revenue Department (IRD) is included as part of receivables or creditors in the statement of financial position, and classified as an operating cash flow in the statement of cash flows.

Equity – Equity is the Crown’s ownership interest in the Commission and is measured as the difference between total assets and total liabilities. We have classified equity into components and disclosed these separately to allow clearer recognition of the specified uses that we have for our equity.

Cash and cash equivalents – Cash and cash equivalents are our cash on hand, transactional cash balances in bank accounts, and some term deposits with maturities of less than 90 days held with New Zealand registered banks.

Investments – Investments are term deposits issued by New Zealand registered banks with maturities of more than 90 days. Loans and receivables are initially measured at the amount invested. After initial recognition, investments are re-measured at amortised cost using the effective interest rate method.

Property, plant and equipment – All items of property, plant and equipment owned are recorded at historical cost of purchase, less accumulated depreciation and any impairment losses. An item of property, plant and equipment acquired in stages is not depreciated until the item of property, plant and equipment is in its final state and ready for its intended use. Any later expenditure that extends the useful life or enhances the service potential of an existing item of property, plant and equipment is also capitalised and depreciated.

All other costs we incur in maintaining the useful life or service potential of an existing item of property, plant and equipment are recognised as expenditure when incurred. Any gain or loss arising from the sale or disposal of an item of property, plant and equipment is recognised in the period in which the item of property, plant and equipment is sold or disposed.

Intangible assets – Computer software that is not integral to the operation of the hardware is recorded as an intangible asset, less accumulated amortisation.

Employee entitlements – Employee entitlements are unpaid salaries, bonuses, and annual leave which we owe to our personnel. At balance date, any unpaid employee entitlements are recognised as a liability and charged as an expense. Entitlements are calculated on an actual entitlement basis using current salary rates.

Contingencies – As the Commission is a quasi-judicial body, it is engaged in litigation activity which may result in costs being ordered against or in favour of the Commission. The outcome of an order for costs may not be certain until all appeal processes are completed. Therefore, the possibility of a costs award being incurred or received is disclosed firstly as either a contingent liability or contingent asset respectively. An award for costs, whether for or against the Commission, is only recognised in the Statement of comprehensive revenue and expense when it is probable that there will be a payment or receipt of resources (eg, cash) and we can measure the amount reliably.

Comparatives – To ensure consistency with the current year, all comparative information including the Budget has been restated or reclassified where appropriate. The budget comparatives are those approved by the Commission at the beginning of the year for inclusion as prospective financial statements in our statement of performance expectations. We prepared the budget to comply with GAAP, and used accounting policies consistent with what we have used to prepare these financial statements.

Changes in accounting policies

We have revised certain statements, specifically around the treatment of our various types of revenue, to comply with PBE standards in accordance with PBE FRS 46 – *First-time Adoption of PBE Standards by Entities Previously Applying NZ IFRSs*.

Otherwise, the accounting policies adopted are consistent with the previous year.

Changes to applicable reporting standards and interpretations

In May 2013, the External Reporting Board (XRB) issued a new suite of PBE accounting standards for application by public sector PBEs for reporting periods beginning 1 July 2014. We have adopted and applied these standards in preparing these financial statements.

The XRB made further amendments to various parts of the accounting standard suite in October 2014, with application from 1 April 2015. These amendments incorporated provisions for Not-For-Profit entities applying the same suite. We will apply these amendments in our next set of financial statements, but do not expect more than minimal changes as a result of these amendments.

Notes to the financial statements

for the year ended 30 June 2015

1. Members and personnel

	2015 Actual \$000	2014 Actual \$000
Salaries and wages (including annual leave and other entitlements)	22,671	20,872
Defined contribution plan employer contributions	510	466
Redundancy	253	0
Recruitment	276	193
Professional development	378	462
Other employment-related costs	1,539	1,684
TOTAL MEMBERS AND PERSONNEL EXPENDITURE	25,627	23,677

Specified employer contributions to defined contribution plans includes payments to KiwiSaver and the State Sector Retirement Savings Scheme.

Employee annual remuneration bands over \$100,000

	2015 Actual #	2014 Actual #
\$100,000 – \$110,000	14	9
\$110,001 – \$120,000	13	15
\$120,001 – \$130,000	9	9
\$130,001 – \$140,000	8	7
\$140,001 – \$150,000	7	8
\$150,001 – \$160,000	6	8
\$160,001 – \$170,000	5	5
\$170,001 – \$180,000	4	3
\$180,001 – \$190,000	5	2
\$190,001 – \$200,000	2	1
\$200,001 – \$210,000	2	2
\$210,001 – \$220,000	1	1
\$220,001 – \$230,000	2	1
\$240,001 – \$250,000	1	2
\$260,001 – \$270,000	2	1
\$290,001 - \$300,000	1	0
\$360,001 - \$370,000	0	1
\$380,000 - \$390,000	1	0

The payments above are based on the actual payments to staff during the year. In the 2015 financial year, there were 27 pay periods due to the timing of fortnightly payment runs to staff.

2. Legal and other professional fees

	2015 Actual \$000	2014 Actual \$000
Legal consultants	2,902	2,777
Other consultants and experts	2,533	2,223
Specialist support services	441	374
Other expenses	21	19
TOTAL LEGAL AND OTHER PROFESSIONAL FEES	5,897	5,393

3. Occupancy

	2015 Actual \$000	2014 Actual \$000
Operating leases – rent	1,319	1,336
Other occupancy expenses	141	315
TOTAL OCCUPANCY	1,460	1,651

4. Other expenditure

	2015 Actual \$000	2014 Actual \$000
Telecommunications	317	350
Travel	556	516
Operating leases – photocopiers and printers	39	39
Postage, photocopying, and stationery	168	165
Publications and knowledge sharing	167	318
Loss on disposal of assets	0	0
Audit fees for financial statement audit	43	43
Other expenses	222	82
TOTAL OTHER EXPENDITURE	1,512	1,513

5. Equity

The Commission's Total comprehensive revenue and expenses for the year of \$1.286 million (2014: \$1.956 million) flows to both our General funds and our Litigation costs reserve. The respective increase or decreases in both reserves equal the Commission's Total comprehensive revenue and expense for the year.

General funds

	2015 Actual \$000	2014 Actual \$000
Balance at 1 July	13,802	12,346
Total comprehensive income attributable	786	1,456
Return of reserves to the Crown	0	0
BALANCE AT 30 JUNE	14,588	13,802

The Commission's General funds are funds held in reserve as a result of past surpluses in certain output classes, plus an initial capital contribution from the Crown. The Commission is allowed to retain surpluses from our competition and consumer output class.

Litigation costs reserve

	2015 Actual \$000	2014 Actual \$000
Balance at 1 July	2,089	1,589
Total comprehensive income attributable to Litigation costs reserve	500	500
BALANCE AT 30 JUNE	2,589	2,089

As a quasi-judicial body, the Commission undertakes major litigation for alleged breaches of legislation, and also defends regulations and rulings it sets under the Acts it administers. The Litigation costs reserve is a contingency fund established to manage the impact of adverse cost awards from these cases. The Commission receives \$0.5 million in funding per year to build a contingency fund of up to \$3.0 million to help meet adverse cost awards. The Commission offsets this funding against any adverse cost awards it must pay to other parties during the year.

During the 2015 year, the Commission did not have to pay any adverse cost awards (2014: the Commission did not have to pay any adverse cost awards), resulting in an increase in the Litigation costs reserve of \$0.5 million (2014: \$0.5 million increase).

6. Cash and cash equivalents

	2015 Actual \$000	2014 Actual \$000
Cash on hand and at bank	1,754	3,465
Cash held in trust	1,051	103
TOTAL CASH AND CASH EQUIVALENTS	2,805	3,568

The Commission holds unspent Crown funding received which is subject to restrictions on how it may be spent, and when. We also hold cost awards in trust; a portion of which is payable to the Crown or Commission, while a further portion is held in trust for various parties. As part of the Commission's Financial Management, portions of these funds may be placed on term deposit or held as cash at bank. Please see notes 11 and 12 for the relevant amounts.

7. Property, Plant and Equipment

Cost and valuation:

	Computer and office equipment \$000	Furniture and fittings \$000	Leasehold improvements \$000	Motor vehicles \$000	Total \$000
Balance at 1 July 2013	1,722	842	1,666	44	4,274
Additions	233	27	20	21	301
Disposals	(138)	(7)	0	(20)	(165)
BALANCE AT 30 JUNE 2014	1,817	862	1,686	45	4,410

	Computer and office equipment \$000	Furniture and fittings \$000	Leasehold improvements \$000	Motor vehicles \$000	Total \$000
Balance at 1 July 2014	1,817	862	1,686	45	4,410
Additions	447	41	28	0	516
Disposals	(4)	(21)	0	0	(25)
BALANCE AT 30 JUNE 2015	2,260	882	1,714	45	4,901

Property, Plant and Equipment not yet commissioned at 30 June 2015 totalled \$54,000 (2014: \$139,000).

Depreciation and impairment losses:

	Computer and office equipment \$000	Furniture and fittings \$000	Leasehold improvements \$000	Motor vehicles \$000	Total \$000
Balance at 1 July 2013	1,192	804	1,334	44	3,374
Depreciation expense	300	21	140	3	464
Eliminate on disposal	(138)	(7)	0	(20)	(165)
BALANCE AT 30 JUNE 2014	1,354	818	1,474	27	3,673

	Computer and office equipment \$000	Furniture and fittings \$000	Leasehold improvements \$000	Motor vehicles \$000	Total \$000
Balance at 1 July 2014	1,354	818	1,474	27	3,673
Depreciation expense	280	18	100	4	402
Elimination on disposal	(4)	(21)	0	0	(25)
BALANCE AT 30 JUNE 2015	1,630	815	1,574	31	4,050

Carrying amounts:

	Computer and office equipment \$000	Furniture and fittings \$000	Leasehold improvements \$000	Motor vehicles \$000	Total \$000
At 1 July 2013	530	38	332	0	900
At 30 June and 1 July 2014	463	44	212	18	737
AT 30 JUNE 2015	630	67	140	14	851

8. Intangibles

Cost:

	TSLRIC Models \$000	Acquired software \$000	Total \$000
Balance at 1 July 2013	0	1,809	1,809
Additions	282	167	449
Disposals	0	(6)	(6)
BALANCE AT 30 JUNE 2014	282	1,970	2,252

	TSLRIC Models \$000	Acquired software \$000	Total \$000
Balance at 1 July 2014	282	1,970	2,252
Additions	1,262	24	1,286
Disposals	0	0	0
BALANCE AT 30 JUNE 2015	1,544	1,994	3,538

Intangible assets not yet commissioned at 30 June 2015 totalled \$1,544,000 (2014: \$415,000). The TSLRIC models are still being refined as part of the FPP process, and no amortisation has yet been charged.

Accumulated amortisation and impairment losses:

	TSLRIC Models \$000	Acquired software \$000	Total \$000
Balance at 1 July 2013	0	1,474	1,474
Amortisation expense	0	124	124
Disposals	0	(6)	(6)
BALANCE AT 30 JUNE 2014	0	1,592	1,592

	TSLRIC Models \$000	Acquired software \$000	Total \$000
Balance at 1 July 2014	0	1,592	1,592
Amortisation expense	0	182	182
Disposals	0	0	0
BALANCE AT 30 JUNE 2015	0	1,774	1,774

Carrying amounts:

	TSLRIC Models \$000	Acquired software \$000	Total \$000
At 1 July 2013	0	335	335
At 30 June and 1 July 2014	282	378	660
AT 30 JUNE 2015	1,544	220	1,764

The Commission holds licenses for use of certain software applications for which it does not hold title. For other software applications, there is no restriction over the title of the Commission's assets. No intangible assets are pledged as security for liabilities.

9. Creditors and other payables

	2015 Actual \$000	2014 Actual \$000
<i>Payables under exchange transactions</i>		
Creditors	143	314
Other current liability	15	15
Total creditors and other payables	158	329
<i>Payables under non-exchange transactions</i>		
PAYE and other taxes withheld for payment to the Crown	570	282
Goods and Services Tax payable to the Crown	240	0
Total payables under non-exchange transactions	810	282
TOTAL CREDITORS AND OTHER PAYABLES	968	611

10. Restructuring provision

	2015 Actual \$000	2014 Actual \$000
Balance at the beginning of the year	0	0
Redundancy provision made	253	0
Other office closure costs provision made	7	0
BALANCE AT THE END OF THE YEAR	260	0

In May 2015, the Commission decided to close the Christchurch office by June 2016. This provision recognises redundancy costs and occupancy costs that arise as a result of that decision.

11. Penalties and cost awards held in trust

	2015 Actual \$000	2014 Actual \$000
Balance at the beginning of the year	145	3,241
Court cost awards compensation received (or recognised as receivable), and interest earned	1,686	786
Penalties received and paid to the Crown (net)	0	0
Infringement fees received (or receivable) and paid to the Crown (net)	14	0
Court cost awards, compensation, and interest paid out	(1,291)	(3,882)
BALANCE AT THE END OF THE YEAR	554	145

Penalties and cost awards held in trust are penalties and cost awards received by the Commission but payable to another party. This is generally the Crown, but can also be compensation received for third parties, or penalties and cost awards held in trust while a litigation case continues. The Commission may also be entitled to a portion of court cost awards received. The Commission is not entitled to any of the penalties received, but acts as an agent for the Crown in collecting and forwarding the penalties received.

Infringement fees are issued to various parties for breaches of legislation we enforce. The Crown receives the proceeds of the infringements issued. Any infringements unpaid after a certain length of time are transferred to the Ministry of Justice for collection.

The Commission receives cost awards and compensation for third parties through our investigations and litigation activities. Cost awards are split between the Crown and the Commission, in proportion to the funding each contributes to the costs of pursuing the investigation or litigation. This split occurs once the investigation or litigation is complete and we know the total cost of the case. Interest is earned and paid on all cost awards and settlements received.

Components of penalties and cost awards held in trust:

	2015 Actual \$000	2014 Actual \$000
Provision for court cost awards due to the Commission or the Crown	0	93
Infringement fees due to the Crown (including receivable)	14	0
Court cost awards and compensation due to Crown or other parties	540	52
BALANCE AT THE END OF THE YEAR	554	145

In general, penalties received by the Commission must be paid to the Crown within seven days of receipt, unless the penalties received are subject to an arrangement while litigation continues.

Where there are cases involving a number of parties, we can receive settlements from some parties while others continue to defend. As a result, we are unable to reliably estimate what amount of total cost awards or settlements are due to the Crown, as this estimate can change substantially as the case progresses. In these situations, the Commission records a provision for the cost awards due to the Commission or the Crown which equals any cost awards received for that case. Once a case is finished and we know the total cost of the case and funds to distribute, we recognise the amount receivable by us and the remainder becomes a payable due to the Crown, instead of a provision.

If we receive compensation settlements to pay to a number of third parties (eg, customers of a business we investigate), we recognise the whole amount as a payable to third parties when we receive the settlement.

Infringement fees are paid to the Crown every four months, after receipt.

12. Crown funding repayable

	2015 Actual \$000	2014 Actual \$000
Airports	146	67
Broadband performance testing	1,140	0
Dairy	52	518
Electricity	899	44
Gas	209	370
Telecommunications	0	1,378
Litigation fund	1,424	1,492
TOTAL CROWN FUNDING REPAYABLE	3,870	3,869

13. Employee entitlements

	2015 Actual \$000	2014 Actual \$000
Accrued salaries and wages	0	712
Annual leave	1,322	1,158
Accrued performance and at-risk incentives	416	346
TOTAL EMPLOYEE ENTITLEMENTS	1,738	2,216

14. Reconciliation of operating surplus for the year to net cash inflows from operating activities

	2015 Actual \$000	2014 Actual \$000
Operating surplus for the year	1,286	1,956
<i>Plus non-cash items:</i>		
Depreciation and amortisation	584	588
Loss/(gain) on sale of property, plant and equipment	0	(2)
Other current and non-current liability	(16)	(15)
Restructuring provision	260	0
Change in estimate of reinstatement costs for premises	(203)	0
Employee entitlements	(595)	128
Total non-cash items	30	699

	2015 Actual \$000	2014 Actual \$000
Plus change in working capital items:		
Fees and recoveries receivable	(252)	621
Crown revenue receivable	0	653
Prepayments	(104)	9
Creditors	285	(87)
Accrued expenses	(113)	442
Revenue received in advance	0	(586)
Crown funding repayable	1	846
Penalties and cost awards held in trust	409	(3,096)
Total change in working capital items	344	(1,198)
NET CASH INFLOWS FROM OPERATING ACTIVITIES	1,660	1,457

15. Critical accounting judgements and estimates

In authorising these financial statements for issue, the Commission has ensured that:

- we have disclosed the specific accounting policies needed to properly understand these financial statements
- all of our adopted accounting policies are appropriate for our activities
- our accounting policies were applied consistently throughout the year.

When applying the accounting policies, the Commission is required to make certain judgements and estimates. The Commission has considered the following critical judgements and estimates to be appropriate.

Contingencies

The Commission is party to several significant litigation cases and appeals as a result of its enforcement and quasi-judicial role. In undertaking significant litigation the Commission is faced with the risk of losing, and as a result having to pay a multi-million dollar cost award.

The Commission has assessed the likelihood of the appeals being successful and the likelihood of costs being awarded against, or in favour of, the Commission.

Cost awards that are likely to result in a future receipt or payment of cost awards have been recognised as at 30 June 2015 in the Statement of comprehensive revenue and expense. The Commission has also disclosed its contingent liabilities and assets as a result of cost awards that may possibly result in a future receipt or payment of costs as at 30 June 2015 (please see note 16). We continue to monitor all our current litigation cases, and assess whether they give rise to contingent liabilities or assets.

16. Contingent liabilities and assets

Contingent liabilities as at 30 June 2015:

There are no contingent liabilities.

Contingent liabilities as at 30 June 2014:

There were no contingent liabilities.

Contingent assets as at 30 June 2015:

Motor Trade Finance Limited and Others

The Commission alleged breaches of s 41, s 42 and s 44 CCCFA by Motor Trade Finance Limited and Sportzone Motorcycles Limited (in liquidation).

In September 2013, the High Court released its decision in the Commission's favour, holding that the fees challenged by the Commission were unreasonable. Motor Trade Finance Limited and Sportzone appealed the decision, with the Commission lodging a cross-appeal in respect of its Fair Trading Act cause of action. The Court of Appeal judgment was released on March 2015 in Commission's favour, and the Commission was awarded costs.

The Commission is disclosing a contingent asset for costs and disbursements. The Supreme Court has given Motor Trade Finance Limited and Sportzone Motorcycles Limited leave to appeal, and the appeal is likely to be heard in November 2015.

Contingent assets as at 30 June 2014:

The Commission disclosed two contingent assets.

Firstly, for costs and disbursements that may be awarded following the Motor Trade Finance Limited and Sportzone case. This matter is still open and as discussed above, the Supreme Court has given Motor Trade Finance Limited and Sportzone Motorcycles Limited leave to appeal. The appeal is likely to be heard in November 2015.

The Commission also disclosed a contingent asset for High Court costs that the Commission expected to receive in regards to the Input Methodologies litigation. The Commission received \$72,000 as our portion of costs.

17. Financial instruments

The carrying amounts of each class of financial assets and liabilities are:

Monetary assets:

	2015 Actual \$000	2014 Actual \$000
Loans and receivables		
Cash and cash equivalents	2,805	3,568
Fees and recoveries receivable	633	439
Short-term investments	19,000	18,500
TOTAL MONETARY ASSETS	22,438	22,507

Monetary liabilities:

	2015 Actual \$000	2014 Actual \$000
Financial liabilities measured at amortised cost		
Creditors	953	596
Penalties and cost awards held in trust	554	52
Crown revenue repayable	3,870	3,869
TOTAL MONETARY LIABILITIES	5,377	4,517

Financial instruments include cash and cash equivalents, receivables, investments and payables resulting from day-to-day operations. There are risks inherent with all financial instruments and risk management policies are used to mitigate the exposure to market risk comprising liquidity risk, credit risk, interest rate risk and currency risk.

Liquidity risk

Liquidity risk is the risk of not having enough liquid funds (eg, cash) available, leading to difficulty in making debt payments on their due date. As Crown funding is received quarterly in advance, the Commission does not have a material risk in meeting its day-to-day obligations as they fall due.

Credit risk

Credit losses may occur if a third party defaults on obligations owed to the Commission, resulting in the Commission suffering a financial loss. Financial instruments which potentially subject the Commission to risk consist of cash and bank balances, receivables and investments (bank deposits). The maximum credit risk exposure is represented by the carrying amount of each monetary asset in the Statement of financial position.

The Commission does not have a material credit risk for receivables due from third parties. All other receivables are due from the Crown. Cash not immediately needed to settle obligations as they fall due is invested with New Zealand registered banks with appropriate credit ratings. Limits are in place restricting deposit terms, individual deposit amounts, currency and the level of deposits with any one registered bank. The Commission is not exposed to any concentrations of credit risk, other than an exposure to the New Zealand banking sector. No collateral is required to be held as security against amounts owed to the Commission.

Interest rate risk

As interest rates change, the fair value of interest-bearing bank deposits may change and future cash inflows will fluctuate. In accordance with the Commission's cash management policy, there are limits on the terms of all interest-bearing deposits, ensuring that deposits mature within twelve months (short-term). There are no other market risks.

The financial instruments' carrying amount closely approximates their fair values as at 30 June 2015 and 30 June 2014. The average interest rate on interest-bearing term deposits over the year was 4.35 per cent (2014: 4.08 per cent). A 1 per cent change in interest rates, with all other factors unchanged, would change interest earnings by \$176,000 (2014: \$151,000).

Currency risk

Currency risk results from fluctuations in the value of future cash outflows because of changes in foreign exchange rates. The Commission engages overseas experts and purchases specialist goods and services from foreign suppliers, requiring payment in a range of foreign currencies. The transactions are not hedged and are translated into New Zealand dollars at the exchange rate (spot) obtained when the invoices are paid. A 10 per cent change in exchange rates, with all other factors unchanged, would change expenditure by \$35,500 (2014: \$37,600).

18. Operating (non-cancellable) leases

Operating (non-cancellable) lease payments due:

	2015 Actual \$000	2014 Actual \$000
Within one year	1,590	1,354
Within one to two years	1,477	1,355
Within two to five years	3,999	1,057
After five years	9,138	0
TOTAL OPERATING (NON-CANCELLABLE) LEASES DUE	16,204	3,766

The future operating (non-cancellable) lease payments consists of the contractual amounts due for leased office equipment and premises. The Commission leases three offices, with the Christchurch lease expiring 2016, Wellington expiring in 2027 and Auckland expiring in 2018. The Commission is currently exploring options for accommodation in Auckland. The Christchurch office will close on 30 June 2016.

Under the Christchurch and Wellington leases, there are further rights of renewal of up to six years. The Commission will not exercise the rights of renewal in Christchurch, and will not make any decisions on renewal in Wellington until closer to the initial expiry term.

19. Capital expenditure commitments

	2015 Actual \$000	2014 Actual \$000
Property, plant and equipment	0	30
Intangible assets	258	631
TOTAL CAPITAL EXPENDITURE COMMITMENTS	258	661

20. Related party transactions

The Commission is an independent Crown entity, primarily monitored by the Ministry of Business, Innovation, and Employment on behalf of the Minister of Commerce and the Minister for Telecommunications.

We have not disclosed related party transactions with other government entities (eg, Crown entities or Government departments) that are related parties, where the transactions are within a normal supplier relationship on normal commercial terms, or normal operating arrangements between government agencies made on the same terms.

There were no other related party transactions during the year. (2014: \$Nil).

Key management personnel

	2015 Actual \$000	2014 Actual \$000
Members' remuneration	2,182	1,851
Senior leadership team remuneration	1,188	1,149
TOTAL KEY MANAGEMENT PERSONNEL REMUNERATION	3,370	3,000

	2015 Actual #	2014 Actual #
Members' full-time equivalents	5.22	4.8
Senior Leadership Team full-time equivalents	4	4
TOTAL KEY MANAGEMENT PERSONNEL FULL-TIME EQUIVALENTS	9.22	8.8

Key management personnel comprise all members of the Board, the Chief Executive Officer, and the members of the Senior Leadership Team.

21. Members' remuneration

	2015 Actual \$000	2014 Actual \$000
M Berry (Chairman)	541	533
S Begg (Deputy Chair)	394	349
D Curtin (Commissioner until 27 July 2013)	0	6
A Mazzoleni (Commissioner until 31 March 2014)	0	78
S Gale (Telecommunications Commissioner)	407	355
P Duignan (Commissioner)	270	219
E Welson (Associate from 20 September 2012 until 18 August 2013, Commissioner from 19 August 2013)	342	296
A Rawlings (Commissioner from 9 June 2014)	228	15
TOTAL MEMBERS' REMUNERATION	2,182	1,851

The Chairman, Dr Mark Berry, and the Telecommunications Commissioner, Dr Stephen Gale, are in full-time positions and receive leave entitlements. The dollar value of the movement in any accrued leave entitlement is included in the remuneration total above. All other Commissioners are paid for service on a daily rate set by the Remuneration Authority as follows:

Members' daily rates:

	2015	2014
Deputy Chair	1,800	1,700
Commissioners and Associates	1,520	1,465
Cease and Desist Commissioners	1,520	1,485

Members' additional remuneration

Most Members are entitled to additional pay of up to 50 per cent of the daily rate to the extent the number of hours worked on any day exceeds eight hours. The daily rate includes any annual and sick leave entitlement, and no additional payments are made on account of annual leave or sick leave. The Chairman and Telecommunications Commissioner are salaried appointments, and receive annual leave and sick leave entitlements in addition to their salary. The Chairman and Telecommunications Commissioner are not entitled to additional pay for additional hours worked.

Other payments in respect of Members

The Commission paid \$12,000 to an Audit, Finance and Risk Management Committee member appointed by the Board who is not a Board member during the year (2014: \$3,000 to an Audit, Finance and Risk Management Committee member appointed by the Board who is not a Board member).

The Commission has provided a Deed of Indemnity to Members for certain activities undertaken in the performance of the Commission's functions.

The Commission has taken out Directors' and Officers' Liability and Professional Indemnity insurance cover during the financial year in respect of the liability or costs of Members and employees.

No Members received compensation or other benefits in relation to cessation (2014: \$Nil).

22. Capital management

The Commission's capital is its equity, which is made up of general funds and other reserves as disclosed in note 5 above. Equity is represented by net assets.

The Commission is subject to the financial management and accountability provisions of the Crown Entities Act 2004, which impose restrictions on borrowings, acquisition of securities, issuing guarantees and indemnities, and the use of derivatives.

The Commission manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities, investments and general financial dealings to ensure the Commission effectively achieves its objectives and purpose, while remaining a going concern.

23. Significant events after balance date

There were no significant events after balance date.

24. Explanation of significant variances against budget

Explanations for significant variations from the budgeted figures in the 2014/15 Statement of Performance Expectations are:

Statement of comprehensive revenue and expense

Crown revenue

Crown revenue was \$5.849 million less than budget. This is primarily due to significantly less Litigation Fund revenue recognised because of settlements and favourable court judgments in the Commission's cases, reducing litigation expenditure on external counsel and experts.

Legal and other professional fees

Legal and other professional fees were \$4.665 million under budget primarily due to reduced expenditure on litigation related costs arising from settlements and favourable judgments in several major litigation cases, and less expenditure than budgeted on external consultants within our other output classes.

Total comprehensive revenue and expense

Total comprehensive revenue and expense was \$1.282 million greater than budget due to greater interest and court cost award revenue received, and less expenditure on competition and consumer outputs (particularly Reports to ministers and enforcement cases) than budgeted.

Statement of financial position

Total equity

Total equity was \$2.201 million greater than budget due to a \$0.919 million greater than budgeted opening equity balance, and a greater than budgeted surplus in our competition and consumer output class.

Cash and cash equivalents

Cash and cash equivalents were \$1.753 million greater than budgeted primarily due to a greater than budgeted opening cash balance.

Short-term investments

Short term investments were \$5.5 million greater than budget due to changes in our current and expected expenditure allowing us to place funds on to longer term deposits for cash management purposes.

Non-current assets

Non-current assets were \$1.014 million less than budget due to delays in the start of a number of intangible asset development projects, partly offset by increased costs for the Telecommunications final pricing principle model.

Crown funding to be repaid

Crown funding to be repaid was \$3.808 million greater than budgeted as funding received in advance from a number of appropriations to fund our classes of outputs, especially the Litigation Fund appropriation, was greater than our expenditure against those output classes.

Statement of cash flows

Crown funding received

Crown funding received was \$2.041 million less than budget as we identified lower expenditure on our litigation output class and reduced further cash drawdowns from the funding appropriation.

Receipts and payment of penalties and cost awards (net)

We received \$1.056 million net penalties and cost awards than budgeted as settlements are impossible to predict.

Supplier payments

Payments to suppliers were \$4.662 million less than budgeted, due to lower than budgeted expenditure as reflected in the Statement of comprehensive revenue and expense.

Repayment of Crown funding

Repayment of Crown funding was \$2.637 million greater than budget as prior year expenditure was less than forecast when establishing the 2015 budget.

25. Adjustments arising on transition to the new PBE accounting standards

Reclassification adjustments

We have made the following reclassifications on the face of the financial statements.

		NZ IFRS (PBE) 2014	Adjustment	PBE accounting standards 2014
	Note	\$000	\$000	\$000
Statement of comprehensive revenue and expense				
Revenue				
Court cost awards	1	0	617	617
Other revenue	1	753	(617)	136

Explanatory notes

1) Court cost awards revenue

We have reclassified the court cost awards revenue on the face of the Statement of comprehensive revenue and expense to recognise that the court cost awards previously presented as other revenue is a form of non-exchange transaction, and so requires separate presentation with other non-exchange transactions.

Recognition and measurement adjustments

The table below explains the recognition and measurement adjustments to the 30 June 2014 comparative information resulting from the transition to the new PBE accounting standards.

	Note	NZ IFRS (PBE) 2014 \$000	Adjustment \$000	PBE accounting standards 2014 \$000
Statement of financial position				
Current assets				
Fees and recoveries receivable	1(a)	381	58	439
Current liabilities				
Crown funding repayable	1(a)	3,559	310	3,869
Creditors and other payables	1(a)	863	(252)	611
Statement of comprehensive revenue and expense				
Revenue				
Crown revenue	1(b)	34,929	(2,067)	32,862
Statement of changes in equity				
Total comprehensive revenue and expense	1(c)	4,023	(2,067)	1,956
Repayment of surplus to the Crown	1(c)	(2,067)	2,067	0

Explanatory notes

1) Revenue and liabilities arising from non-exchange transaction

The Commission reviewed its funding arrangements with the Crown. As a result of an obligation to repay unspent funds in certain output classes, we have derecognised unspent funds from revenue and treated the funds as a liability with unfulfilled conditions repayable at balance date. As a result, the 2014 financial statements required the following adjustments:

- a) Crown funding repayable increased by \$310,000 as the GST associated with the derecognised revenue was no longer payable to Inland Revenue (the revenue was never brought to charge). This adjustment resulted in recognising a GST refund of \$58,000 instead of GST payable of \$252,000. Previously, this refund in GST was recognised when the repayable amount was confirmed during the following financial year.
- b) Crown revenue decreased by \$2.067 million to reflect the Crown funding received but remaining as a liability due to unfulfilled conditions (expenditure against outputs). Previously under NZ IFRS (PBE), we recognised the full amount as revenue as received and brought to charge which provided greater transparency to readers of our total Crown funding available and the expenditure against that funding.
- c) Due to the reduction in Crown revenue, the Commission's total comprehensive revenue and expense decreased by \$2.067 million. This was offset by a \$2.067 million decrease in recognition of a repayment provision in equity for surpluses against certain output classes with repayment obligations. As a result, there is no change in the Commission's equity balance.

Financial Statements Glossary

The following table provides definitions for some terms which are used in our financial statements. Please note that these definitions are only provided as a help to readers, and are not part of the financial statements, nor do they necessarily reflect the way that we interpret and apply accounting standards.

Accounts payable	Debts owed to somebody (eg, a company) for goods or services provided to us which we have not yet paid at balance date.
Accounts receivable	Debts owed to us by somebody (eg, a company) for a service we have provided, where we have not been paid at balance date.
Asset	An asset is something which we own, expect to receive in the future, or control.
Amortisation	Amortisation is basically the same as depreciation (see below), except it is applied to intangible assets (eg, software).
Balance date	The date at which a set of accounts are prepared. For the Commission, that date is 30 June of each year.
Cash equivalents	Cash equivalents are assets like term deposits which share most of the characteristics of cash. They are cash equivalent because we can quickly turn them into cash, but they are technically not cash in a bank account or in the hand.
Comprehensive revenue and expense	Comprehensive revenue and expense is a broader concept of revenue which includes a surplus (or loss) from an entity's operations, and movements in parts of equity that aren't the result of surpluses or owner transactions. An example is a revaluation gain on the value of assets, which increases equity by increasing the value of an asset revaluation reserve.
Current asset (or liability)	A current asset is an asset which can be converted into cash or used to pay a liability within twelve months. A current liability is a liability which we expect to repay within twelve months.
Depreciation	Depreciation is the charge of an asset's cost over a certain time period. Depreciation recognises that assets decline in their value and usefulness over time.
Equity	Equity represents the value of an entity to its owners, and is the amount left over after deducting all liabilities from all assets. It is also known as net assets.
Financial instruments	Financial instruments are assets or liabilities which are tradable in some way, such as cash, shares, or loans. Other financial instruments include "derivatives," which are traded securities that get their value from an underlying asset (like a future oil shipment or a future foreign currency purchase).
Generally accepted accounting practice (GAAP)	GAAP is short-hand for the series of standards, interpretations, and concepts which are followed by accountants. NZ GAAP is defined by law to include standards issued by the External Reporting Board, and where that (or a specific law) does not cover a matter, accounting policies considered authoritative by the accounting profession in New Zealand.
Going concern	An assumption made by an entity that it will continue to operate into the foreseeable future. If this is incorrect, then the entity has to prepare its accounts as if it was being wound up.

Intangible assets	Intangible assets are assets which do not have a physical substance, and are not cash.
Liability	A liability is something we owe, expect to pay in the future, or may have to pay in the future
Monetary assets	Monetary assets are assets which are cash, or will become cash in a short time-frame; eg, bank account balances, term deposits, accounts receivable
Monetary liabilities	Monetary liabilities are debts owed to another party, such as accounts payable, loans, or unpaid salaries.
Non-current asset (or liability)	A non-current asset is an asset which we cannot ordinarily turn into cash within twelve months. A non-current liability is a liability which we would not ordinarily have to repay within twelve months.
Output class	An output class is a grouping of similar outputs. In other words a grouping of activities with similar objectives. The Commission's output classes are primarily funded by appropriations via MBIE.
Provision	An estimate of an amount that an entity may (or will) have to pay as a result of an obligation the entity has to another party.
Public benefit entity	An entity which aims to provide goods or services to the general public to meet a specific need, rather than to make a profit for its owners.
Related party	Another person or entity which is related to us because of, for example, a common owner or person in a position of authority (eg, director, senior management).
Statement of cash flows	A statement which shows how much cash we have received from various sources (investments, operating activities, cash injections received from the Crown) and cash payments we have made (expenses, salaries, repayment of money to the Crown).
Statement of comprehensive revenue and expense	A statement which shows our surplus or deficit from our operating activities, plus or less any movements in non-owner equity items (see comprehensive revenue and expense above)
Statement of financial position	A statement which shows what assets we own or control, what liabilities we have, and the remainder (equity) at the balance date.

Commonly used terms

Appropriation	A parliamentary authorisation for Ministers of the Crown or an Office of Parliament to incur expenses or capital expenditure.
Authorisation	Under the Commerce Act, certain agreements and mergers are prohibited as they can lead to anti-competitive outcomes, such as increased prices or lack of choice. However, the Commerce Act recognises that in some circumstances an anti-competitive transaction may lead to sufficient public benefits that would outweigh the competitive harm. In this case the Commission can grant an authorisation for the agreement or merger to proceed.
Base milk price	The term used in the Dairy Industry Restructuring Act 2001 to refer to the farm gate milk price that is set by Fonterra. The farm gate milk price is the price paid by dairy processors to dairy farmers for raw milk. The purchase of raw milk from farmers at the base milk price is Fonterra's largest input cost.
Clearance	Under the Commerce Act, the Commission can grant a clearance for a proposed merger if we are satisfied that it is not likely to substantially lessen competition in a market. We compare the likely state of competition if the merger proceeds with the likely state of competition if the merger does not proceed.
Coordinated behaviour cases	Investigations into agreements between competitors not to compete with each other such as: price fixing; the restriction of outputs; the allocation of customers, suppliers or territories; and bid rigging.
Determination	A formal and binding decision made by the Commission under the legislation it administers.
FPP	Final pricing principle as per the Telecommunications Act 2001.
Impact	Contribution made to an outcome by a specified set of outputs, or actions, or both.
Information disclosure	Under Part 4 of the Commerce Act (subpart 4), sufficient information is to be readily available to interested persons so that they can assess whether the purpose of Part 4 is being met.
Input methodologies	This involves setting upfront regulatory rules, processes and requirements applying to regulation under Part 4, and for undertaking Part 4 inquiries (eg, rules for valuing assets and calculating the cost of capital).
Market structure cases	Investigations into mergers that might substantially lessen competition in a market and that do not have the protection of a clearance.
Merger	A merger is a combination of two or more business enterprises into a single enterprise. Colloquially, mergers also include business acquisitions that involve the acquisition of assets or shares of a business.
Outcomes	State or condition of society, the economy, or the environment; includes a change in that state or condition.
Output class	An output class is a grouping of outputs or activities with similar objectives. A reportable class of outputs is a class of outputs the Crown entity purposes to supply in the financial year and that is directly funded (in whole or in part) by the Crown. The Commission's output classes are primarily funded by appropriations from the Crown via MBIE.

Outputs	Goods or services provided by the Commission.
Part 4	Part 4 of the Commerce Act. Under Part 4 of the Commerce Act, the Commission has a role regulating the price and quality of goods or services in markets where there is little or no competition and little prospect of future competition.
Price-quality path	Under Part 4 of the Commerce Act (subparts 9 and 10), non-exempt suppliers of electricity lines services and suppliers of gas pipeline services are subject to default/customised price-quality regulation. A default price-quality path (DPP) is the way the Commission determines appropriate price and quality controls for applicable regulated industries under Part 4 of the Commerce Act. A regulated business can apply for a customised price-quality path (CPP) when it has a specific need that isn't met by the DPP.
Product safety and information standards cases	Investigations of products such as bikes, cots and children's toys that might be unsafe, as well as the incorrect labelling of footwear and clothing, and failure to display required information on motor vehicles offered for sale.
Regulated supplier	A supplier of goods or services regulated under either the Commerce Act or the Telecommunications Act.
Substantially lessen competition	Substantial lessening of competition concerns a real or substantial impact on a market in the way of a lessening, hindering or preventing of the process of workable or effective competition.
UBA	Unbundled bitstream access. Regulated service giving wholesale access to Chorus' Digital Subscriber Line (DSL) full speed broadband service. It allows telecommunications companies to supply broadband services to customers without the need to replicate Chorus' electronics or software.
UCLL	Unbundled copper local loop. Wholesale access to the copper line connecting a phone user to the local exchange.
Unilateral conduct cases	Investigations into prohibited conduct by a person or a business, including taking advantage of their dominant position in a market for an anti-competitive purpose, or specifying a minimum price at which its goods or services can be sold by another.
Vote	A grouping of one or more appropriations that are the responsibility of one or more Ministers of the Crown and are administered by one department.
Weighted average cost of capital (WACC)	The cost of capital is the financial return investors require from an investment given its risk.

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