



IMPROVING NEW ZEALAND'S MARKETS

ANNUAL REPORT 2012/13





Contents

FOREWORD

3	Our role
4	Our strategy
6	Report from the Chairman
9	Report from the Chief Executive

PRIORITIES & PROGRESS

12	Markets are more competitive + Consumers are better informed
19	Regulation is better targeted and more effective
29	Organisational capability and health

GOVERNANCE

36	Board and Commissioner responsibilities
39	Commission member profiles
43	Senior leadership team profiles

FINANCIAL PERFORMANCE

46	Financial statements overview
51	Statement of responsibility
52	Independent auditor's report
55	Financial statements
59	Statement of accounting policies
64	Notes to the financial statements

PERFORMANCE

88	Markets are more competitive + Consumers are better informed
92	Regulation is better targeted and more effective
98	Glossary
100	Commonly used terms



Foreword

Our purpose is to achieve the best possible outcomes in competitive and regulated markets for the long-term benefit of New Zealanders.



Our role

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

We are an independent Crown entity, with some quasi-judicial functions established under the Commerce Act. We are primarily accountable to the Minister of Commerce for our performance and our outputs are delivered under an Output Agreement with the Minister of Commerce and the Minister for Communications and Information Technology. These outputs are funded through Vote Commerce and Vote Communications.

We work cooperatively with relevant government agencies to ensure that we achieve our goals without duplication or conflict, and that we share information and expertise where required. Internationally, we are actively involved with our counterpart agencies through forums such as the Organisation for Economic Co-operation and Development (OECD) and the International Competition Network (ICN). Our relationship with the Australian Competition and Consumer Commission (ACCC) is strengthened with Commissioner cross-appointments.

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.

Our strategy

We aim to improve business compliance with competition and consumer laws, and to ensure that consumers are well informed. In markets with little or no competition, we aim to deliver targeted and effective regulation for the benefit of businesses and households.

We have three priorities: that markets are more competitive, that consumers are better informed and that regulation is better targeted and more effective. Our strategic framework sets out how we seek to achieve these aims and how we measure the success of what we are doing.





Achieve the best possible outcomes in competitive & regulated markets

for the long-term benefit of New Zealanders

Competition and Consumer

Regulation

Outcomes the Commission influences

Markets are more competitive

By improving business compliance with competition law, businesses will undertake fewer anti-competitive mergers and trade practices, allowing markets to function more competitively

Consumers are better informed

By improving business compliance with consumer laws, businesses will represent goods and services more accurately, allowing consumers to make better-informed purchasing decisions

Regulation is better targeted and more effective

By delivering targeted and effective regulation of goods and services in markets where there is little or no competition, we ensure consumers receive the goods and services that would have been available if the market was competitive

Impacts the Commission seeks to have over time

Improved levels of awareness and understanding of competition and consumer law, and the benefits of competition

Improved levels of business compliance with competition and consumer laws over time

Business conduct that does not comply with competition or consumer laws is detected and responded to appropriately

Regulatory decisions promote statutory objectives

Businesses and consumers have an increased understanding of business and market performance

Businesses are encouraged to act consistently with regulatory obligations. Conduct by businesses that does not comply with regulatory obligations is detected and addressed appropriately

Businesses and consumers are aware of and understand regulatory regimes and the benefits of targeted regulation

Outputs 2012/13

Determinations

Enforcement cases

Advocacy and development

Reports to the Minister
(pages 88 – 91)

Determinations

Public reports and advice to officials

Compliance and enforcement

(pages 92 – 97)





Report from the Chairman

A year of significant achievements and preparation for the challenges that lie ahead.

Our achievements

2012/13 was a year of significant achievement for the Commission across the full range of our activities. We continued our excellent progress in the regulation area, achieved record levels of compensation for consumers in the competition area, and maintained our focus on advocacy and education, while successfully taking enforcement action where appropriate. In fact, between July 2009 and June 2013 the Commission has achieved \$245 million in penalties, costs and compensation through its enforcement activities.

Consumer

In a landmark settlement under the Fair Trading Act, the Commission ensured that eligible investors who bought Credit SaILS notes with the prospect of interest income and capital protection were reimbursed around \$870 for every \$1,000 they lost when the investment product failed, leaving the notes worthless.

The Forsyth Barr and Credit Agricole settlement in relation to alleged breaches of the Fair Trading Act for the marketing and selling of the Credit SaILS product saw \$60 million in compensation returned to investors. The Commission held the view that the Credit SaILS product, which was marketed to average retail investors, was misleading.

Competition

The Commission was pleased to see the resolution of the long-running air cargo cartel case in 2012/13, with total penalties of \$42.5 million and \$2.9 million in costs. The final defendant in the case, Air New Zealand, settled with the Commission and paid a \$7.5 million penalty for price fixing in breach of the Commerce Act. The Commission previously reached settlements with British Airways, Cargolux, Cathay Pacific, Emirates, Korean Air, MASKargo, Qantas, Japan Airlines, Singapore Airlines Cargo and Thai Airways.

Penalties are a reminder to companies that it is important to have effective compliance programmes in place to help identify and prevent anti-competitive behaviour.

We have seen a notable increase in the number of domestic leniency applications. This is possibly due to a heightened awareness of the price-fixing prohibition as a result of our advocacy efforts, recent successful prosecutions and the potential criminalisation of cartel behaviour.

We are providing or updating guidance to help people understand our approach and processes. We have published revised enforcement response guidelines, merger and acquisition guidelines, and authorisation guidelines, and we will publish guidelines on the proposed new cartels regime shortly.

We are also continuing to focus on the construction sector, both nationally and in the context of the Canterbury Rebuild. We first identified this sector in 2010 as a major driver in the economy, and as prone to anti-competitive conduct. Since then we have invested heavily in our advocacy and intelligence initiatives in this sector. As a result we are seeing the inquiry and investigative work we are undertaking in this sector increasing.

Regulation

There were some significant achievements in the regulation area this year. We released a large number of determinations and reports across all regulated sectors including electricity, gas, airports, telecommunications and dairy.

We continued to make significant progress in implementing Part 4 of the Commerce Act. The foundations of Part 4 are now largely in place with the completion of the information disclosure determinations for electricity distribution and gas pipelines, the setting of the default price-quality path for gas pipeline businesses, and the resetting of the default price-quality path for electricity distribution businesses.

It is pleasing to see increased regulatory certainty emerge as a consequence. Regulatory predictability is one of the key benefits sought through the new regime. This predictability is based on the clarity provided by the input methodologies, and increased familiarity by the sector with the approach we use for setting and resetting price-quality paths. By way of example, a number of market analysts were able to predict the findings of our draft default price-quality path for gas pipeline businesses with some accuracy.

We completed reviews of the effectiveness of information disclosure for Auckland and Wellington International Airports. This is the first time we have evaluated the effectiveness of the new information disclosure regime. Our reports found that information disclosure was largely effective for Auckland Airport but did not constrain Wellington Airport from achieving excessive profits. We were pleased to see that Wellington International Airport has reopened its pricing in the light of our report and look forward to seeing the outcome of this process.

Our litigation workload remained high. We successfully defended an appeal by Vector Limited to the Supreme Court. The Supreme Court decision supported the Commission's view that it was not required to set a starting price adjustment input methodology. We also participated fully in the merits appeals of the input methodologies in the High Court over three months, and are now awaiting the Court's decisions.

While there has been a considerable increase in regulatory certainty, greater certainty will only be achieved in the Part 4 area once any appeals, brought by any of the parties,

have been completed and any changes that may be required by the Court are implemented.

We continue to work on implementing changes in network pricing associated with the implementation of the government's ultra-fast broadband project, and providing input into the government's review of the Telecommunications Act.

Preparing for change

Our aim is to improve business compliance with competition and consumer laws, and to ensure that consumers are well informed. The proposed changes to the Commerce Act and amendments to strengthen both the Fair Trading and Credit Contracts and Consumer Finance Acts will have important implications for the outcomes we seek to achieve.

This has been a significant year on all fronts for the Commission. Along with our 'business as usual', we welcome and are preparing for the Consumer Law Reform Bill. This is a significant piece of reform which aims to modernise New Zealand consumer law and will improve alignment with the way businesses and consumers transact in today's commercial environment. It will also align better with Australian consumer law.

We have a comprehensive work programme in place to prepare for this reform and are focused on developing guidance to help educate businesses and consumers on these changes. One of the key changes proposed is that the courts will have the power, on application from the Commission, to make a declaration prohibiting the use of an unfair term in a standard form contract. Unsubstantiated representations will also be prohibited – this will impact a number of areas such as comparative pricing, and claims about broadband speeds and place of origin. Other changes will include the new uninvited direct sales legislation that supersedes door-to-door sales legislation, and new provisions in relation to extended warranties. The Act provides for the Commission to negotiate enforceable undertakings, which allows the Commission to resolve significant issues without having to resort

to litigation. It will also give the Commission the power to issue infringement notices for certain clear-cut offences such as non-compliance with Consumer Information Notices. This will allow the Commission to be more effective and to carry out our work more efficiently.

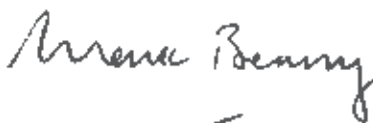
Our approach to compliance is to assist businesses in complying with the law through education and advocacy. There will always be businesses that either don't try to comply or deliberately flout the law. In these cases, we will move to consider more serious action, including negotiated settlements and prosecutions.

Changes to the Board

Associate Commissioner Gowan Pickering's appointment ended in July 2012. Gowan brought many years of business experience and sound judgement to our statutory decision making and to the Board's governance responsibilities under the Crown Entities Act. Donal Curtin's term expired in July 2013 after 12 years as a Commissioner. Donal contributed his economic expertise to many aspects of the Commission's work. I would like to thank Gowan and Donal for their contributions. Elisabeth Welson was appointed as an Associate Commissioner in September 2012 and brings significant experience in competition, consumer and regulatory law.

Looking ahead

We continue to work in busy and challenging times, and I believe we are well structured and adequately resourced to meet those demands. We have worked hard to achieve our goals and carefully manage our costs, and I acknowledge the work of the dedicated staff across the Commission.



Dr Mark Berry
Chairman

Report from the Chief Executive

We have put considerable effort into rethinking the way we work, ultimately seeking to achieve more within our funding framework.

Our strategy

We have worked over the last few years to simplify and clearly describe our strategic framework – what we do, why we do it, and how we contribute to the Government’s priorities. Ultimately we want to achieve the best possible outcomes in competitive and regulated markets for the long-term benefit of New Zealanders. Internally we ensure that all our people know how they contribute to the Commission’s overall purpose.

Our people

At the same time we are very focused on attracting, developing and retaining people who are capable of performing at a high level, driven to achieve our goals, and aligned with the Commission’s values.

We know that the quality of our work is a direct result of the clarity of our direction and the quality of our people.

Engaging with our stakeholders

Over the last year we have lifted our level of engagement with stakeholders. We have introduced a monthly electronic newsletter, put more emphasis into our briefings for industry and analysts, made improvements to our website and held a stakeholder function where we presented on our overall Commission activities and direction for the future.

Trans-Tasman cooperation in competition matters has reached a new height with the signing of a cooperation agreement between the Commission and the Australian Competition and Consumer Commission (ACCC). In conjunction with the signing of the agreement, we held a joint presentation for stakeholders by the Chairs of the ACCC and the Commission, reinforcing the strength of the relationship between the two organisations at working level. The close relationship between the Commission and ACCC is valuable and unique.

“We are committed to making sure the Commission has the people, systems and processes to allow it to be successful for the long-term benefit of New Zealanders.”



The Commission's first competition and regulation public conference will be held in Wellington in October 2013. *Competition Matters* will bring together a stimulating range of international and local speakers to discuss and debate competition and regulatory topics. It will be a unique opportunity to hear from international experts, debate ideas, and meet other specialists and businesses in competition and regulatory fields.

Efficiency

We are committed to continually examining and improving the efficiency with which we go about our work. Over the last few years we have simplified a number of our internal processes. We continue to take opportunities to share services with other agencies where it makes good business sense to do so. An example of this is the work we have done over the last year for the Electricity Authority to host some of their information technology hardware, provide helpdesk services and share web administration resources.

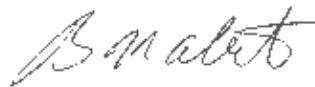
Plain English

As an organisation we have undergone intensive training to change our communication style. We know that a lot of what we do is very technical, but we want to make our work as easy to understand as possible. The turnaround has been dramatic: from winner of the less-than-desirable People's Choice 'Brainstrain' Award one year to finalist in the Plain English Champion – Best Organisation category in the same Awards the next year. The Brainstrain 'win' made it abundantly clear why we needed to change. And change we have.

Challenging ourselves

We remain committed to working smartly, focusing our energy where we can have the most impact. It is important for New Zealand to have an effective competition authority and regulatory agency. We are committed to making sure the Commission has the people, systems and processes to allow it to be successful for the long-term benefit of New Zealanders.

I am confident that as a team we are flexible and prepared for the opportunities and challenges that lie ahead.



Brent Alderton
Chief Executive

Priorities & Progress



Markets are
more competitive
+ Consumers are
better informed



Priorities: Competition and Consumer

The Commission helps promote competition and helps ensure consumers are better informed.

When businesses compete on their merits, and provide fair and accurate information, consumers benefit from improved price, quality and choice.

We are responsible for administering and enforcing the Commerce Act, the Fair Trading Act and the Credit Contracts and Consumer Finance Act (CCCF Act). Through our work we seek to improve compliance with competition and consumer laws so that businesses:

- undertake fewer anti-competitive mergers and trade practices, allowing markets to function more competitively
- represent goods and services more accurately, allowing consumers to make better-informed purchasing decisions.

This work contributes to the Government's priority of building a more competitive and productive economy.

What impacts do we have?

We work towards the outcomes 'Markets are more competitive' and 'Consumers are better informed' by seeking, over time, to have the following impacts:

- Improved levels of awareness and understanding of competition and consumer law, and the benefits of competition
- Improved levels of business compliance with competition and consumer laws
- Business conduct that does not comply with competition or consumer laws is detected and responded to appropriately.

How do we achieve these impacts?

Businesses that understand the law are more likely to comply with it. An important aspect of our work is to help businesses understand competition and consumer law and their obligations, and to provide incentives to encourage compliance.

We believe that most businesses want to comply with the law, so we need to make compliance easy. We do this by providing information and guidance to businesses and by supporting them to have effective compliance programmes in place.

We target our education and advocacy efforts at specific industry sectors where we see emerging issues or have ongoing areas of concern. This allows us to focus our efforts cost-effectively where there is the most opportunity to improve compliance and market outcomes, and to protect consumers' interests. Among other things, we produce fact sheets and guidelines, meet with and present to industry groups and contribute to industry publications. We work to improve awareness and understanding of competition and/or consumer laws in the sectors we target and measure the effectiveness of our interventions, refining our approach as necessary.

We also promote a wider understanding of the laws we enforce (and any changes to those laws), so that businesses know their obligations and consumers understand their rights. We continue to improve our communications by writing in plain English and listening to feedback from stakeholders.

Progress: Competition and Consumer

Key highlights

- Total penalties of \$39 million and compensation for affected consumers of \$64 million obtained
- Completion of the air cargo cartel case with total penalties of \$42.5 million over the life of the case
- A settlement resulting in a fund of \$60 million to be distributed to investors who lost money when Credit SaILS notes failed in 2008
- Total penalties of almost \$1.5 million imposed on Vodafone for various Fair Trading Act breaches over recent years, the highest imposed to date on a single defendant under the Fair Trading Act
- Insurance Australia Group (IAG) settlement under the Fair Trading Act with \$3.5 million in refunds to affected policy holders
- An out of court settlement with three companies (Bluestone)
- from the finance industry that will see \$200,000 paid to 295 customers
- A settlement with Marac Finance Limited following the finance company's decision to refund 1,000 customers a total of about \$567,000
- Clearance of the Vodafone/TelstraClear acquisition as well as the very complex Hirepool/Hirequip matter, which involved 17 separate markets. The competition issues raised in applications are more complex than in the past few years, with more involving global markets
- Assistance provided with search warrants and gathering statements in interagency action led by the Serious Fraud Office for Operation Edit, in respect of pro-forma invoicing businesses. This operation resulted in arrests and enforcement action under the Crimes Act



- Fifteen per cent increase in businesses with 100 or more employees with a Fair Trading Act compliance programme
- Publication of our enforcement response guidelines
- Publication of 11 new fact sheets and a 'Know your Rights' brochure on the Credit Contracts and Consumer Finance Act to complete our set of revised and improved plain English fact sheets
- Good progress with our advocacy initiatives in the health sector and with procurers and insurers in the Christchurch Rebuild
- A significant level of international engagement, particularly with the Association of South East Asian Nations (ASEAN)
- Continued focus on the construction sector, both nationally and particularly in the context of the Canterbury Rebuild. More recently we have seen the inquiry and investigative work we are undertaking in this sector increasing.

We have prepared for the upcoming law reform of the Fair Trading Act, Commerce Act and CCCF Acts, including making submissions to the Ministry of Business, Innovation and Employment and other ministries, and to select committees. We have significant work streams to ensure that we are well prepared for the raft of legislative changes.

We have also improved the way we collect and analyse information to identify trends and issues.

We continue to help businesses achieve voluntary compliance by raising awareness of the laws we enforce and providing information and resources.

We surveyed businesses with 100 or more employees to find out if the proportion of businesses that have an active compliance programme had increased from last year. There were increases: 44% of businesses with 100 or more employees had a Commerce Act compliance programme, up from 38% in 2012. This figure was 56% for the Fair Trading Act, up from 41% in 2012. This result is pleasing and may result in part from our provision of compliance tools and information to industry groups and businesses subject to complaint. We will continue to work with industry groups and businesses to ensure the level of understanding lifts even further.

Ultimately an education and advocacy approach will only be successful if we respond clearly and firmly to breaches of the law. Our focus is on stopping harmful behaviour, dealing with it appropriately, and seeking redress for consumers where we can. Whether we do this through the courts or through settlements with the offending business will depend on the case at hand.

Increase in domestic cartel investigations

In recent times we have seen a notable increase in the number of domestic leniency applications.

This is possibly due to a heightened awareness of the price-fixing prohibition as a result of our increased advocacy efforts, recent successful prosecutions and the potential criminalisation of cartel behaviour.

International best practice and capacity building

Our international engagement work has focused on contributing to and learning from international best practice, as well as capacity building with new competition agencies. We presented at key international events such as the International Consumer Protection and Enforcement Network (ICPEN) conference, the ICN cartels and unilateral conduct workshops, and the ICN Annual Conference. We also attended and submitted papers for discussion at the OECD Competition Committee meetings. We continue to work with the ACCC and the Ministry of Foreign Affairs and Trade to help with capacity-building initiatives for ASEAN countries.

Our focus

We have published our Enforcement Response Guidelines, which explain to the public how the Commerce Commission enforces New Zealand's fair trading, competition and credit contract laws. These are part of our commitment to transparency and educating the public and businesses about our role.

We have also consulted on draft updated Merger and Acquisitions Guidelines, and Authorisation Guidelines. These were published in July 2013 and their aim is to improve business and advisor awareness of our process and approach.

Our focus remains firmly on stopping harmful behaviour, dealing with it appropriately, and seeking redress for consumers where we can.

Measuring our results

The work we do in the competition area falls into four broad categories – determinations, enforcement cases, advocacy and development, and reports to the Minister. These results can be found on pages 88 – 91.

Outcome 1: Markets are more competitive

Impacts

- Improved levels of awareness and understanding of competition and consumer law, and the benefits of competition
- Improved levels of business compliance with competition and consumer laws over time

Measures	2010/11 Actual	2011/12 Actual	2012/13 Actual	2012/13 SOI Target
The percentage of businesses that have an active compliance programme under the Commerce Act (CA) increases over time	24%	38%	44%	Increase year on year
Targeted sector surveys indicate that a higher proportion of businesses are aware of and understand competition law and the benefits of competition than before the intervention ¹	Target sector non-residential construction: 30%	Target sector non-residential construction: 47% (14 out of 30 firms)	Target sector health: ² 54%	Increase year on year in each targeted sector ³
Levels of market competition are not substantially lessened in terms of price, quality, range and/or service where the Commission has granted a clearance/authorisation	Levels of market competition were not substantially lessened	Levels of market competition were not substantially lessened	Levels of market competition were not substantially lessened	Levels of market competition are not substantially lessened ⁴

1. Interventions include engaging with key stakeholders, presenting to business/industry groups, providing guidelines and fact sheets and placing articles about competition/consumer issues in industry publications.
2. We have changed our advocacy focus from the construction sector to the health sector. We focus on particular sectors at different times; this way we can improve awareness and understanding across a range of sectors in the economy.
3. This year we have measured awareness and understanding in several professional groupings in the health sector and set a corresponding baseline measure. Next year our goal is to see an increase in awareness and understanding in those professional groupings.
4. Annually we choose one merger clearance decision for review. This year's case study is our decision to grant an authorisation for the joint venture between Southern Cross Hospitals Ltd and Aorangi Hospital Ltd.



Clearance and authorisation reviews

Merger reviews test the quality of our decisions and methods of analysis, and consider whether our assessment of the likely state of competition after the merger was appropriate and correct. For authorisation decisions, we conduct a review of the current market and consider whether we used the appropriate methodology to arrive at our decision.

We conducted an ex-post review of our 2011 decision to grant an authorisation for the joint venture between Southern Cross Hospitals Ltd (Southern Cross) and Aorangi Hospital Ltd (Aorangi). The authorisation resulted in the merger of the only two operators of private hospitals in Palmerston North. We authorised the joint venture because we were satisfied that there was a positive net public benefit from the merger. We assessed the detriments arising from likely price increases and increased costs due to a lack of competition. We assessed benefits as arising from cost savings from rationalising staff, eliminating duplication of administration functions, and consolidating to one site. We also noted other non-quantifiable benefits such as the potential for increased investment.

Because there was a delay in completing the final steps of the proposed joint venture (until August 2012), it is too early to fully assess the actual benefits and detriments against our 2011 estimates. That said, the evidence to date indicates that there have been no significant price increases as yet, and some of the estimated cost savings have occurred.

As a result of the late completion of the merger, we will conduct a further review of the authorisation in two years' time, when more information will be available.

Outcome 2: Consumers are better informed

Impacts

- Improved levels of awareness and understanding of competition and consumer law, and the benefits of competition
- Improved levels of business compliance with competition and consumer laws over time

Measures	2010/11 Actual	2011/12 Actual	2012/13 Actual	2012/13 SOI Target
The percentage of businesses that have an active compliance programme under the Fair Trading Act (FTA) increases over time	31%	41%	56%	Increase year on year
Targeted sector surveys indicate that a higher proportion of businesses are aware of and understand consumer law than before the intervention ⁵	Not measured	Not measured	Target sector non-bank lenders: 63%	Survey to be completed Baseline to be set

5. Interventions include engaging with key stakeholders, presenting to business/industry groups, providing guidelines and fact sheets and placing articles about competition/consumer issues in industry publications.

Impact

→ Business conduct that does not comply with competition or consumer laws is detected and responded to appropriately

Measures	2010/11 Actual	2011/12 Actual	2012/13 Actual	2012/13 SOI Target
We obtain penalties in court for breaches of the Acts we enforce	\$35.4m	\$6.6m in penalties	\$39.5m	Not appropriate to set targets due to the undesirable incentives this creates
We achieve refunds or compensation for affected consumers either in court or by settlement	\$2.9m	\$4.4m in refunds or compensation	\$64.5m	Not appropriate to set targets due to the undesirable incentives this creates
As a result of our interventions, ⁶ reoffending rates by businesses decrease over time	Not measured	Fair Trading Act: 26% Credit Contracts and Consumer Finance Act: 16% Commerce Act: 0%	Fair Trading Act: 18% Credit Contracts and Consumer Finance Act: 2% Commerce Act: 0%	Reoffending rates by businesses decrease over time
The percentage of surveyed businesses that have received a compliance advice or warning letter from the Commission in the last 12 months, that report that the Commission's communications and guidance are clear and useful increases over time	Not measured	95%	84% ⁷	Increase year on year

We obtain penalties in court for breaches of the Acts we enforce

We have achieved record penalties in cases involving a breach of section 36 of the Commerce Act ('Data tails') and section 27 via section 30 (Air cargo against 13 airlines). Completion of the air cargo cartel case resulted in total penalties of \$42.57 million over the life of the case.

Ultimately an education and advocacy approach will only be successful if we respond clearly and firmly to blatant breaches of the law. Our focus is on stopping harmful behaviour, dealing with it appropriately, and seeking redress for consumers where we can. Whether we do this through the courts or through settlements with the offending businesses will depend on the case at hand.

While we have chosen to report the amount of penalties arising from the breaches of the Acts we enforce as an indicator for achieving appropriate outcomes for affected parties, we do not set targets for this because of the undesirable incentives it creates. The amounts we achieve will depend on the cases that come before us and whether we decide to go through the courts.

6. Interventions are compliance advice letters, warnings, settlements and prosecutions.

7. In the 2012/13 year we altered the way we calculate this measure. Respondents were asked to rate both the clarity and usefulness rather than being asked for a yes or no answer. The performance from 2011/12 is therefore not comparable with the performance for 2012/13.

We achieve refunds or compensation for affected consumers either in court or by settlement

We have also achieved record refunds and compensation for consumers. Some of the significant cases include the Credit SaLS refund of \$60 million to investors, Insurance Australia Group (IAG) \$3.48 million in refunds, Marac Finance \$567,000 in refunds, Bluestone Mortgages out of court settlement of \$200,000 in refunds. Although we have chosen to report the amount of refunds and compensation returned to consumers for the year, we do not set targets for this because of the undesirable incentives it creates. The amounts we achieve will depend on the cases that come before us and whether compensation is appropriate.

As a result of our interventions, reoffending rates by businesses decrease over time

In the 2012/13 year we enhanced the way we calculate the reoffending rates by businesses; therefore we cannot directly compare 2011/12 performance with this year's performance. We now separate out the individual parties in all multiple party investigations to ensure we are not missing any reoffending by individual parties. This has resulted in a decrease in CCCF Act reoffending rates from 16% to 2%.

The percentage of surveyed businesses that have received a compliance advice or warning letter from the Commission in the last 12 months, that report that the Commission's communications and guidance are clear and useful increases over time.

We made some changes to our 2012/13 survey, asking people to rate clarity and usefulness separately on a four point scale rather than asking for a yes or no answer. We believe this will give the Commission more useful feedback. This change means our 2012/13 result of 84% is lower than the baseline of 95% we established in 2011/12.

Prepay phone cards review

In last year's annual report we mentioned our work in the prepaid phone card sector. Because of low levels of compliance in the sector, we provided guidance and education to sector participants. We subsequently prosecuted two of the major players, who were fined \$240,000 in total for offences relating to 10 of their cards. We produced draft guidelines, which we sent out to five of the major companies to give a better understanding of how the Fair Trading Act applies to their advertising. The guidelines were formally published in December 2012 after considering the phone companies' feedback.

Although complaint numbers have remained steady since issuing the guidelines, the major phone card companies have improved the accuracy of their advertising material. Most online sellers advertise phone cards in a way that gives an accurate first impression. We note, however, that some retail outlets such as local dairies display out-of-date promotional material. For the coming year our focus will be to ensure retail outlets display up-to-date advertising.



Regulation is better targeted and more effective



Priorities: Regulation

When competition in a market is limited, consumers may not receive goods and services at the price and quality that may have occurred if the market was competitive.

Regulation can help mimic the outcomes seen in competitive markets so that consumers benefit in the long term.

The Commission is responsible for administering regulatory regimes under Part 4 of the Commerce Act (electricity lines, gas pipelines and specified airport services), the Telecommunications Act and the Dairy Industry Restructuring Act.

In markets where there is little or no competition, we regulate the price and quality of goods and services to benefit consumers and promote a productive economy

Electricity Lines	Gas Pipelines	Airports	Telecommunications	Dairy
Electricity lines services are subject to information disclosure. Non consumer-owned suppliers are also subject to default/customised price-quality regulation	Gas pipelines services are subject to information disclosure and default/customised price-quality regulation	Auckland, Christchurch and Wellington International Airports are subject to information disclosure regulation	The Telecommunications Act 2001 regulates the supply of certain telecommunications services in New Zealand	The Dairy Industry Restructuring Act 2001 provides for the regulatory and structural reform of the dairy industry

What impacts do we have?

We work towards the outcome 'Regulation is better targeted and more effective' by seeking, over time, to have the following impacts across all sectors we regulate.

- Regulatory decisions promote statutory objectives.
- Businesses are encouraged to act consistently with regulatory obligations. Conduct by businesses that does not comply with regulatory obligations is detected and addressed appropriately.
- Businesses and consumers have an increased understanding of business and market performance.
- Businesses and consumers are aware of and understand regulatory regimes and the benefits of targeted regulation.

How do we achieve these impacts?

For regulation to be effective it needs to be appropriately targeted to meet statutory objectives. While statutory objectives vary across the regulatory regimes we administer, the broad focus is on promoting the long-term benefit of consumers.

The reference to long-term is important. Prices that are too low may benefit consumers in the short term, but the benefits can be greatly outweighed by higher long-term costs, particularly if regulated businesses do not expect to achieve returns sufficient to justify investment in replacing equipment or in new technology that may be needed. Given that very large investments are sometimes at stake, understanding these trade-offs is important.

In order to understand whether we are achieving our statutory objectives, we also need to understand the markets, industries and businesses we regulate, monitor how well those markets work, and adjust our approach as necessary.

The activities we undertake may include amending regulatory rules so that regulation becomes better targeted, advising government on types of regulation that should (or should not) apply, or directly putting in place (or removing) regulation ourselves where we have the authority to do so. We also engage with suppliers and consumers when we are developing regulatory rules, and to ensure our processes are robust and transparent.

Regulation will also be effective only if suppliers meet regulatory requirements. We seek to achieve voluntary compliance wherever possible, helping suppliers understand the rules and their obligations. But if regulated businesses do not comply, we can take enforcement action.

We use our discretion to decide when to intervene and we tailor our approach to each issue.

Increasing understanding by the wider business community and consumers of New Zealand's regulated services about how these regulatory regimes work and what the benefits are is also part of our job. This includes communicating often technical information in plain English. We are also well aware of the impact that regulatory decisions can have on the value of companies. In the case of listed companies, we continue to work with market analysts and commentators to ensure they understand the regulatory framework, given the role they play in putting our work in context.

Progress: Regulation

We have improved the effectiveness of regulation.

We reset the default price-quality path for electricity distribution businesses and we set the default price-quality path for gas pipeline businesses. As a result suppliers subject to price-quality paths can more accurately predict the return they will receive. The price paths that are now in place also better reflect the cost of supplying these services.

We improved our understanding of the effectiveness of information disclosure as a form of regulation. In particular, our analysis of Wellington International Airport Limited's performance suggested that it was not constrained from achieving excessive profits. However, Wellington Airport has initiated a review of its pricing in the light of our review of its performance and we welcome this development and look forward to seeing the outcome of this process. We made significant progress in implementing the new regulatory requirements associated with the Telecommunications Act 2001 by completing the re-benchmarking of the unbundled copper local loop prices and releasing the draft benchmark price for unbundled bitstream access service.

We also made significant progress in achieving the purpose of the new Dairy Industry Restructuring Act requirements with the completion of the first legislative review of Fonterra's milk price manual.

Key highlights

- Default price-quality path for electricity distribution reset, and default price-quality path for gas pipelines set
- New information disclosure requirements in place for electricity distribution and gas pipeline services
- Progress in completing the re-benchmarking of the unbundled copper local loop prices, and releasing of the draft benchmark price for unbundled bitstream access service
- 80% of stakeholders indicating they had a good to excellent understanding of the performance of airports
- High Court hearings for merits appeals of input methodologies complete though judgment not yet available
- First review of Fonterra's milk price manual complete.



Government policy and legislative change

The government initiated the statutory review of the Telecommunications Act and the Telecommunications Services Obligations this year. These reviews have the potential to impact on our current reviews of the benchmarked unbundled bitstream access service price and on our full cost modelling of the unbundled copper local loop price. However, we have taken the view that our projects should continue in the interim, consistent with our statutory obligations.

Litigation

Our successful appeal to the Court of Appeal of the High Court's decision that we had to complete a starting price adjustment input methodology was upheld in the Supreme Court this year. This meant that we did not finalise a starting price adjustment input methodology and were able to progress and finalise the setting of the gas default price-quality path, and reset the electricity default price-quality path. Hearings in the High Court for the merits appeals of the input methodologies commenced and were completed this year though the judgment is not yet available.

Our focus

We have come significantly closer to promoting statutory objectives under Part 4 of the Commerce Act. In particular we have set price-quality paths for electricity distribution businesses and gas pipeline businesses in a way that ensures that revenues are aligned with costs (and the businesses are therefore constrained from achieving excessive profits). We have also increased certainty for suppliers and consumers of regulated services through the setting of the price-quality paths and information disclosure requirements.

In the Telecommunications area we have continued to promote competition in telecommunications markets for the long-term benefit of end-users. Competition continues to increase against all of our indicators.

Our education and information initiatives associated with promoting compliance with the new information disclosure requirements for electricity distribution businesses have been well received with good levels of attendance at workshops.

It is too soon to tell whether we are seeing improvements in understanding of business and market performance, and/or awareness of regulatory regimes and the benefits of targeted regulation as we will only have two years' worth of data. However, we have put significant effort into increasing our stakeholder engagement work this year. Our summary report on the performance of electricity distribution businesses from 2008 to 2011 was well received by stakeholders. We have also put extra effort into briefing stakeholders about key decisions that could affect the market.

Measuring our results

Despite the varied sectors we have responsibility for regulating, what we do across all our regulation work falls into three broad categories – determinations, public reports and advice to officials, and compliance and enforcement. These results can be found on pages 92 – 97.



Outcome 3: Regulation is better targeted & more effective

Impact

→ Regulatory decisions promote statutory objectives

Measures	2010/11 Actual	2011/12 Actual	2012/13 Actual	2012/13 SOI Target
New Zealand's position in the OECD ranking for fixed broadband services (connections per 100 of the NZ population) improves over time	17/31	16/34 ⁸	Data for the 2012/13 year will be reported when available in 2014	17/34 or better
New Zealand's position in the OECD ranking for mobile broadband services (connections per 100 of the NZ population) improves over time	Not measured	9/34 ⁸	Data for the 2012/13 year will be reported when available in 2014	12/34 or better
An increase in the average broadband connection speed for NZ customers over time	3.8Mbps	3.7-4.0Mbps	4.0Mbps	4.8Mbps
Increased levels of competition in all mobile and fixed line markets as indicated by:			Data for the 2012/13 year will be reported when available in 2014	
The fixed telephone retail market concentration as measured by the HHI	4,725	3,731 ⁸	This indicator is expected to have a one-off increase for the fixed telephone retail market and the fixed broadband line rental market during this year as the merged Vodafone and TelstraClear will be counted as one entity. This will affect the calculation of HHI	Ongoing improvement
The fixed broadband line rental market concentration by connection as measured by the HHI	3,677	3,220 ⁸		Ongoing improvement
The mobile retail market concentration by connection as measured by the HHI	3,876	3,514 ⁸		Ongoing improvement
A decrease in the difference in prices between mobile off-net and on-net calls (on-net discount)	Not measured	11.5% decrease	11.2% decrease	Year-on-year decrease

An increase in the average broadband connection speed for NZ customers over time

The connection speed has not increased this year and this is most likely a result of the growing use of mobile broadband.⁹ Mobile downloads are generally slower than fixed line downloads.

8. The 2011/12 actual result reflects information that was not available at the time of publication of the 2012 annual report.

9. The source for this measure is Akamai downloads.

Impact

- Businesses are encouraged to act consistently with regulatory obligations. Conduct by businesses that does not comply with regulatory obligations is detected and dealt with appropriately

Measure	2010/11 Actual	2011/12 Actual	2012/13 Actual	2012/13 SOI Target
Total value of penalties and compensation for consumers gained as a result of enforcement cases either in court or by settlement	\$1.6m	\$31.6m	0	No target to be set ¹⁰

Impact

- Businesses and consumers have an increased understanding of business and market performance

Measure	2010/11 Actual	2011/12 Actual	2012/13 Actual	2012/13 SOI Target
The percentage of stakeholders who rate the quality of the Telecommunications Annual Monitoring Report as Good – Excellent	Not measured	Not measured	65% (13 respondents) ¹¹	80%

Impact

- Businesses and consumers are aware of and understand regulatory regimes and the benefits of targeted regulation

Measure	2010/11 Actual	2011/12 Actual	2012/13 Actual	2012/13 SOI Target
The level of business and consumer group awareness and understanding of the benefits of targeted regulation increases over time (as measured by survey) ¹²	Not measured	<p>Awareness: Consumers: 24% Businesses: 19%</p> <p>Understanding of benefits: Consumers: 80% Businesses: 74%</p>	<p>75% of sector stakeholders correctly identified forms of regulation</p> <p>100% of sector stakeholders understood what regulation applies</p> <p>70% of sector stakeholders understood benefits of information disclosure</p> <p>100% of sector stakeholders understood benefits of standard terms determinations</p>	Year-on-year improvement

10. We measure the amount of penalties and/or compensation arising from breaches of the Acts we enforce as an indicator for achieving appropriate outcomes for affected parties. It is not appropriate to set targets because of the undesirable incentives this creates.

11. The 2012/13 result differs from the SOI target because over the year we have changed the survey methodology and the scale from what we used to set the target.

12. The 2012/13 result is reported differently from the 2011/12 result as the survey methodology improved. This will now be the baseline for future years' reporting.

Electricity, gas and airports



Outcome 3: Regulation is better targeted & more effective

Impacts

→ Regulatory decisions promote statutory objectives

Measure	2010/11 Actual	2011/12 Actual	2012/13 Actual	2012/13 SOI Target
Electricity Lines				
No deterioration in the quality of electricity distribution services as indicated by aggregate industry SAIDI and SAIFI measures	Weighted average SAIDI=174 Weighted average SAIFI=1.92	Weighted average SAIDI=190 ¹³ Weighted average SAIFI=2.0 ¹³	Target is expected to be achieved. Supply reliability continues to show a trend of improvement. Based on the Electricity Distribution Business disclosures available at the time of publication, 2012/13 is expected to yield the lowest SAIDI and SAIFI figures for the last five years	Aggregate industry SAIDI and SAIFI do not increase
Transpower meets or exceeds system-established quality targets as detailed in the Individual Price-Quality Path (Transpower) – Reasons Paper of 22 December 2010	System minutes target exceeded by 6.9 minutes – target not met Number of unplanned interruptions – target met	3 out of 4 quality targets exceeded (1 target not met) ¹³	Data for the 2012/13 year reported in 2013/14 annual report The results for the 2012/13 year will be reported by Transpower no later than 25 October 2013 in the 2013 Annual Regulatory Report published on the Transpower website: https://www.transpower.co.nz/resources	Transpower meets or exceeds quality targets
Regulated suppliers that do not breach the price-quality path achieve at least normal returns over a regulatory period, but do not achieve excessive profits. Excessive profits exclude above normal returns achieved as a result of efficiency gains	Not measured	Not measured	Achievement will be reported at the end of the five-year regulatory period in 2015	100% of businesses achieve at least normal returns but do not achieve excessive profits over the regulatory period
Gas Pipelines				
Regulated suppliers that do not breach the price-quality path achieve at least normal returns over a regulatory period, but do not achieve excessive profits. Excessive profits exclude above normal returns achieved as a result of efficiency gains	Not measured	Not measured	Achievement will be reported at the end of the five-year regulatory period in 2015	100% of businesses achieve at least normal returns but do not achieve excessive profits over the regulatory period
Airports				
The level of customer service satisfaction by surveyed airline passengers improves over time	Not measured	Christchurch Domestic 3.9/5 International 4.1/5 Auckland Domestic 4.0/5 International 4.1/5 Wellington Domestic 4.1/5 International 4.0/5	Christchurch Domestic 4.1/5 International 4.2/5 Auckland Domestic 4.1/5 International 4.2/5 Wellington Domestic 4.1/5 International 4.1/5	A new target has been set: Passenger satisfaction scores are 4/5 or higher

13. The 2011/12 actual result reflects information that was not available at the time of publication of the 2012 annual report.

Impacts

→ Businesses are encouraged to act consistently with regulatory obligations. Conduct by businesses that does not comply with regulatory obligations is detected and dealt with appropriately

Measures	2010/11 Actual	2011/12 Actual	2012/13 Actual	2012/13 SOI Target
Electricity Lines				
The level of compliance by businesses with the information disclosure requirements is maintained over time	96%	100% ¹⁴	Data for the 2012/13 year reported in 2013/14 annual report	100%
The number of breaches of the price path by non-exempt electricity distribution businesses does not increase over time	1	2	0 ¹⁵	Zero breaches
Gas Pipelines				
The level of compliance by businesses with the information disclosure requirements is maintained over time	Not measured	Not measured	100% ¹⁶ compliance with the requirements	100%
The number of breaches of the price path by gas distribution businesses does not increase over time	Not measured	Not measured	The price path was set on 28 February 2013. The first date against which compliance will be assessed will be in the 2014/15 year	Price path setting deferred
Airports				
The level of compliance by businesses with the information disclosure requirements is maintained over time	Not measured	100%	Data for the 2012/13 year reported in 2013/14 annual report All information has been supplied by all airports. Full compliance assessments will be completed by November 2013	100%

14. The 2011/12 actual result reflects information that was not available at the time of publication of the 2012 annual report.

15. Assessments are still underway to confirm whether this information, provided by businesses, can be corroborated. This result has yet to be audited.

16. Full 2012/13 disclosures will not be complete until May 2014. Final audited results will be reported in the 2013/14 annual report.

Impacts

→ Businesses and consumers have an increased understanding of business and market performance

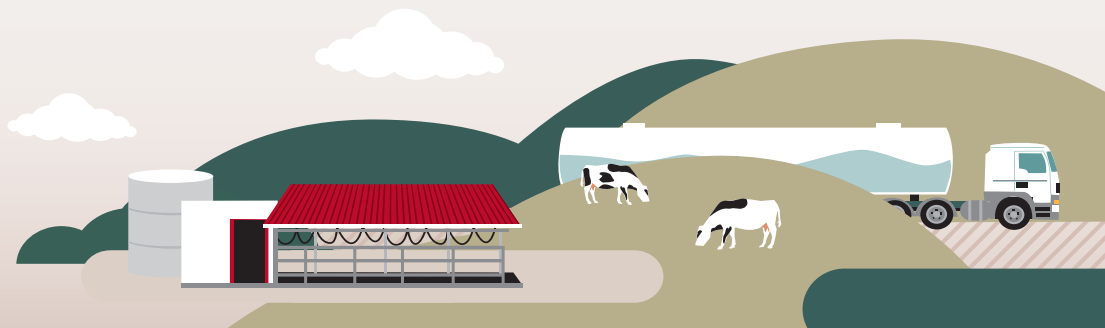
Measures	2010/11 Actual	2011/12 Actual	2012/13 Actual	2012/13 SOI Target
Electricity Lines				
Understanding of the performance of regulated electricity line services by targeted business and consumer groups increases over time	Not measured	57% of those with an interest rated their understanding as 'good' or 'very good'	64% of those with an interest rated their understanding as 'good' to 'excellent'	Increase in understanding from previous year
Gas Pipelines				
Understanding of the performance of regulated gas pipeline services by targeted business and consumer groups increases over time	Not measured	Not measured	39% (8 out of 21) of those with an interest rated their understanding as 'good' to 'excellent'.	Increase in understanding from previous year
Airports				
Understanding of the performance of regulated airport services by targeted business and consumer groups increases over time	Not measured	Not measured	80% (8 out of 10) of those with an interest rated their understanding as 'good' to 'excellent'	Increase in understanding from previous year

Impacts

→ Businesses and consumers are aware of and understand regulatory regimes and the benefits of targeted regulation

Measures	2010/11 Actual	2011/12 Actual	2012/13 Actual	2012/13 SOI Target
Electricity Lines/Gas Pipelines/Airports				
Understanding and awareness by stakeholders of the regulatory regimes and the benefits of regulation, increase over time ¹⁷	Not measured	Percentage of sector stakeholders that correctly identified the forms of regulation that applied to their sectors: Electricity: 73% Gas: 68% Airports: 88%	Percentage of sector stakeholders that correctly identified the forms of regulation that applied to their sectors: Electricity: 83% Gas: 87% (20 out of 23) Airports: 100% (12 out of 12) Percentage of sector stakeholders that understood regulation that applied to their sectors: Electricity: 92% Gas: 78% Airports: 92% (11 out of 12) Percentage of sector stakeholders that understood the benefits of information disclosure regulation that applied to their sectors: Electricity: 73% Gas: 73% Airports: 92% (11 out of 12) Percentage of sector stakeholders that understood benefits of price-quality regulation that applied to their sectors: Electricity: 85% Gas: 85%	Increase in understanding from previous year

17. For 2012/13 we have expanded our assessment of performance against this measure. We have done this by reporting on how well stakeholders consider they understand regulation, and the benefits of the regulations applying to their sector. This is in addition to the proportion of survey respondents who correctly identify the forms of regulation applying to their sector, which we also reported on in 2011/12.



Outcome 3: Regulation is better targeted & more effective

Impacts

- Businesses are encouraged to act consistently with regulatory obligations. Conduct by businesses that does not comply with regulatory obligations is detected and dealt with appropriately

Measure	2010/11 Actual	2011/12 Actual	2012/13 Actual	2012/13 SOI Target
Total value of penalties and compensation gained as a result of enforcement cases either in court or by settlement	Not measured	Not measured	0	No target to be set ¹⁸

18. We measure the amount of penalties and/or compensation arising from breaches of the Acts we enforce as an indicator for achieving appropriate outcomes for affected parties. It is not appropriate to set targets because of the undesirable incentives this creates.

Organisational capability and health



Priorities and Progress

It is not only what we do as an organisation that contributes to achieving our outcomes, it is how we do it.

We achieve our goals by having a capable and motivated workforce, who know what is expected of them and have the tools, support and leadership to perform.

In the last few years we have gone through significant structural and cultural change to provide an environment that helps us do our jobs better. We are now realising the benefits of these changes, making sure everything we do has value and is achieved to a high standard, as efficiently as possible. We are continuously reviewing and improving how we do things, consistent with the Government's priority of delivering better public services.

Improving our business

We have five strategic programmes that provide a basis for managing and improving our organisational capability and health. These programmes are *Simplify our business*, *Understand our value*, *Better connect*, *Stronger future focus* and *Better investment in people*.

During 2012/13 our focus for these programmes has been to improve the quality of engagement with our stakeholders, and ensure we have the right balance of capability and tools we need to perform our core functions effectively.



Planning for long-term investment in our information systems

Our information systems investments were guided by the Information Systems Strategic Plan (ISSP) we developed in 2012. Our investments during 2012/13 have supported improved business processes for managing knowledge and information, spanning information we receive from regulated businesses, the way we manage our organisational information and the infrastructure that supports our online strategy.

Resource sharing across the public sector

We have continued to take opportunities to use or provide shared services with other agencies where it makes good business sense to do so. We have adopted many of the initiatives within the Government ICT roadmap and will continue to assess opportunities on a case-by-case basis.

We have been active participants in the all-of-government procurement programme to take advantage of the government's collective purchasing power in areas such as mobile voice and data, external legal services, vehicles, travel management services and air travel.

In 2012/13 the Commission has also continued to explore shared service opportunities with other agencies where it is possible to increase value for money for the taxpayer. We have worked closely with the Electricity Authority and both agencies are making savings from the Commission providing IT services to the Authority including infrastructure hosting and helpdesk services.

Evaluating our capability and health

An important part of our operating philosophy is continuous improvement. Consequently, measuring and monitoring our progress towards our outcomes are a big part of this. We also have good processes in place to evaluate our business improvement initiatives. This helps us ensure we are making the right investments to support our long-term capability needs.

We use the Better Administration and Support Services (BASS) metrics to evaluate our HR, finance, procurement, information and communications technology, and corporate and executive services functions. While we are not one of the agencies directly involved in the programme, we use the framework and benchmark ourselves against BASS metrics to identify strengths and weaknesses, and areas for improvement.

The Commission's BASS metrics for 2012/13 show our administrative and support costs have reduced as a proportion of our total organisation running costs, and are in line with the median for the BASS small agency cohort. We have introduced a measure in our 2013–2016 Statement of Intent to help track our progress in this area.

Being a good employer

Two of the Commission's five strategic programmes, *Better connect* and *Better investment in people*, have provided an excellent focus on leadership, workforce development, management of people and performance, and engagement with staff. We have also made the most of the diverse talent pool currently at the Commission by promoting equal employment opportunities (EEO), through an integrated strategy that includes:

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

Our focus continues to be on attracting, supporting and developing our people, in line with the following 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>Our ongoing work in the leadership and development area demonstrates our commitment to developing our people. We have introduced a leadership and management development programme for our managers which will be delivered in 2013. Managers also have clear people management objectives in place that are assessed as part of their annual performance review.</p> <p>We continue to reinforce and promote our organisational values to ensure Commission-wide input and ownership.</p> <p>We conducted our employee survey again in March 2013. The results showed improvements in our overall engagement score. Action plans are in place to ensure that we keep making improvements in this area.</p> <p>We continue to consult widely with employees when developing new policies and practices.</p>
Recruitment, Induction and Selection	<p>We have a number of initiatives in place to attract and retain high-calibre people, improve capability, enhance professional development, and improve the general work environment. Our aim is to attract highly motivated employees who are committed to making a difference. A robust recruitment process ensures that selection decisions are based on competencies, skills and experience. The recruitment process is supported by a comprehensive orientation and induction programme.</p>
Employee Development, Promotion and Exit	<p>We develop our people capability internally through training, onsite learning, mentoring and coaching, rotations and secondments. We have a Commission-wide training programme in place that supports our people capability. In addition to individual development plans, we also have a learning and development framework to support employees and their development and promotion.</p>
Flexibility and Work Design	<p>We continue to accommodate and support flexible working arrangements where possible, including transfer of employees between offices nationally. Organisational reviews through the year have maintained a focus on efficiency gains, and relevant position descriptions have been redesigned to support this focus.</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 annually and we balance the need to recognise and reward individual contributions, while taking into account business objectives, affordability, fairness, market factors, recruitment and retention.</p>
Harassment and Bullying Prevention	<p>Our generic competencies and values provide a focus on the appropriate behaviours expected of our people. Our standard policies dealing with conduct, harassment and discrimination, and disciplinary matters reflect our zero tolerance of harassment and bullying.</p>
Safe and Healthy Work Environment	<p>We have employees trained as Health and Safety representatives, who work across the Commission to ensure a healthy and safe working environment. Our induction programme, and ongoing education, ensures all staff are well informed and able to take all practical steps to remain safe, and are aware of their health and safety responsibilities. We have a number of wellness initiatives in place to support and maintain wellness in our work place.</p>

Our values

	<ul style="list-style-type: none"> > 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
	<ul style="list-style-type: none"> > Our independence inspires the trust and confidence of New Zealanders > We are fair, honest and impartial
	<ul style="list-style-type: none"> > 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
	<ul style="list-style-type: none"> > We work together, and support and respect each other > We value the diversity of people and their opinions
	<ul style="list-style-type: none"> > 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

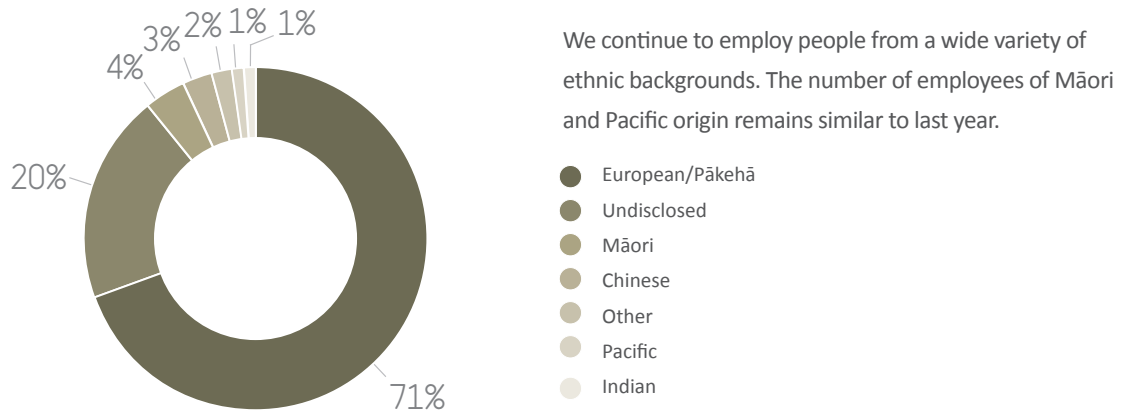
Profile of our people

	2010/11	2011/12	2012/13
Total FTE (establishment)	189	183	187
% of staff on flexible working arrangements	13%	11%	14%
Male	51%	50%	54%
Female	49%	50%	46%
Improvement in employee engagement year on year	N/A	N/A	2.9%
Staff turnover	18%	16%	15%
Average number of years of service	4.84	5.18	6.0

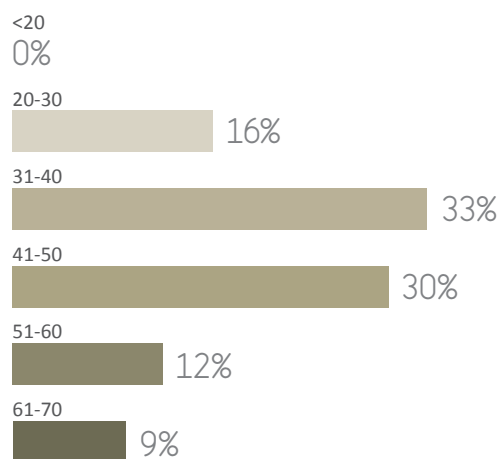
Disability profile:

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

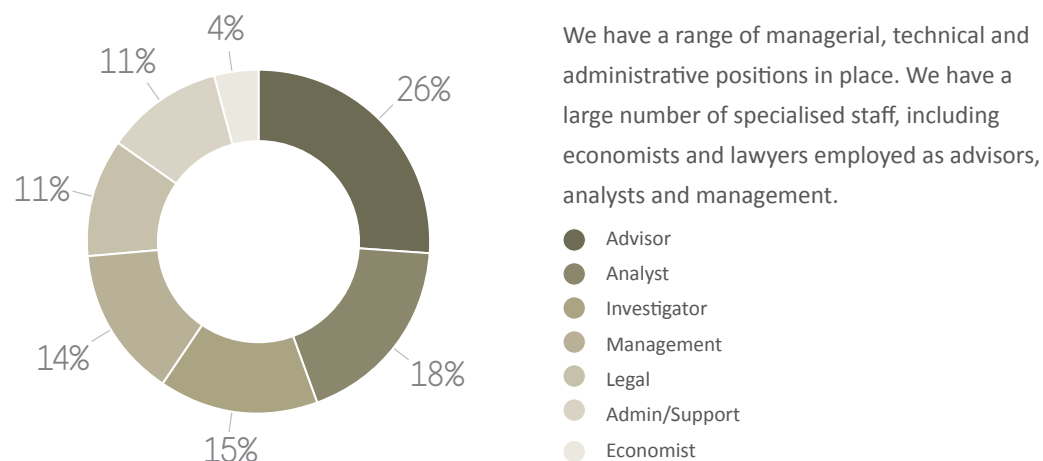
Ethnicity profile:



Age profile:



Occupation profile:



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 and Information Technology.

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. As a body with quasi-judicial functions, the Board makes decisions 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
- administering and enforcing the Commerce, Fair Trading, and Credit Contracts and Consumer Finance Acts
- reviewing Fonterra's milk price manual and 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 a number of 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.

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.

Audit, Finance and Risk Management Committee (AFRM)

The Commission's AFRM Committee is made up of at least three members with a broad range of skills and experience relevant to the operation of the committee. The Commission Chairman nominates the Convenor of the committee, who has appropriate financial, service performance, internal control and risk management experience. The AFRM Committee meets at least three times a year and provides a report to the Board including an in-depth review of the financial and service performance reports and any Board papers that have a potential organisational risk or performance impact. The committee also meets with external auditors at least twice a year, without management present, to obtain direct assurance about the financial and service performance systems and controls at the Commission.

The committee gives the Board assurance in terms of risk management and compliance, as well as considering in greater detail the Commission's financial management, financial and service performance reporting, and internal controls.

Management

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

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 give 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 communicated 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)).

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 and Information Technology. Associate Commissioners are appointed by the Minister of Commerce. At least one Commission Member must be a barrister or solicitor.

In 2012/13 the Commissioners were: Dr Mark Berry (Chairman), Sue Begg (Deputy Chair), Dr Stephen Gale (Telecommunications Commissioner), Donal Curtin, Pat Duignan and Anita Mazzoleni (Commissioners). The Associate Commissioners were: Dr Jill Walker and Elisabeth Welson.

There were also cross-appointments between the Commission and the Australian Competition and Consumer Commission (ACCC) in 2011/12. Dr Jill Walker is a member of the ACCC appointed to the Commerce Commission and Dr Mark Berry is an Associate Member of the ACCC.



Dr Mark Berry

Chairman

Dr Mark Berry was appointed Chairman in April 2009 for a term of 18 months; this was extended to five years, expiring in 2014. 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. Mark was appointed an Associate Member of the ACCC for a three-year term effective 1 December 2010.



Sue Begg

Deputy Chair

Sue Begg was appointed 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 four-year term. She is an economist, and director of the consultancy company Impetus Group Limited. Her previous roles include 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.



Donal Curtin

Commissioner

Donal Curtin was appointed as an Associate Commissioner in January 2001, became a full member of the Commission in November 2002 and was Deputy Chair between July 2008 and March 2009. Donal is a business economist with wide experience of applying economics to commercial decisions, in both the United Kingdom and New Zealand. He was the BNZ's Chief Economist and head of its national private banking unit and in May 2002 was appointed by Parliament's finance and expenditure select committee to advise it on monetary policy.



Pat Duignan

Commissioner

Pat Duignan was appointed in June 2009 as an Associate Commissioner and in June 2010 as a Commissioner for a term to June 2014. Pat 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.



Dr Stephen Gale

Telecommunications Commissioner

Dr Stephen Gale was appointed as the Telecommunications Commissioner in July 2012. Prior to that, he was an Associate Commissioner since July 2010. He has specialised for some years in energy economics and competition proceedings at the infrastructure consulting firm Castalia, and before that at the New Zealand Institute of Economic Research. Stephen has worked on a variety of competition topics including the design of the electricity market, radio spectrum auctions and port pricing.



Anita Mazzoleni

Commissioner

Anita Mazzoleni was appointed in April 2009 for a term of five years. She has a BCom and LLB and is a CA and Solicitor (NZ). Anita is an independent corporate finance adviser and company director and was General Counsel of Contact Energy, Director of Deloitte Corporate Finance, and General Manager at Citibank. Anita has been a director of Industrial Research Ltd and subsidiaries, the Civil Aviation Authority and the Aviation Security Service. She is currently a director of Ngāti Whātua o Ōrākei Whai Maia Ltd.



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 and Chair of the International Air Services Commission in Australia. 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 Masters degree in Economics from the University of Massachusetts.



Elisabeth Welson

Associate 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.

The terms of Helen Cull QC and the Hon. Sir Ian Barker as Cease and Desist Commissioners have ended, and the Hon. Sir Bruce Robertson KNZM and Michael Behrens QC have since been appointed.



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 staff 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 was appointed Chief Executive in January 2011. He joined the Commission in early 2009 and later was the General Manager Regulation. Before that, Brent was Commercial Manager for New Zealand Oil and Gas Limited. His experience also includes working in Corporate Finance at Deloitte, Corporate Strategy at the Electricity Corporation and in policy and analysis roles at the Treasury and the Department of Social Welfare. Brent has a BA (Hons) in Economics and an MA in Political Studies.

Dr John Hamill

General Manager Regulation

Dr John Hamill has been the General Manager Regulation since January 2011. John had been the Manager for Airports and Input Methodologies in the Regulation Branch for the previous two 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 Wellington's Victoria University and a Masters degree in International Economic Law from 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 in Deloitte. Geoff has a BCA from Victoria University of Wellington and a Masters in Public Administration through the Australia and New Zealand School of Government, and is a Chartered Accountant.

Financial Performance

This section of the annual report provides an overview of our financial statements for the year ended 30 June 2013.

Where can I find more information?

46	Financial statements overview
51	Statement of responsibility
52	Independent auditor's report
55	Financial statements
59	Statement of accounting policies
64	Notes to the financial statements



Financial statements

overview

Net surplus

The Commission recorded a net surplus of \$6.144 million for the year ended 30 June 2013. In our 2012–2015 Statement of Intent we projected a net surplus of \$0.641 million for the year. We explain the \$5.503 million difference between our budgeted result and our actual result in our discussion of our income and expenditure for the year below.

We will retain \$3.121 million of the 2012/13 surplus in our reserves, and repay a total of \$3.023 million in levy-based funding to the Crown. We have approval to transfer the \$0.453 million levy-based surplus for regulation of electricity lines businesses into 2013/14.

The table below shows how each of our individual appropriations (funding streams from the Crown for specific pieces of work) contributes to the total surplus:

	2012/13 Surplus/ (deficit) \$000	Retained within reserves \$000	Levy-based surplus repayable to the Crown \$000
Vote Commerce:			
Enforcement of general market regulation	2,621	(2,621)	0
Litigation fund	500	(500)	0
Regulation of electricity lines businesses	453	0	453
Regulation of gas pipeline businesses	44	0	44
Regulation of airport services	22	0	22
Enforcement of dairy sector regulation and auditing of milk price setting	737	0	737
Vote Communications:			
Enforcement of telecommunications sector regulations	1,767	0	1,767
TOTAL	6,144	(3,121)	3,023

The three largest contributors to our surplus are the appropriations for general markets, telecommunications, and dairy. For all three appropriations, lower than expected contractor and consultant expenditure helped create these surpluses. Telecommunications expenditure also benefited from lower costs from the new telecommunications regulation regime; in future years we expect additional costs as we contribute to the review of Telecommunications regulation in New Zealand.

Further discussion of the results for each appropriation is in our non-financial performance information on pages 88 – 97.

Income

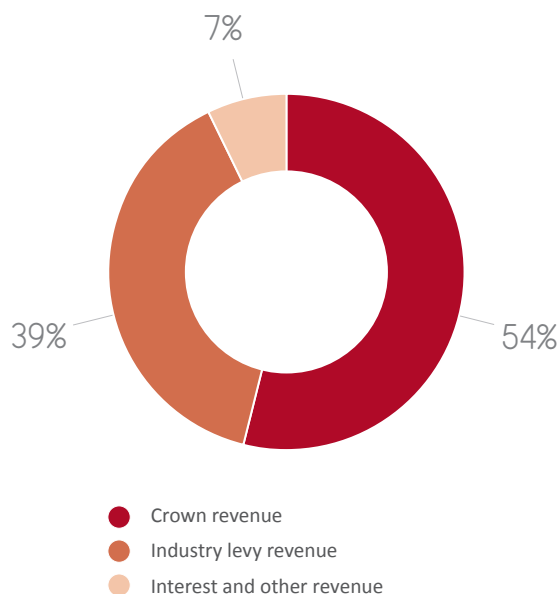
This year our total income was \$40.221 million, compared with a total budgeted income of \$43.023 million. This difference in revenue is primarily the result of \$5.254 million less Litigation Fund revenue than budgeted, offset by greater revenue from other income sources. Litigation Fund appropriation revenue was lower than budget due to the Commission avoiding litigation costs, hearing timing changes, and increased efficiency in the use of external counsel. The Litigation Fund currently provides revenue to the Commission once we incur the cost, rather than funding our activities in advance, as happens with our other funding streams from the Crown.

This year the Commission received \$2.688 million in income from interest and third parties, which is \$2.054 million greater than budgeted. This income is generally one-off and difficult to budget for. The greatest portion of this is from the Commission's portion of cost awards and settlements on litigation cases for air cargo (\$0.815 million) and Telecom data tails (\$0.075 million). We also received \$0.306 million to settle our Christchurch earthquake insurance claim, and \$0.514 million from Orion NZ Ltd, who are seeking a customised price-quality path for their electricity distribution business. Finally, the Commission's greater than expected surpluses meant we had more cash on hand, which earned an extra \$0.253 million in interest income than we budgeted for.

During the 2012/13 financial year we reached a shared services agreement with the Electricity Authority. Under the agreement, the Commission provides IT infrastructure and services to the Electricity Authority, in exchange for a recovery of a portion of those costs from the Authority. This allows us to operate high-quality IT infrastructure and services at a lower overall cost both to the Commission and Authority and ultimately to the taxpayer. We are looking for other opportunities to share services and costs with the Electricity Authority or other agencies where this makes sense.

A breakdown of our revenue from its ultimate source (Crown revenue, Crown revenue refunded by industry levies, and other sources) is below:

Income by source



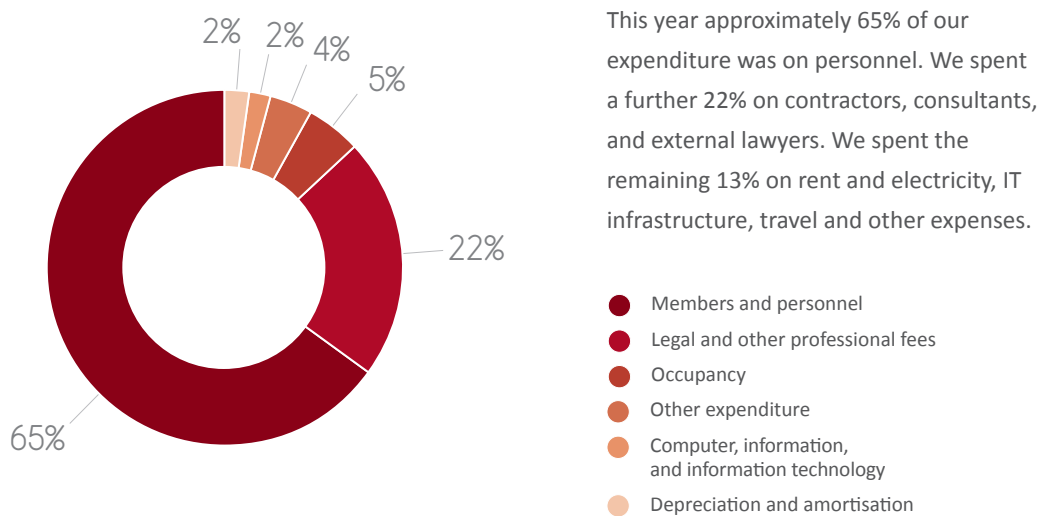
This year approximately 54% of our income came directly from the Crown, while an additional 39% was ultimately funded directly by regulated industries. A further 7% of our income came from other sources, as discussed above. The decreased Crown revenue from our Litigation Fund and the increased income from other sources resulted in a somewhat different make-up of funding sources; our 2012-2015 Statement of Intent projected 63% of revenue would come from the Crown, 35% from industry levies, and only 2% from interest and other third-party sources.

Expenditure

We spent \$34.077 million for the year, compared to a budget of \$42.382 million. This is also a small decrease in expenditure from last year (2011/12), when we spent \$35.297 million. The underspend of \$8.305 million against our budget is mainly because of the settlement of several significant and expensive court cases in our favour. This significantly contributed to our spending \$7.422 million less on legal and other professional fees than we budgeted, together with savings in our ongoing investigation and regulatory work.

The graph below shows a breakdown of our expenditure by type:

Expenditure breakdown



Financial position

The Commission's equity (its net worth to the Crown) at 30 June 2013 was \$15.435 million, a small net decrease of \$0.379 million from the previous year. There were two significant movements in our equity during the financial year. The first movement was a return of reserves to the Crown of \$3.5 million. The Commission returned these reserves to the Crown, as our medium-term projections for cost pressures and litigation risks showed that the funds were not required. We continue to review our level of reserves to ensure that we keep sufficient funds to manage possible future litigation risks, and other financial risks.

The other significant movement in our equity is the increase in our equity from the General Markets and Litigation Fund surpluses of \$3.121 million.

Assets and liabilities

As a service-based organisation we only need to maintain a fairly low value of software and fixed assets (such as computer equipment and leasehold improvements) to support our people and interact with our stakeholders. Most of our expenditure on fixed assets and software for the 2012/13 year focused on replacing computer assets or enhancing our systems.

During the 2012/13 year we invested \$0.208 million in property, plant and equipment, which was mainly replacement computer equipment. We also invested \$0.271 million in software, of which most was enhancements to our website and the software system we use for managing our information.

The remainder of the Commission's assets were cash, term deposit investments, prepayments (expenses paid in advance), or receivables.

Our normal operating liabilities mainly relate to unpaid creditors at year end, and accrued costs of staff salaries and leave. We also maintain an amount payable back to the Crown for our surpluses in relevant appropriations, and hold some funds aside to manage the cost of restoring our leasehold offices if we move in the future. This year we have revenue received in advance from Orion NZ Ltd as part of their payment for our assessing their request for a Customised Price-Quality Path.

Penalties and cost awards held in trust

The Commission's work involves significant litigation. This litigation can result in receiving large penalties and cost awards when we are successful in our prosecution or defence of a determination made. We receive most penalties and many cost awards, and then pay these amounts to the recipients (the Crown, the Commission, and other third parties in the case of settlements), within a financial year. However, sometimes we are required to hold onto cash balances in trust for a period of time. This has the effect of increasing our reported cash balance, but it also increases our liabilities by the same amount. We recognise the penalties and cost awards held in trust as a liability (either a provision or a creditor, depending on the status of the case the amounts relate to) until they are paid to the eventual recipient.

In the past the amount of penalties and cost awards held in trust at a financial year end were not significant. However, in 2011/12 and 2012/13 we have held a large balance of penalties and cost awards in trust. This has substantially increased the amount of cash we record in our Statement of financial position, particularly in the 2011/12 year. A breakdown of our cash and term investments balance as presented in our Statement of financial position into funds belonging to us and funds we are holding in trust for third parties is in the table below:

	2012/13 \$000	2011/12 \$000
Cash and term investments belonging to the Commission	19,613	21,509
Cash held in trust for third parties (penalties and cost awards)	3,197	14,420
Total cash and term investments held	22,810	35,929
Represented by:		
Cash and cash equivalents	10,310	30,929
Short-term investments	12,500	5,000
TOTAL	22,810	35,929

It is important to note that, while the Commission reports our funds and trust funds together as one item for reporting purposes, we hold the penalties and cost awards separately from our own cash balances. We cannot use the cash held as part of our day-to-day cash management. We hold all trust funds in special trust fund accounts, which are separate from our operating bank accounts.

Financial risks

Our main financial risk comes from our litigation activities. In previous years we were engaged in several large court cases where there was a risk of significant adverse cost awards if our litigation was unsuccessful. Over the past few years we built up our reserves to help manage our risks in this area. Maintaining an appropriate level of reserves allows us to manage any peaks in litigation expenditure, and manage the potential risks from litigation cases without requiring further assistance from the Crown.

We regularly assess our financial risks and consider the level of reserves we need to retain. We will generally return some of our reserves to the Crown in the event that we assess they are at a higher level than appropriate, as we did in 2012/13.

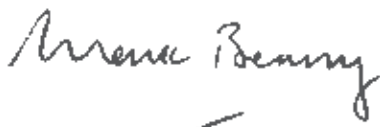
Statement of responsibility

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

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.

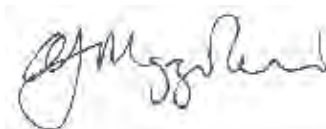
In the Board's opinion, these financial statements and non-financial performance information reflect a true and fair view of the financial position, and results of the operations of the Commission, for the year ended 30 June 2013.

Signed on behalf of the Board:



Dr Mark Berry
Chairman – Commerce Commission

9 October 2013



Anita Mazzoleni
**Convenor – Audit, Finance and
Risk Management Committee**

9 October 2013

Independent auditor's report

To the readers of Commerce Commission's financial statements and non financial performance information for the year ended 30 June 2013

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 non financial performance information of the Commission on her behalf.

We have audited:

- the financial statements of the Commission on pages 55 to 86, that comprise the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and notes to the financial statements, accounting policies and other explanatory information; and
- the non financial performance information of the Commission that comprises the statement of service performance on pages 88 to 97 and the report about outcomes in the tables on pages 15, 16, 17, and 23 to 28.

Opinion

In our opinion:

- the financial statements of the Commission on pages 55 to 86:
 - > comply with generally accepted accounting practice in New Zealand; and
 - > fairly reflect the Commission's:
 - financial position as at 30 June 2013; and
 - financial performance and cash flows for the year ended on that date.
- the non financial performance information of the Commission in the tables on pages 15, 16, 17, and 23 to 28 and pages 88 to 97:
 - > complies with generally accepted accounting practice in New Zealand; and
 - > fairly reflects the Commission's service performance and outcomes for the year ended 30 June 2013, including for each class of outputs:
 - its service performance compared with forecasts in the statement of forecast service performance at the start of the financial year; and
 - its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

Our audit was completed on 9 October 2013. 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 Board and our responsibilities, and we 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 non financial 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 non financial 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 non financial performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and non financial 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 non financial performance information that fairly reflect the matters to which they relate. We consider internal control 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 Board;
- the appropriateness of the reported non financial performance information within the Commission's framework for reporting performance;
- the adequacy of all disclosures in the financial statements and non financial performance information; and
- the overall presentation of the financial statements and non financial performance information.

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

We have obtained all the information and explanations we have required and we believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of the Board

The Board is responsible for preparing financial statements and non financial performance information that:

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

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

The Board's responsibilities arise from the Crown Entities Act 2004.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and non financial performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

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.



A Sharma

Audit New Zealand

On behalf of the Auditor General

Wellington, New Zealand



Financial statements

Statement of comprehensive income for the year ended 30 June 2013

	Notes	2012/13 Actual \$000	2012/13 Budget \$000	2011/12 Actual \$000
Operating income				
Crown revenue	3	37,533	42,389	41,122
Fees and recoveries		632	50	120
Interest		787	534	659
Other income		1,269	50	279
Total operating income		40,221	43,023	42,180
Operating expenditure				
Members and personnel	4	22,289	22,222	21,146
Legal and other professional fees	5	7,465	14,887	9,354
Computer, information, and information technology		524	622	536
Occupancy	6	1,613	1,681	1,698
Depreciation and amortisation		663	832	731
Other expenditure	7	1,523	2,138	1,832
Total operating expenditure		34,077	42,382	35,297
Surplus/(deficit)		6,144	641	6,883
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	8	6,144	641	6,883

The accompanying statement of accounting policies and notes to the financial statements on pages 59 – 86 form part of the financial statements.

Statement of changes in equity

for the year ended 30 June 2013

	2012/13 Actual \$000	2012/13 Budget \$000	2011/12 Actual \$000
Balance at 1 July	15,814	15,071	13,729
Comprehensive income/(loss)			
Surplus/(deficit)	6,144	641	6,883
Total comprehensive income/(loss)	6,144	641	6,883
Transactions with owner			
Return of reserves to the Crown	(3,500)	0	0
Repayment of surplus to the Crown	(3,023)	(1,528)	(4,798)
Total transactions with owner	(6,523)	(1,528)	(4,798)
BALANCE AT 30 JUNE	15,435	14,184	15,814

The accompanying statement of accounting policies and notes to the financial statements on pages 59 – 86 form part of the financial statements.

Statement of financial position

as at 30 June 2013

	Notes	2012/13 Actual \$000	2012/13 Budget \$000	2011/12 Actual \$000
Equity				
General funds	9	12,346	11,095	13,225
Litigation costs reserve	9	1,589	1,589	1,089
Litigation fund reserve	9	1,500	1,500	1,500
Total equity		15,435	14,184	15,814
Current assets				
Cash and cash equivalents	10	10,310	15,759	30,929
Fees and recoveries receivable	11	960	35	116
Crown revenue receivable	12	653	2,877	1,938
Short-term investments		12,500	0	5,000
Prepayments		326	110	154
Total current assets		24,749	18,781	38,137
Non-current assets				
Fees and recoveries receivable	11	100	0	0
Property, plant and equipment	13	900	1,000	1,215
Intangibles	14	335	648	215
Total non-current assets		1,335	1,648	1,430
Total assets		26,084	20,429	39,567
Current liabilities				
Creditors and other payables	15	719	1,900	1,419
Accrued expenses		714	1,090	969
Penalties and cost awards held in trust	16	3,241	0	14,420
Provision for Crown funding to be repaid	8	3,023	1,528	4,798
Revenue received in advance		586	0	0
Employee entitlements		2,088	1,500	1,837
Total current liabilities		10,371	6,018	23,443
Non-current liabilities				
Provision for reinstatement of lease occupancy	17	236	185	253
Other non-current liability		42	42	57
Total non-current liabilities		278	227	310
Total liabilities		10,649	6,245	23,753
NET ASSETS		15,435	14,184	15,814

The accompanying statement of accounting policies and notes to the financial statements on pages 59 – 86 form part of the financial statements.

Statement of cash flows

for the year ended 30 June 2013

	Notes	2012/13 Actual \$000	2012/13 Budget \$000	2011/12 Actual \$000
Cash flows from operating activities				
Government funding received		38,650	42,487	42,255
Fees and recoveries received		1,580	100	418
Receipts and payment of penalties and cost awards (net)		(11,148)	(13,936)	796
Interest received		721	534	608
Member and employee payments		(22,005)	(22,222)	(20,873)
Supplier payments		(12,216)	(19,943)	(13,920)
Goods and services tax (net)		76	15	(51)
Net cash inflow (outflow) from operating activities	18	(4,342)	(12,965)	9,233
Cash flows from investing activities				
Short-term investments receipts/(deposits)		(7,500)	0	(5,000)
Property, plant and equipment sale proceeds		0	0	2
Property, plant and equipment purchases		(208)	(376)	(316)
Intangible asset purchases		(271)	(634)	(44)
Net cash inflow/(outflow) from investing activities		(7,979)	(1,010)	(5,358)
Cash flows from financing activities				
Government funding repaid		(4,798)	(4,962)	(5,342)
Reserves returned to the Crown		(3,500)	0	0
Net cash inflow/(outflow) from financing activities		(8,298)	(4,962)	(5,342)
Net increase/(decrease) in cash and cash equivalents		(20,619)	(18,937)	(1,467)
Opening cash and cash equivalents		30,929	34,696	32,396
CLOSING CASH AND CASH EQUIVALENTS	10	10,310	15,759	30,929

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 59 – 86 form part of the financial statements.

Statement of accounting policies

for the year ended 30 June 2013

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 have designated ourselves as a public benefit entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS), due to our role as a public service provider.

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 9 October 2013.

The financial statements comply with NZ IFRS and other applicable financial reporting standards as appropriate for a public benefit entity. We have adopted all available reporting exemptions allowed under NZ IFRS for public benefit entities.

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 income, financial position and cash flows consistently for all reporting periods covered by these financial statements, including the comparative (prior year and budget) information. The significant accounting policies are:

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 income. We record revenue received before we

provide the service as revenue received in advance on our Statement of financial position, and recognise the revenue when we provide the service.

Crown revenue – The Commission receives appropriations from the Crown. These are restricted in their use to the purpose of meeting the Commission’s objectives, as outlined in the Statement of Intent. Appropriation revenue we receive but do not spend (ie, a surplus) is refunded to the Crown after year end for all appropriations 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.

Appropriations from the Crown are recognised as revenue when received. We treat surpluses on appropriations which we must return as a creditor and show in the Statement of financial position as a provision for the refund of surpluses to the Crown.

Expenditure – All expenditure we incur in providing services for the Crown or other third parties is recognised in the Statement of comprehensive income 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. Any gain or loss on monetary liabilities is the difference between the cost in the functional currency at the beginning of the period and payments during the period, and is recognised in the Statement of comprehensive income during that period.

Leases – The Commission is party to various operating leases as a lessee. As the lessors retain substantially all of the risks and rewards of ownership of the leased property, plant and equipment, the operating lease payments are recognised in the Statement of comprehensive income 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 income over the term of the lease. At balance date, any unamortised lease incentive and outstanding obligation for reinstatement is recognised as a liability in the Statement of financial position.

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 Statement of comprehensive income 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 3 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 within an appropriation. 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 and payables, 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 amount of 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. The net GST paid to, or received from, the IRD, including the GST relating to investing and financial activities, is classified as an operating cash flow in the Statement of cash flows. Commitments and contingencies are disclosed exclusive of GST.

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. The components of equity are general funds and restricted funds (litigation fund reserve and litigation costs reserve). Restricted funds are reserves where the Commission must meet specific conditions of use that are agreed with the Crown.

Cash and cash equivalents – Cash and cash equivalents are our cash on hand, transactional cash balances in bank accounts, and some term deposits held with New Zealand-registered banks. Term deposits are included in cash and cash equivalents when they are easily turned into cash, will mature within three months of the date they were purchased (eg, a 90-day term deposit), and are used as part of our day-to-day cash management.

Receivables – Receivables are stated at their estimated net realisable value, after providing for doubtful and bad debts. All known bad debts are written off and charged to the Statement of comprehensive income in the period in which we first identified them.

Investments – Investments are term deposits issued by New Zealand registered banks and are classified as loans and receivables. Term deposits which meet the definition of a cash equivalent (see above) are excluded from this definition. Loans and receivables are initially measured at fair value plus any transaction costs. After initial recognition, investments are re-measured at amortised cost using the effective interest rate method. Any gains or losses arising from impairment or writing off an investment are recognised in the Statement of comprehensive income in the period in which they are first identified.

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 is recognised in the Statement of comprehensive income 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 Statement of comprehensive income in the period in which the item of property, plant and equipment is sold or disposed of.

Intangible assets – Computer software that is not integral to the operation of the hardware is recorded as an intangible asset, less accumulated amortisation. We amortise software on a straight-line basis over its estimated useful life, to a maximum of three years.

Financial instruments – The Commission is naturally a party to financial instruments as part of its day-to-day operations. Financial instruments are monetary assets (eg, cash) and liabilities and are initially recognised at their fair value. We subsequently measure them at their amortised cost, less any impairment losses. All revenue and expenditure arising from the financial instruments are recognised in the Statement of comprehensive income when earned or when an obligation exists.

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 in the Statement of financial position and charged to the Statement of comprehensive income. Entitlements are calculated on an actual entitlement basis at our personnel's current salary rates.

Cash flows – Operating, investing and financing cash flows are prepared using the direct method subject to the netting of certain cash flows. The cash flows in respect of bank deposits that have been rolled over under arranged banking facilities have been netted in order to ensure meaningful disclosures. Penalties which are received by the Commission and then paid to the Crown are netted, as the Commission is acting as an agent in collecting these penalties, must pass them on within a week of receipt, and does not benefit (eg, by earning interest) from receiving the penalties on behalf of the Crown.

Operating cash flows include all cash received from all operating revenue sources and all cash payments for all operating expenditure items. Investing cash flows reflect the payments for property, plant and equipment or intangible asset purchases, proceeds from the sale of property, plant and equipment or intangible assets, and the net movement in bank deposits (excluding bank deposits treated as cash and cash equivalents).

The Commission reconciles its surplus/deficit with the net cash flows from operating activities using the direct method.

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 income 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 (Statement of Intent) 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 Intent. 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

The accounting policies adopted are consistent with the previous year.

Changes to applicable reporting standards and interpretations

The Commission has not adopted any revisions to accounting standards during the financial year.

Standards, amendments, and interpretations issued but not yet effective that have not been early adopted and are relevant to the Commission are:

- NZ IFRS 9 *Financial Instruments* will eventually replace NZ IAS 39 *Financial Instruments: Recognition and Measurement*. NZ IAS 39 is being replaced through the following three main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, and Phase 3 Hedge Accounting. Phase 1 on the classification and measurement of financial assets has been completed and has been published in the new financial instrument standard NZ IFRS 9.

NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in NZ IAS 39. The standard must be adopted for the year ended 30 June 2016, but early adoption is permitted. The Commission has not assessed the effect of the new standard and will not early adopt it. The adoption of a new set of accounting standards (see below) means the Commission is not required to adopt this standard in the future.

- The Minister of Commerce has approved a new Accounting Standards Framework (developed and recommended by the External Reporting Board (XRB)) which differentiates its reporting requirements between entities on the basis of whether they are for-profit or public benefit entities, and their size. Under the new framework, the Commission will transition to a new set of accounting standards for public benefit entities developed and issued in May 2013 by the XRB based primarily upon International Public Sector Accounting Standards (IPSAS). We are classified as a Tier 1 reporting entity under the new framework, so we will not have any reduced disclosure requirements under the new framework and set of accounting standards.

The effective date for the new standards for public sector entities (including the Commission) is for reporting periods beginning on or after 1 July 2014. Early adoption of the new accounting standards is not allowed. The Commission will transition to the new set of accounting standards for the year ended 30 June 2015. The transition to the new accounting standards will not have a significant effect on the Commission's financial statements and reporting.

- As a related effect of the decision to migrate public benefit entities to a new set of accounting standards, all new NZ IFRS and amendments to existing NZ IFRS will not apply to public benefit entities. As a result the XRB has effectively frozen the financial reporting requirements for public benefit entities until we transition to the new suite of public sector accounting standards. Therefore we have not made any further disclosures about new or amended NZ IFRS that exclude public benefit entities from their scope.

Notes to the financial statements

for the year ended 30 June 2013

1. 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 2013 in the Statement of comprehensive income. 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 2013 (please see note 2). We continue to monitor all our current litigation cases, and assess whether they give rise to contingent liabilities or assets.

The external costs of cases currently under appeal are funded through a non-departmental other expense appropriation for major litigation (the 'Litigation fund'). The Litigation fund was established to provide funds for major litigation activities when those activities meet certain criteria. The criteria for operation of the fund are established in an Output Agreement agreed between the Commission and the Crown.

Only actual and direct external operating costs of cases which meet the criteria for payment through the fund are charged against it. Internal and indirect costs are met by the Commission from our General Markets appropriation.

The Ministry of Business, Innovation and Employment monitors the performance of the Litigation fund on behalf of the Crown and authorises the payment of Crown revenue, tri-annually in arrears, to reimburse the Commission for expenditure incurred in the Litigation fund.

The Crown revenue for the Litigation fund includes additional funding of \$0.5 million to establish a litigation cost reserve to manage the impact of adverse costs awards that may be awarded against the Commission in the future. The additional funding will be rolled over to subsequent years until the reserve reaches a cap of \$3.0 million. At 30 June 2013 the balance of the fund was \$1.589 million, with the fund expected to reach a balance of \$3.0 million in 2015/16 (subject to any adverse cost awards reducing the balance of the fund).

2. Contingent liabilities and assets

Contingent liabilities as at 30 June 2013:

There are no contingent liabilities.

Contingent liabilities as at 30 June 2012:

The Commission disclosed a contingent liability for a litigation case at that point, involving Visy Board Pty Limited.

Contingent assets as at 30 June 2013:

Freight forwarding

The Commission has obtained successful jurisdiction judgments in the High Court and the Court of Appeal for the freight forwarding cartel case against Kuehne + Nagel International AG. The Commission currently has a contingent asset for the costs of those successful hearings, dependent on the ultimate trial outcome against Kuehne + Nagel.

Contingent assets as at 30 June 2012:

The Commission disclosed contingent assets for a number of litigation cases at that point. Those cases were Air cargo, Telecom data tails, TEA Custodians (Bluestone) Limited, Air New Zealand Limited air cargo confidentiality orders, Freight forwarding, and Input methodology-related judicial reviews. We also recognised a contingent asset for insurance claims lodged for our losses suffered in the Christchurch earthquakes in February and June 2011.

3. Crown revenue

	2012/13 Actual \$000	2011/12 Actual \$000
Vote Commerce – enforcement of general market regulation	16,435	18,073
Vote Commerce – litigation fund	5,536	5,384
Vote Communications – enforcement of telecommunications sector regulations	6,000	7,790
Vote Commerce – regulation of electricity lines businesses	4,844	5,060
Vote Commerce – regulation of natural gas services	2,156	2,900
Vote Commerce – enforcement of dairy sector regulation	0	205
Vote Commerce – enforcement of dairy sector regulation and auditing of milk price setting	1,543	700
Vote Commerce – input methodologies	0	610
Vote Commerce – regulation of airport services	1,019	400
TOTAL CROWN REVENUE	37,533	41,122

The Crown and the Commission are related parties. The Members (Commissioners) of the Commission are appointed by the Crown. The Commission has specific regulatory responsibilities in the dairy processing, electricity lines, gas pipelines, airports, and telecommunications industries which are ultimately funded by industry levies payable to the Crown.

The Commission's major source of revenue is Crown revenue. The Commission must repay any surplus revenue received for its levy-funded appropriations. We may retain any surplus generated in Vote Commerce – enforcement of general market regulation, and a small ring-fenced revenue amount which is part of Vote Commerce – litigation fund.

Amounts owed to and from the Crown for Crown revenue due or repayable at each balance date are recognised in the Statement of financial position as Crown revenue receivable or a Provision for repayment of surpluses to the Crown.

The Commission is also a party to transactions with other entities within the Crown as part of its day-to-day operations. For more details of the transactions which we must disclose, please see note 22 – Related party transactions.

4. Members and personnel

	2012/13 Actual \$000	2011/12 Actual \$000
Key management personnel remuneration and termination benefits	2,923	2,972
All other employees' remuneration	17,131	16,283
All other employees – redundancy and other cessation payments	32	61
Total short-term employee and termination benefits	20,086	19,316
Recruitment	330	258
Professional development	410	400
Other employment-related costs	1,463	1,172
TOTAL MEMBERS AND PERSONNEL EXPENDITURE	22,289	21,146

Our key management personnel are all Commissioners, the Chief Executive Officer, and the other three members of the senior leadership team. More detail on compensation of key management personnel is disclosed in note 22 – Related party transactions. More detail on compensation of Commissioners is disclosed in note 23 – Members' remuneration.

Personnel costs include specified employer contributions to defined contribution plans. At balance date defined contribution payments were contributions to KiwiSaver and the State Sector Retirement Savings Scheme. Up until 30 June 2012 the Commission could recover these costs in arrears from the State Services Commission, so in effect the cost recorded above was offset to \$Nil. From 1 July 2012 the Commission was required to fund these contributions itself due to a change in Government policy regarding the funding of KiwiSaver employer contributions, resulting in a \$249,000 increase in personnel payments.

The Commission had redundancy and other cessation expenditure of \$32,000 during the year in relation to one employee, who was not a member of our key management personnel (2011/12: \$61,000, two employees, neither part of our key management personnel).

Employee annual remuneration bands over \$100,000

	2012/13 Actual \$000	2011/12 Actual \$000
\$100,000 – \$110,000	10	8
\$110,001 – \$120,000	14	12
\$120,001 – \$130,000	8	10
\$130,001 – \$140,000	7	8
\$140,001 – \$150,000	9	7
\$150,001 – \$160,000	8	4
\$160,001 – \$170,000	1	1
\$170,001 – \$180,000	3	3
\$180,001 – \$190,000	1	1
\$190,001 – \$200,000	2	1
\$200,001 – \$210,000	1	1
\$210,001 – \$220,000	2	1
\$220,001 – \$230,000	0	1
\$230,001 – \$240,000	3	0
\$270,001 – \$280,000	0	1
\$320,001 – \$330,000	0	1
\$350,001 – \$360,000	1	0

5. Legal and other professional fees

	2012/13 Actual \$000	2011/12 Actual \$000
Cost awards	0	1,100
Legal consultants	5,113	6,246
Other consultants and experts	1,685	1,484
Specialist support services	632	504
Other expenses	35	20
TOTAL LEGAL AND OTHER PROFESSIONAL FEES	7,465	9,354

6. Occupancy

	2012/13 Actual \$000	2011/12 Actual \$000
Operating leases – rent	1,289	1,266
Other occupancy expenses	324	432
TOTAL OCCUPANCY	1,613	1,698

7. Other expenditure

	2012/13 Actual \$000	2011/12 Actual \$000
Telecommunications	320	389
Travel	546	646
Operating leases – photocopiers and printers	81	87
Postage, photocopying, and stationery	211	158
Publications and knowledge sharing	145	167
Loss on disposal of assets	10	27
Audit fees for financial statement audit	43	41
Other expenses	167	317
TOTAL OTHER EXPENDITURE	1,523	1,832

8. Provision to repay the Crown or comprehensive income to retain

	2012/13 Actual \$000	2011/12 Actual \$000
Provision to repay the Crown by appropriation includes:		
Vote Commerce – regulation of airport services	22	11
Vote Commerce – enforcement of dairy sector regulation and auditing of milk price setting	737	298
Vote Commerce – regulation of electricity lines businesses	453	1,105
Vote Commerce – regulation of gas pipeline businesses	44	889
Vote Commerce – input methodologies	0	135
Vote Communications – enforcement of telecommunications sector regulations	1,767	2,360
Total provision to repay the Crown	3,023	4,798
Comprehensive income to retain by appropriation includes:		
Vote Commerce – enforcement of general market regulation	2,621	3,361
Vote Commerce – litigation fund	500	(1,276)
Comprehensive income to be retained	3,121	2,085
TOTAL COMPREHENSIVE INCOME	6,144	6,883

9. Equity

The Commission's Total comprehensive income for the year of \$6.144 million (2011/12: \$6.883 million) is attributable to both our General funds and our Litigation costs reserve. The respective increase or decreases in both reserves equal the Commission's Total comprehensive income for the year.

General funds

	2012/13 Actual \$000	2011/12 Actual \$000
Balance at 1 July	13,225	10,540
Total comprehensive income attributable to General funds	5,644	7,483
Provision for repayment of surplus to the Crown	(3,023)	(4,798)
Return of reserves to the Crown	(3,500)	0
BALANCE AT 30 JUNE	12,346	13,225

The Commission's General funds are funds held in reserve as a result of past surpluses in certain appropriations, plus an initial capital contribution from the Crown. The Commission is allowed to retain surpluses from Vote Commerce – enforcement of general market regulation. The surpluses the Commission may not keep are recognised as a provision for repayment to the Crown, and are offset against items of Total comprehensive income attributable to General funds.

Litigation costs reserve

	2012/13 Actual \$000	2011/12 Actual \$000
Balance at 1 July	1,089	1,689
Total comprehensive income attributable to Litigation costs reserve	500	(600)
BALANCE AT 30 JUNE	1,589	1,089

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 2012/13 year the Commission did not have to pay any adverse cost awards (2011/12: the Commission offset adverse cost awards of \$1.100 million against the adverse cost award contingency funding), resulting in an increase in the Litigation costs reserve of \$0.500 million (2011/12: \$0.600 million decrease).

Litigation fund reserve

	2012/13 Actual \$000	2011/12 Actual \$000
BALANCE AT 1 JULY AND 30 JUNE	1,500	1,500

The Litigation fund reserve is an operating balance retained by the Commission on its Statement of financial position. The Litigation fund reserve balance allows for the Commission to cover in advance costs for litigation under Vote Commerce – litigation fund, which is drawn down tri-annually in arrears from the Crown. Under the Commission’s Output Agreement, we must maintain the balance of the Litigation fund reserve at \$1.5 million.

10. Cash and cash equivalents

	2012/13 Actual \$000	2011/12 Actual \$000
Cash on hand and at bank	5,113	11,509
Cash held in trust	3,197	14,420
Term deposits with maturities less than three months	2,000	5,000
TOTAL CASH AND CASH EQUIVALENTS	10,310	30,929

The carrying value of short-term deposits with maturity dates of three months or less approximates their fair value. Cash held in trust at 30 June 2012 includes a \$12 million penalty and \$1.5 million cost award held in trust pending the outcome of an appeal in the Telecom data tails case (see note 16), and paid in 2012/13.

11. Fees and recoveries receivable

	2012/13 Actual \$000	2011/12 Actual \$000
Current portion:		
Recoveries receivable	20	29
Cost awards receivable	759	0
Accrued interest	153	87
Other receivables	28	0
Total current portion	960	116
Non-current portion:		
Cost awards receivable	100	0
TOTAL FEES AND RECOVERIES RECEIVABLE	1,060	116

The carrying value of receivables approximates their fair value.

We assessed all overdue recoveries receivable at 30 June 2013 and 30 June 2012 for impairment and appropriate provisions, and did not apply any provisions. The ageing profile of recoveries receivable at year end is detailed below:

As at 30 June 2013:

	Gross \$000	Impairment \$000	Net \$000
Current (1-30 days)	20	0	20
Outstanding 31-60 days	0	0	0
Outstanding 61-90 days	0	0	0
Outstanding > 91 days	0	0	0
TOTAL AS AT 30 JUNE 2013	20	0	20

As at 30 June 2012:

	Gross \$000	Impairment \$000	Net \$000
Current (1-30 days)	29	0	29
Outstanding 31-60 days	0	0	0
Outstanding 61-90 days	0	0	0
Outstanding > 91 days	0	0	0
TOTAL AS AT 30 JUNE 2012	29	0	29

As at 30 June 2013 we expect to fully recover all debtors receivable (2012: all debtors receivable were fully recovered).

12. Crown revenue receivable

	2012/13 Actual \$000	2011/12 Actual \$000
Vote Commerce – litigation fund	653	1,938
TOTAL CROWN REVENUE RECEIVABLE	653	1,938

13. 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 2011	2,560	1,115	1,656	44	5,375
Additions	299	2	15	0	316
Disposals	(1,149)	(285)	(74)	0	(1,508)
BALANCE AT 30 JUNE 2012	1,710	832	1,597	44	4,183

	Computer and office equipment \$000	Furniture and fittings \$000	Leasehold improvements \$000	Motor vehicles \$000	Total \$000
Balance at 1 July 2012	1,710	832	1,597	44	4,183
Additions	129	10	69	0	208
Disposals	(117)	0	0	0	(117)
BALANCE AT 30 JUNE 2013	1,722	842	1,666	44	4,274

Property, plant and equipment not yet commissioned at 30 June 2013 totalled \$38,000 (30 June 2012: \$49,000).

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 2011	1,763	989	1,087	44	3,883
Depreciation expense	345	61	159	0	565
Eliminate on disposal	(1,142)	(277)	(61)	0	(1,480)
BALANCE AT 30 JUNE 2012	966	773	1,185	44	2,968

	Computer and office equipment \$000	Furniture and fittings \$000	Leasehold improvements \$000	Motor vehicles \$000	Total \$000
Balance at 1 July 2012	966	773	1,185	44	2,968
Depreciation expense	334	31	149	0	514
Elimination on disposal	(108)	0	0	0	(108)
BALANCE AT 30 JUNE 2013	1,192	804	1,334	44	3,374

Carrying amounts:

	Computer and office equipment \$000	Furniture and fittings \$000	Leasehold improvements \$000	Motor vehicles \$000	Total \$000
At 1 July 2011	797	126	569	0	1,492
At 30 June and 1 July 2012	744	59	412	0	1,215
AT 30 JUNE 2013	530	38	332	0	900

14. Intangibles (Computer Software)

Cost:

	Acquired software \$000	Total \$000
Balance at 1 July 2011	1,824	1,824
Additions	44	44
Disposals	(320)	(320)
BALANCE AT 30 JUNE 2012	1,548	1,548

	Acquired software \$000	Total \$000
Balance at 1 July 2012	1,548	1,548
Additions	271	271
Disposals	(10)	(10)
BALANCE AT 30 JUNE 2013	1,809	1,809

Intangible assets not yet commissioned at 30 June 2013 totalled \$172,000 (30 June 2012: \$9,000).

Accumulated amortisation and impairment losses:

	Acquired software \$000	Total \$000
Balance at 1 July 2011	1,487	1,487
Amortisation expense	166	166
Disposals	(320)	(320)
Impairment losses	0	0
BALANCE AT 30 JUNE 2012	1,333	1,333

	Acquired software \$000	Total \$000
Balance at 1 July 2012	1,333	1,333
Amortisation expense	149	149
Disposals	(8)	(8)
Impairment losses	0	0
BALANCE AT 30 JUNE 2013	1,474	1,474

Carrying amounts:

	Acquired software \$000	Total \$000
At 1 July 2011	337	337
At 30 June and 1 July 2012	215	215
AT 30 JUNE 2013	335	335

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.

15. Creditors and other payables

	2012/13 Actual \$000	2011/12 Actual \$000
Creditors	257	1,020
PAYE and other taxes withheld for payment to the Crown	229	196
Goods and services tax payable to the Crown	218	188
Other current liability	15	15
TOTAL CREDITORS AND OTHER PAYABLES	719	1,419

Creditors and other payables are non-interest bearing and are normally settled within 30 days. Therefore the carrying value of creditors and other payables approximates their fair value.

16. Penalties and cost awards held in trust

	2012/13 Actual \$000	2011/12 Actual \$000
Balance at the beginning of the year	14,420	13,573
Court cost awards compensation received (or recognised as receivable), and interest earned	3,632	2,221
Penalties received and paid to the Crown (net)	(12,000)	(1,100)
Court cost awards, compensation, and interest paid out	(2,811)	(274)
BALANCE AT THE END OF THE YEAR	3,241	14,420

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.

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:

	2012/13 Actual \$000	2011/12 Actual \$000
Telecom penalty held in trust	0	12,000
Telecom cost award held in trust	0	1,500
Interest on Telecom penalty and cost award held in trust	0	436
Provision for court cost awards due to the Commission or the Crown	458	484
Court cost awards and compensation due to Crown or other parties	2,783	0
COURT COST AWARDS AND COMPENSATION RECEIVED	3,241	14,420

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. The Commission received \$12 million in penalties from Telecom as a result of the data tails case, and a further \$1.5 million as settlement of costs. We held these funds while Telecom appealed the High Court judgment. After 30 June 2012 the parties settled all claims for costs and disbursements in the data tails proceeding. The trust funds were paid with interest to the Crown during the 2012/13 financial year.

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.

17. Provision for reinstatement of lease occupancy

	2012/13 Actual \$000	2011/12 Actual \$000
Balance at the beginning of the year	253	185
Reinstatement costs incurred during the year	0	(14)
Reinstatement provision released during the year	(17)	0
Charge for increased estimate to reinstate premises	0	82
BALANCE AT THE END OF THE YEAR	236	253

The Commission has entered into leases on its premises in Auckland, Wellington and Christchurch. As part of the lease agreements, the Commission is required to reinstate the premises to their original condition at the end of the leases.

In June 2013 the Commission decided to vacate its Christchurch office. We reached an agreement with the Christchurch office landlord that no reinstatement of our leased office space was required. As a result we have released the provision relating to the Christchurch office. The Commission moved to a new Christchurch office location at the beginning of the 2013/14 year, and will record a provision for reinstatement over the term of that lease.

During the 2011/12 year the Commission vacated one of its leased floors in Wellington, and incurred reinstatement costs under the lease provisions. We also commissioned an independent appraisal of the costs to reinstate our current leased premises to their original condition, and updated our estimate accordingly.

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

	2012/13 Actual \$000	2011/12 Actual \$000
Operating surplus for the year	6,144	6,883
Plus non-cash items:		
Depreciation and amortisation	663	731
Loss/(gain) on sale of property, plant and equipment	11	26
Other current and non-current liability	(15)	72
Change in estimate of reinstatement costs for premises	(17)	68
Employee entitlements	251	262
Total non-cash items	893	1,159
Plus change in working capital items:		
Fees and recoveries receivable	(944)	(27)
Crown revenue receivable	1,285	1,303
Prepayments	(172)	(51)
Creditors	(667)	(791)
Accrued expenses	(288)	(39)
Revenue received in advance	586	0
Penalties and cost awards held in trust	(11,179)	796
Total change in working capital items	(11,379)	1,191
NET CASH INFLOWS FROM OPERATING ACTIVITIES	(4,342)	9,233

19. Financial instruments

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

Monetary assets:

	2012/13 Actual \$000	2011/12 Actual \$000
Loans and receivables		
Cash and cash equivalents	10,310	30,929
Fees and recoveries receivable	1,060	116
Short-term investments	12,500	5,000
Crown revenue receivable	653	1,938
TOTAL MONETARY ASSETS	24,523	37,983

Monetary liabilities:

	2012/13 Actual \$000	2011/12 Actual \$000
Other liabilities		
Creditors	704	1,404
Penalties and cost awards held in trust	2,783	13,936
Crown revenue repayable	3,023	4,798
TOTAL MONETARY LIABILITIES	6,510	20,138

Net monetary assets:

	2012/13 Actual \$000	2011/12 Actual \$000
Total monetary assets	24,523	37,983
Less total monetary liabilities	6,510	20,138
NET MONETARY ASSETS	18,013	17,845

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 arising from unmatched cash outflows (ie, expenditure and other payments) and maturities of financial instruments (eg, bank accounts, term deposits) leading to difficulty in making debt payments on their due date. As Crown revenue for most appropriations is received quarterly in advance, the Commission does not have a material risk in meeting its day-to-day obligations as they fall due. The Commission's ratio of monetary assets to liabilities as at 30 June 2013 is 3.8:1 (2011/12: 1.9:1). Excluding the penalties held in trust at 30 June 2012, the Commission's ratio was 3.9:1.

The Commission is not permitted any form of debt borrowings and has an aggregate credit card limit of \$37,500 (2011/12: \$44,000).

The tables below break down the Commission's financial liabilities into relevant maturity groupings based on the remaining period at the Statement of financial position date to the contractual maturity date.

2012/13:

	Less than 6 months \$000	Between 6 months and 1 year \$000	Greater than 1 year \$000
Creditors	704	0	0
Penalties and cost awards held in trust	2,783	0	0
Crown revenue repayable	3,023	0	0
TOTAL FINANCIAL LIABILITIES	6,510	0	0

2011/12:

	Less than 6 months \$000	Between 6 months and 1 year \$000	Greater than 1 year \$000
Creditors	1,404	0	0
Penalties and cost awards held in trust	13,936	0	0
Crown revenue repayable	4,798	0	0
TOTAL FINANCIAL LIABILITIES	20,138	0	0

Credit risk

Credit losses result from a counterparty defaulting on its obligations owed to the Commission resulting in a financial loss to the Commission. 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 on 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 six months (short-term). There are no other market risks.

The financial instruments' carrying amount closely approximates their fair values as at 30 June 2013 and 30 June 2012. The average interest rate on interest-bearing deposits over the year was 4.23% (2011/12: 3.68%). A 1% change in interest rates, with all other factors unchanged, would change interest earnings by \$120,000 (2011/12: \$88,500).

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% change in exchange rates, with all other factors unchanged, would change expenditure by \$39,900 (2011/12: \$41,400).

20. Operating (non-cancellable) leases

Operating (non-cancellable) lease payments due:

	2012/13 Actual \$000	2011/12 Actual \$000
Within one year	1,370	1,307
Within one to two years	1,295	1,213
Within two to five years	2,044	3,026
After five years	0	0
TOTAL OPERATING (NON-CANCELLABLE) LEASES DUE	4,709	5,546

The future operating (non-cancellable) lease payments consist of the contractual amounts due for leased office equipment and premises. The Commission leases three offices, with the new Christchurch lease expiring 2015/16, Wellington finally expiring in 2016/17 and Auckland finally expiring in 2017/18. We have negotiated an early exit from our current (as at 30 June 2013) Christchurch lease due to the requirement for earthquake strengthening of the building.

Under each lease, there are rights of renewal of up to six years. The Commission is required to reinstate certain premises to their original condition at the end of the lease and maintains a provision for these costs, reviewed over the life of the leases (see note 17).

21. Capital expenditure commitments

The Commission had entered into capital expenditure contracts as at 30 June 2013 to the value of \$Nil (2011/12: \$28,000 for an upgrade of the Commission's website, of which approximately \$19,000 remained unbilled and uncompleted at year end).

22. 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 Communications and Information Technology.

Significant transactions with government-related entities

The Crown has provided the Commission with funding of \$37.533 million (2011/12: \$41.122 million) for specific purposes as set out in the relevant applicable legislation, the scope of the relevant government appropriations, and the output agreement between the Commission and the Crown.

Collectively, but not individually, significant transactions with government-related entities

In conducting its activities, the Commission is required to pay various taxes and levies (such as GST, PAYE, and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies, other than income tax, is based on the standard terms and conditions that apply to all tax and levy payers. The Commission is exempt from paying income tax under section CW 38 of the Income Tax Act 2007.

The Commission purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. Purchases from these government-related entities for the year ended 30 June 2013 totalled \$1.563 million (2011/12: \$1.686 million). These purchases included electricity from Genesis and Mighty River Power, air travel from Air New Zealand, legal services from Crown Law, and postal and courier services from New Zealand Post.

The following transactions were carried out with related parties other than those described above:

2012/13: There were no other related party transactions during the year.

2011/12: There were no other related party transactions during the year.

Key management personnel

Remuneration of key management personnel is disclosed below. No transactions other than those recorded below occurred with key management personnel or their close family members (2011/12: None). No transactions with the responsible Crown Ministers or their close family members occurred during the year (2011/12: None).

	2012/13 Actual \$000	2011/12 Actual \$000
Members' salary and other short-term employee benefits	1,817	1,945
Senior management salary and other short-term employee benefits	1,106	1,027
Total key management personnel short-term employee benefits	2,923	2,972
TOTAL KEY MANAGEMENT PERSONNEL REMUNERATION	2,923	2,972

Key management personnel comprise all members of the Board, the Chief Executive Officer, and the members of the senior leadership team.

23. Members' remuneration

	2012/13 Actual \$000	2011/12 Actual \$000
M Berry (Chairman)	518	468
S Begg (Deputy Chair)	349	337
D Curtin (Commissioner)	78	85
A Mazzoleni (Commissioner)	117	125
S Gale (Associate until 11 July 2012, Telecommunications Commissioner from 12 July 2012)	350	242
P Duignan (Commissioner)	204	219
E Welson (Associate from 20 September 2012)	189	0
G Pickering (Associate until 24 June 2012)	3	87
R Patterson (Telecommunications Commissioner until 11 July 2012)	9	382
TOTAL MEMBERS' REMUNERATION	1,817	1,945

The Chairman, Dr Mark Berry, and the Telecommunications Commissioner, Dr Stephen Gale, are in full-time positions. All other Commissioners are paid for service on a daily rate set by the Remuneration Authority as follows:

Members' daily rates:

	2012/13	2011/12
Deputy Chair	1,643	1,580
Commissioners and Associates	1,450	1,420
Cease and Desist Commissioners	1,470	1,440

Members' additional remuneration

Most Members are entitled to additional pay of up to 50% 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

There have been no payments made to committee members appointed by the Board who are not Board members during the year.

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 (2011/12: \$Nil).

24. Capital management

The Commission's capital is its equity, which is made up of general funds and other reserves as disclosed in note 9 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.

25. Significant events after balance date

On 21 August 2013 the High Court ordered Visy Board Pty Ltd (Visy) to pay a penalty of \$3.6 million, and its former senior executive John Carroll \$25,000, for breaching the Commerce Act by being involved in price fixing. The Commission transferred the penalty to the Crown during the 2013/14 financial year. In addition to the \$3.6 million penalty, Visy paid \$50,000 towards costs, the majority of which will be distributed to the Crown.

26. Explanation of significant variances against budget

Explanations for significant variations from the budgeted figures in the 2012-2015 Statement of Intent are:

Statement of comprehensive income

Crown revenue

Crown revenue was \$4.856 million less than budget. This is primarily due to significantly less Litigation Fund revenue received because of settlements in the Commission's cases, reducing litigation expenditure on external counsel and experts.

Other income

Other income was \$1.219 million greater than budgeted due to recognising the Commission's portion of various cost awards and settlements (mainly from the air cargo case), the receipt of our Christchurch earthquake insurance claim, customised price path revenue from Orion NZ Ltd and income from shared services agreements we entered into during the year.

Legal and other professional fees

Legal and other professional fees were \$7.422 million under budget primarily due to reduced expenditure on litigation related costs arising from settlements in several major litigation cases, and less expenditure than budgeted on external consultants within our other appropriations.

Total comprehensive income

Total comprehensive income was \$5.503 million greater than budget due to the additional income and lower legal and other professional fees expenditure noted above, as well as additional other revenue received and overall cost savings which were greater than budgeted.

Statement of financial position

Total equity

Total equity was \$1.251 million greater than budget due a greater than budgeted surplus (as discussed above) which meant we did not need to call upon reserves to fund the budgeted peak in litigation costs, offset by an unbudgeted \$3.5 million return of Commission reserves to the Crown.

Cash and cash equivalents

Cash and cash equivalents were \$5.449 million less than budgeted due to reduced payments to suppliers resulting in unexpected surpluses in various appropriations, allowing us to place funds on longer-term deposits.

Fees and recoveries receivable

Fees and recoveries receivable is \$1.025 million greater than budget primarily due to cost awards from litigation cases that are receivable from third parties as at 30 June 2013.

Crown revenue receivable

Crown revenue receivable was \$2.224 million less than budget. This relates to litigation fund expenditure, reclaimable from the Crown at year-end, which is difficult to estimate due to fundamental uncertainties of case load and timing of court hearings. A number of settlements of litigation cases during the year resulted in much lower expenditure on litigation, as discussed above.

Short-term investments

Short-term investments were \$12.5 million greater than budget due to changes in our current and expected expenditure allowing us to place funds into longer-term deposits for cash management purposes.

Creditors and other payables

Creditors and other payables are \$1.181 million less than budget due to less than budgeted expenditure during the financial year, particularly in the months of May and June.

Cost awards and compensation received

Cost awards and compensation received are \$3.241 million greater than budget due to receipts from a number of litigation cases, particularly air cargo, which we cannot budget for due to fundamental uncertainty of timing, amount, and likelihood of awards or settlements arising.

Provision for Crown funding to be repaid

The provision for Crown funding to be repaid was \$1.495 million greater than budgeted due to surpluses across all our levied appropriations which were greater than expected.

Statement of cash flows

Government funding received

Government funding received was \$3.837 million less than budgeted due to settlements in litigation cases avoiding expenditure from the Litigation Fund, as reflected in the Statement of comprehensive income.

Fees and recoveries received

Fees and recoveries received were \$1.48 million greater than budgeted due to unbudgeted receipts of revenue to fund Orion's application for a customised price-quality path, the unbudgeted receipt of our Christchurch earthquake insurance claim settlement, and the unbudgeted receipt of shared services arrangements negotiated and entered into during the year.

Supplier payments

Payments to suppliers were \$7.727 million less than budgeted, due to lower than budgeted expenditure as reflected in the Statement of comprehensive income.

Performance



Markets are
more competitive
 + Consumers are
better informed



Performance: Competition and Consumer

Measuring our results

General market output measures	2010/11 Actual	2011/12 Actual	2012/13 Actual	2012/13 SOI Target
Determinations				
Quantity				
Number of clearance applications processed	10	8	9	10-22
Number of authorisation applications processed	3	3	0	0-4
Quality and timeliness				
Percentage of successful defended determinations appeals over 5 years	100%	100%	100%	100%
Percentage of written reasons published for determinations	100%	100%	100%	100%
Average number of working days from date of registration to date of decision for merger clearance applications	32 days	63.70 days	66.75 days	40 days
Average number of working days from date of decision to date of publication of reasons for declined clearance applications	N/A No declines	N/A No declines	25.50 days	10 days

General market output measures	2010/11 Actual	2011/12 Actual	2012/13 Actual	2012/13 SOI Target
Enforcement cases				
Quantity				
Number of market structure cases	1	3	2	0-5
Number of coordinated behaviour cases	22	9	10	8-14
Number of unilateral conduct cases	11	2	1	5-10
Number of Fair Trading Act cases	372	462	412	260-400
Number of product safety and information standards cases	76	56	48	40-65
Number of CCCF Act cases	39	49	47	30-50
Quality and timeliness				
Percentage of investigations undecided for more than 18 months (at any point during the year)	2%	2%	3%	0%
Percentage of investigations decided within 12 months (Commerce Act, Fair Trading Act, Product and Safety, and CCCF Act)	Commerce Act: 70% Fair Trading Act, Product Safety and CCCF Act: 97%	Commerce Act: 92% Fair Trading Act, Product Safety and CCCF Act: 98%	95%	90%
Advocacy and development				
Quantity				
Number of Commission guidelines or fact sheets published	23	20	16	5-20
Number of contributions made to external publications, guidelines and codes of practice	Not measured	47	28	20-100
Number of substantial pieces of advice provided to inform policy design	49	20	11	5-30
Number of presentations delivered and stakeholder engagements held	84 Presentations only	134	154	50-150
Reports to the Minister				
Quantity				
Number of reports to the Minister on the control of certain goods and services in specified markets	0	0	0	0-1
Quality measure for all outputs				
Number of successful legal challenges of the Commission's processes	0	0	0	0

Average number of working days from date of registration to date of decision for merger clearance applications

We have seen a number of complex applications for clearance in the 2012/13 financial year, which resulted in an average of 66 days for a decision to be made. The complex applications received include: epay/ezi-pay, Vodafone/Telstra, Bligh Finance/Hire Equipment and Vector/Contact. In addition, we have assessed a number of applications concerning global acquisitions where we have had to delay our consideration until we could be clear about the impact on competition in other jurisdictions. These included Universal/EMI and Penguin/Random House. These factors have caused us to fall short of our target of 40 days.

Average number of working days from date of decision to date of publication of reasons for declined clearance applications

There were two declined clearance applications. These were epay/ezi-pay, which took 13 days, and Hamilton Radiology/medimaging, which took 38 days. It was the HRM application that caused us to fall short of the annual target. We worked hard with the parties to try and reach an acceptable proposal so that they could proceed. However, after 32 working days, the parties decided not to proceed.

The following table outlines the income and expenditure relating to the delivery of the general market outputs:

Vote Commerce – enforcement of general market regulation

	2012/13 Actual \$000	2012/13 Budget \$000
Income		
Crown revenue	16,435	16,435
Other income	2,061	634
Total income	18,496	17,069
Operating expenditure		
Determinations	2,539	3,363
Enforcement cases	7,652	7,964
Advocacy and development	2,197	2,105
Reports to ministers	0	0
Total general market expenditure	12,388	13,432
Internal major litigation expenditure		
Competitive markets	1,755	2,096
Fair Trading Act	766	987
CCCF Act	302	450
Telecommunications	23	54
Input methodologies	641	790
Total internal major litigation expenditure	3,487	4,377
Total expenditure	15,875	17,809
RESULT	2,621	(740)

The surplus for our general market appropriation was \$3.361 million greater than budgeted. The appropriation recorded \$1.427 million in additional revenue, mainly from unbudgeted cost award receipts and settlement of our Christchurch earthquake insurance claim.

Expenditure on determinations is market driven, and so fewer clearance applications received than anticipated along with no authorisation applications received resulted in a significant underspend against our budget for determinations.

The majority of underspending in internal major litigation results from settlements achieved in various cases, such as Air cargo, Credit SaLS, and Bluestone. We also benefited from less preparation work than expected for the Input methodologies merits appeals, as the court hearings occurred earlier in the year than we expected. The enforcement of general market regulation appropriation funds all our internal litigation cost.

Major litigation overview

We may undertake or be party to major litigation under the full range of legislation we administer. This litigation is unpredictable in both timing and scale. Such litigation may extend beyond the level of litigation activity the Commission is able to manage within its routine litigation functions and baseline resourcing. Therefore funding is set aside to directly meet this need, provided specific criteria are met for its use. All of our external litigation costs are funded from the one litigation fund appropriation.

The following table presents the major litigation income and expenditure for 2012/13:

Vote Commerce – litigation fund

	2012/13 Actual \$000	2012/13 Budget \$000
Income		
Crown revenue	5,536	10,790
Total income	5,536	10,790
Operating expenditure		
Competitive markets	2,063	5,405
Fair Trading Act	178	584
CCCF Act	783	869
Input methodologies	2,012	3,779
Electricity	0	250
Dairy	0	50
Total expenditure	5,036	10,937
SURPLUS/(DEFICIT)	500	(147)

During the 2012/13 year we successfully concluded a number of litigation cases through settlements, rather than continuing costly legal processes. These include the Air cargo and Credit SaLS cases.

The scheduling of hearings for the input methodologies merits appeals resulted in less cost than budgeted being incurred in the 2012/13 year. We were also able to use external counsel more efficiently than we initially forecast, which impacted positively on these results.

Regulation is better targeted and more effective



Performance: Regulation

Measuring our results

Output measures	2010/11 Actual	2011/12 Actual	2012/13 Actual	2012/13 SOI Target
Determinations				
Quantity				
Number of determinations (includes determinations, clarifications, reviews and amendments)	17	31	24	26-56
Quality and timeliness				
Percentage of Part 4 determinations completed by statutory deadlines	100%	100%	100%	100%
Average time to complete telecommunications determinations	4.8 months	5.35 months	7 months	10 months
Average time taken to complete dairy determinations	N/A – no determinations	N/A – no determinations	N/A – no determinations	120 working days
Percentage of stakeholders who find the Commission determinations and supporting reasons clear	Not measured	Not measured	74%	75%
Public reports and advice to officials				
Quantity				
Number of reports completed (monitoring reports, summary and analysis reports, information disclosure reports, ministerial reports)	9	10	9	12-21
Number of substantial pieces of advice provided to officials to inform policy design	9	14	6	10-33

Output measures	2010/11 Actual	2011/12 Actual	2012/13 Actual	2012/13 SOI Target
Public reports and advice to officials (continued)				
Quality and timeliness				
Percentage of stakeholders who rate our reports as good or above	Not measured	Not measured	42%	75%
Percentage of reports completed by the set date	Not measured	100%	100%	100%
Compliance and enforcement				
Quantity				
Number of compliance assessments completed	35	33	69	58-67
Number of enforcement cases taken	2	1	0	0-8
Quality and timeliness				
Percentage of compliance assessments completed by the set date	100%	60%	90%	100%
Quality measure for all outputs				
Number of successful legal challenges of the Commission's processes	0	2	0	0

Average time to complete telecommunications determinations

There is a negligible difference against last year. The average time taken to complete telecommunications determinations will vary each year, depending on factors such as the number received and complexity of the regulation, as well as factors external to the Commission.

Percentage of stakeholders who rate our reports as good or above

The SOI target of 75% was inadvertently set using the wrong rating scale and has since been reassessed independently. A new target will be set once this review has been considered.

Consolidated financial output table (all Regulation appropriations)

	2012/13 Actual \$000	2012/13 Budget \$000
Income		
Crown revenue	15,562	15,164
Other income	627	0
Total income	16,189	15,164
Operating expenditure		
Determinations	7,889	7,186
Compliance and enforcement	1,263	1,534
Public reports and advice to officials	4,014	4,916
Total expenditure	13,166	13,636
RESULT	3,023	1,528

Telecommunications



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

Vote Communications – enforcement of telecommunications sector regulations

	2012/13 Actual \$000	2012/13 Budget \$000
Income		
Crown revenue	6,000	6,000
Other income	103	0
Total income	6,103	6,000
Operating expenditure		
Determinations	2,303	1,886
Compliance and enforcement	208	426
Public reports and advice to officials	1,825	2,308
Total expenditure	4,336	4,620
RESULT	1,767	1,380

Overall we spent less than budgeted for the 2012/13 year. Determinations expenditure was greater than budget due to work on the UBA Initial Pricing Principle, and also a request for a Final Pricing Principle for UCLL. The additional costs arising from the request for a Final Pricing Principle were partially offset this year from the receipt of application fees for this additional work. Expenditure on compliance and enforcement was under budget due to receiving fewer complaints.

Electricity, gas and airports



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

Vote Commerce – regulation of electricity lines businesses

	2012/13 Actual \$000	2012/13 Budget \$000
Income		
Crown revenue	4,844	4,744
Other income	520	0
Total income	5,364	4,744
Operating expenditure		
Determinations	3,766	3,441
Compliance and enforcement	791	698
Public reports and advice to officials	354	537
Total expenditure	4,911	4,676
RESULT	453	68

Overall, our expenditure was higher than budget due to additional Crown revenue transferred from the previous year, and the receipt of a request for a customised price-quality path from Orion. This resulted in additional development costs, and costs from assessing the CPP application which were met by Orion. Compliance and enforcement revenue was greater than budget as we increased our focus on this area after setting our strategic approach to ensuring enforcement of the regulations we set.

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

Vote Commerce – regulation of natural gas services

	2012/13 Actual \$000	2012/13 Budget \$000
Income		
Crown revenue	2,156	2,156
Other income	2	0
Total income	2,158	2,156
Operating expenditure		
Determinations	1,788	1,507
Compliance and enforcement	178	297
Public reports and advice to officials	148	291
Total expenditure	2,114	2,099
RESULT	44	61

Gas expenditure ended the year slightly over budget, but within our funded levels. This reflects the additional effort placed into setting the first price-quality paths for gas distribution and gas transmission businesses. This was partially offset by the reduction in demand for public reports and advice to officials on gas regulation.

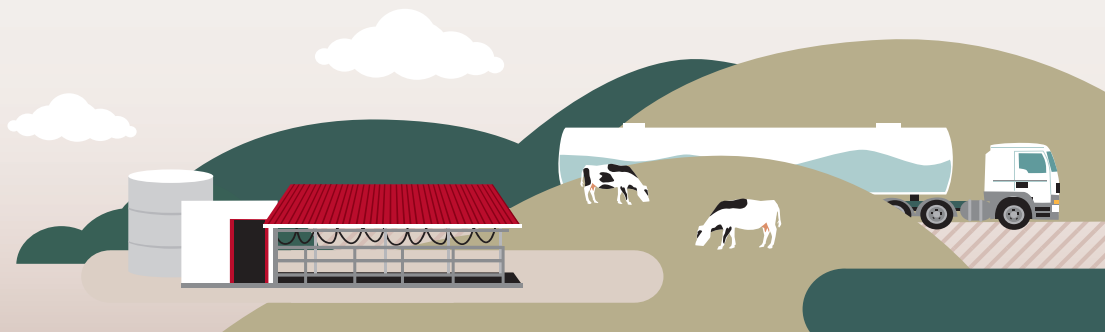
The following table outlines the income and expenditure relating to the delivery of the airports outputs:

Vote Commerce – regulation of airport services

	2012/13 Actual \$000	2012/13 Budget \$000
Income		
Crown revenue	1,019	1,019
Other income	1	0
Total income	1,020	1,019
Operating expenditure		
Determinations	32	69
Compliance and enforcement	86	92
Public reports and advice to officials	880	842
Total expenditure	998	1,003
RESULT	22	16

The airports appropriation finished the year within budget. We spent slightly more than expected on progressing our reports on the effectiveness of information disclosure regulation for Wellington, Auckland and Christchurch airports, offset by slightly less expenditure on determinations work.

Dairy



The following tables outline the income and expenditure relating to the delivery of the dairy outputs:

Vote Commerce – enforcement of dairy sector regulation and auditing of milk price setting

	2012/13 Actual \$000	2012/13 Budget \$000
Income		
Crown revenue	1,543	1,245
Other income	1	0
Total income	1,544	1,245
Operating expenditure		
Determinations	0	283
Compliance and enforcement	0	21
Public reports and advice to officials	807	938
Total expenditure	807	1,242
RESULT	737	3

The dairy result for the year was significantly greater than budgeted. Part of this was due to a transfer of funding from last year to this year to help manage the costs of our review of Fonterra's milk price manual. During the year there were no determinations requested and no investigations required. As a result our focus was solely on reporting on the Fonterra's milk pricing. Some of the costs of our current review will fall into next year, due to timing and progress of the current review.

Glossary

The following table provides definitions for some terms 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 we interpret and apply accounting standards.

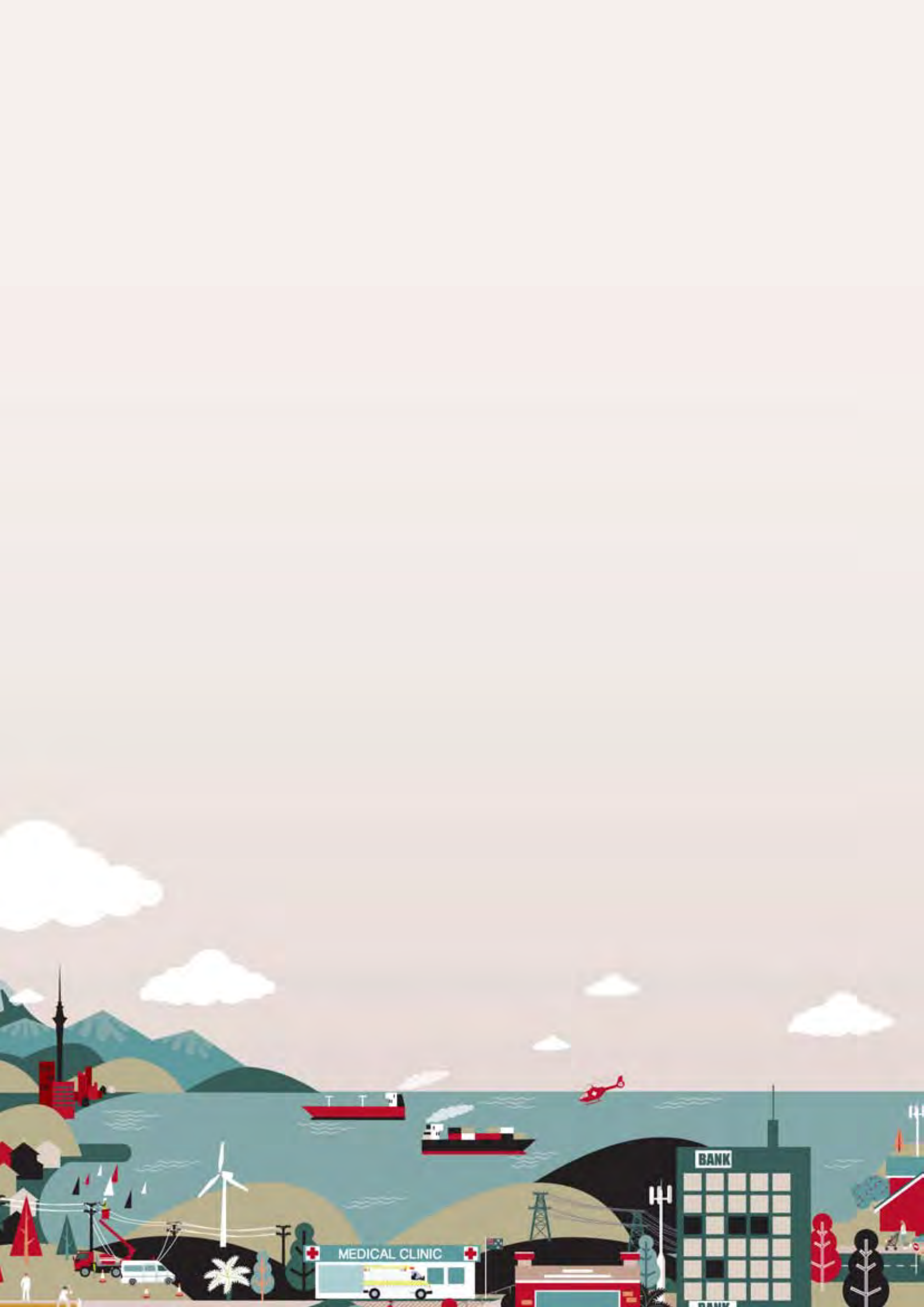
Accounts payable	Debts owed to somebody (eg, a company) for goods or services provided to us which we have not yet paid at balance date.
Accounts receivable	Debts owed to us by somebody (eg, a company) for a service we have provided, where we have not been paid at balance date.
Amortisation	Amortisation is basically the same as depreciation (see below), except that it is applied to intangible assets (eg, software).
Asset	An asset is something that we own, expect to receive in the future, or control.
Balance date	The date at which a set of accounts is prepared. For the Commission, that date is 30 June of each year.
Cash equivalents	Cash equivalents are assets like term deposits that 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 income	Comprehensive income is a broader concept of income that includes a surplus (or loss) from an entity's operations, and movements in parts of equity that are not 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 that can be converted into cash or used to pay a liability within 12 months. A current liability is a liability which we expect to repay within 12 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 12 months. A non-current liability is a liability which we would not ordinarily have to repay within 12 months.
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 income	A statement which shows our surplus or deficit from our operating activities, plus or less any movements in non-owner equity items (see comprehensive income 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

Akamai	Akamai measures broadband speed by measuring the time it takes to download various files from their servers. Akamai manages downloads on behalf of a number of companies, including updates for software from Apple and Microsoft as well as iTunes content.
Benchmarking Administrative and Support Services (BASS)	A Treasury run programme to measure, compare, and improve the cost and effectiveness of different administrative and support services (eg, Finance, Human Resources, Information Technology) in the Public Sector. Departments and agencies compile data against a series of metrics, and compare these against other similar sized entities.
Cartel	A cartel involves illegal 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.
CCCF Act cases	Investigations into possible breaches of the Credit Contracts and Consumer Finance Act by creditors. Potential breaches include a creditor failing to provide the debtor with adequate disclosure of the terms of the consumer credit contract, consumer lease or buy-back transaction; and a creditor charging consumer credit contract fees that may be unreasonable.
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.
Fair Trading Act cases	Investigations into possible breaches of the Fair Trading Act. Potential breaches include traders providing consumers with false, misleading or incomplete information about the supply of goods and services. Investigations under the Act may also involve employment advertising, pyramid selling, and the supply of products covered by Product Safety and Consumer Information Standards.
Herfindahl-Hirschman Index (HHI)	A commonly accepted measure of market concentration calculated by squaring the market share of each market participant that has a material number of subscribers and adding these together. The maximum possible score is 10,000 (ie, only one supplier in the market).
Information disclosure	Under Part 4 of the Commerce Act 1986 (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 definition	The process of identifying the relevant market for goods or services as well as other goods or services that, as a matter of fact and commercial common sense, is substitutable for them. The market so defined will be the area of close competition between firms.

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 which involve the acquisition of assets or shares of a business.
Mobile Termination Access Service (MTAS)	The hand-over of calls or text messages to a mobile service provider. For the purposes of the Commission's MTAS determination, MTAS included mobile-to-mobile termination, fixed-to-mobile termination and termination of SMS messages.
Price-quality path	Under Part 4 of the Commerce Act 1986 (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.
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.
Substantially lessening 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.
System Average Interruption Duration Index (SAIDI)	This is the average outage duration for each customer served, and is calculated as the sum of all customer duration interruptions divided by the total number of customers served.
System Average Interruption Frequency Index (SAIFI)	This is the average number of interruptions that a customer experiences and is calculated as the total number of customer interruptions divided by the total number of customers served.
Telecommunications Service Obligations (TSO)	This is an obligation to supply certain telecommunications services to groups of end-users who may not otherwise be supplied on a commercial basis or at a price that is considered to be affordable.
Ultra-Fast Broadband Initiative (UFB)	The Government has contracted with Chorus, WEL Networks, Northpower and Enable Networks to build and operate fibre-to-the-premises telecommunications networks in 75% of New Zealand.
Unbundled bitstream access (UBA)	This is a regulated service giving wholesale access to Telecom's DSL full speed broadband service. Commercial variants are also available.
Unbundled copper local loop (UCLL)	This is 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.





ISSN: 1179-4941

Phone: 0800 943 600

Write : Contact Centre, PO Box 2351, Wellington 6140

Email : contact@comcom.govt.nz

www.comcom.govt.nz

