



STATEMENT OF INTENT

OUR PLAN FOR 2014-2018



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Introduction





From the Chairman

Ultimately the Commission exists to ensure New Zealanders, and our country as a whole, experience the benefits of competition. Through our work we touch the lives of people each and every day. While much of our work is focused on education and compliance to ensure fair and competitive markets and prevent harm, we also operate at the other end of the spectrum, seeking compensation and redress for wrongdoing.

It is vital that we get out into communities around New Zealand to increase understanding of the law, encourage compliance and detect breaches. We are committed to engaging more with the community, in particular vulnerable consumers. We will continue to use a variety of methods to do this, including extensive interaction with other agencies such as Citizens Advice and budgeting services. An area of engagement focus for us over the medium term is consumer credit, where we will continue our programme of lower-tier lender visits and continue to look for innovative ways to stop harm to people in debt. With this in mind we have appointed a dedicated credit advocacy adviser who has extensive grass-roots community experience with budgeting and financial services.

We will continue to publicise our work to prevent further harm. Real-life examples such as the Love Springs case, where vulnerable consumers were being told tap water was poisonous and caused cancer in order to sell water filters, can send very powerful messages to both consumers and businesses. The Love Springs case sent a message to traders to think carefully about the claims they make as well as highlighting the issue of false claims for consumers. In the 2013/14 financial year the Commission obtained \$39 million in penalties and \$64 million in compensation for affected consumers. This is a significant result that sends very clear signals to those who choose not to comply with the law.

Law reform

The Consumer Law Reform Bill, which was passed in December 2013, represents the largest change to consumer law in more than 20 years. It makes several changes to empower consumers and support good business practices and is being implemented in stages. The Commission has a detailed communication campaign planned to ensure consumers are aware of the changes, as awareness is essential for consumers to get the greatest benefit from the changes.

We expect to see other changes to our legislative framework over the coming years including the possible criminalisation of cartels under the Commerce (Cartels and Other Matters) Amendment Bill and strengthening consumer protection in relation to credit contracts under the Credit Contracts and Financial Services Law Reform Bill. In the regulatory area, a review of telecommunications regulation will set the shape of future regulation in the sector and could have a significant impact on our work in the area. All these changes are aimed at greater protection for consumers and more competitive markets, which are outcomes the Commission fully supports.

Competition and consumer law

Cartel behaviour has a significant impact on New Zealand and New Zealanders. By reducing competitive pressures cartels can lead to higher prices, less choice, lower-quality products and lack of innovation by businesses. We are seeing more cartel behaviour coming to our attention – either through our cartel leniency programme or through our own detection. This is likely to be a result of several things including our efforts in educating about cartels, the publicity around a number of successful proceedings, and the likely criminalisation of cartel behaviour. In the last year we have received almost as many applications for leniency as we did in the previous three years combined. We are focused on continuing to detect cartel behaviour through our intelligence efforts, leniency programme and other investigations.

As a result of changes made under the Financial Markets Conduct Act 2013, cases relating to financial products and services in the future will be taken by the Financial Markets Authority (FMA). We have signed a memorandum of understanding with the FMA and will work with them to ensure a smooth transition and help provide them with a platform to ensure cases such as the Credit SaILS investment case continue to be identified and resolved. That case involved the Commission reaching a significant settlement with five companies over the failed Credit SaILS investment scheme. As part of the settlement, the companies agreed to create a \$60 million fund for investors who lost money in Credit SaILS.

The levels of awareness of competition and consumer law, as well as the levels of compliance, continue to increase. This is encouraging and indicates we are making solid progress towards our goals. However, while we are seeing a downward trend in the number of complaints we are receiving, it is critical that we continue to work with community groups and other agencies to ensure that we are aware of all of the issues and concerns in our jurisdiction that are brought to their attention. We are confident that working together with community groups and other agencies we will see trends in awareness and compliance continue.

Regulated industries

We now have greater regulatory certainty and a clear direction for input methodologies for the future as a result of the High Court's decision in December 2013. The High Court issued a decision on the merits appeals of a range of upfront regulatory rules, processes and requirements, called input methodologies. These cover matters such as the valuation of assets, the treatment of taxation, the allocation of costs, and the cost of capital and were set by the Commission under Part 4 of the Commerce Act. The decision came after three years of litigation. The Court ruled in favour of the Commission on all but two minor points out of at least 58 challenges.

This was a great outcome for the Commission and for consumers. The decision protects the interests of consumers because it effectively prevents the transfer of over \$2 billion from consumers to regulated businesses.

The input methodologies case highlights the importance of finding the right balance between investing sufficiently in regulation and providing suppliers with the opportunity to achieve normal returns. In attempting to get this balance right, it is important that we understand the needs of all parties and work closely with stakeholders to deliver the best overall outcome.

The Commission has now indicated that it will do further work on one of the issues raised by the Court – the determination of the weighted average cost of capital (WACC). A consultation process has begun in this area with the aim of completing the work prior to November 2014, when electricity lines prices will be set for the next five years.

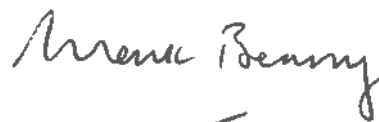
Telecommunications

Final pricing principles (FPPs) are being undertaken for copper services at Chorus' request. This cost-based price for copper services should ensure Chorus gets an appropriate return for the delivery of these services, and there are appropriate incentives to invest in new and innovative services. The result of this extensive work will be a strong methodological foundation that should help provide a level of pricing certainty the industry has sought. The outcome could have significant long-lasting impacts for both Chorus and the sector overall.

Rising to the challenge

Our focus is to use our resources wisely to achieve the greatest impact for consumers. We make choices using our enforcement guidelines to provide the principles for those decisions. I am proud of the achievements of the Commission over the last 12 months; we have taken on and won a significant number of cases, for the benefit of consumers. While we will never be able to prevent all harm to consumers, we have a dedicated team who do their best to prevent as much harm as possible and seek redress where it has already been done, each and every day. This provides a solid platform from which to pursue our goals over the next few years.

When people play by the rules, everyone wins. Having an environment where businesses compete fairly on their merits, regulation is effective and consumers are fully informed helps us all to thrive. We look forward to rising to all the challenges the Commission will face in the coming years and seeing New Zealand thrive.



Dr Mark Berry
Chairman

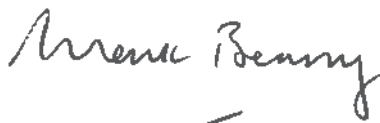


Purpose

Our statement of intent (SOI) is designed to provide insight into the overall direction of the Commission. It outlines our outcomes and impacts, and how we achieve them. It sets out our strategic intentions for the next four years and details how the Commission intends to achieve the best possible outcomes in competitive and regulated markets for the long-term benefit of New Zealanders.

The SOI is complemented by our statement of performance expectations (SPE), which focuses on the current year and sets out our annual performance measures and forecast financial statements. The SPE outlines in detail our planned performance and the targets we set.

This SOI has been prepared in accordance with section 139 of the Crown Entities Act 2004.



Dr Mark Berry
Chairman



Pat Duignan
Member



Operating context



The Commerce Commission

Who we are

The Commerce Commission is New Zealand's competition, consumer and regulatory agency.

As a competition authority we are responsible for enforcing laws relating to competition, fair trading, and consumer credit. As a regulatory agency we have responsibilities in the electricity lines, gas pipelines, telecommunications, dairy and international 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 1986. We are primarily accountable to the Minister of Commerce for our performance. In carrying out our enforcement and regulatory control activities, we are not subject to direction from the government. 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.

We report to interested ministers on our service performance through triannual reports. Our work is funded through the Vote Commerce and Vote Communications appropriations.

What we do

Competition and consumer

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

Commerce Act 1986 (Parts 2, 3 and 5)	Fair Trading Act 1986	Credit Contracts and Consumer Finance (CCCF) Act 2003
Prohibits anti-competitive behaviour and acquisitions that substantially lessen competition in markets.	Prohibits false and misleading behaviour by businesses. It also specifies when consumers must be given information about certain products and promotes product safety. The Act was amended in late 2013 to include new provisions such as substantiation and unfair contract terms.	Covers consumer lending, consumer leases and buy-back transactions. It requires lenders to disclose certain information to consumers when they enter into a credit contract and sets out rules about interest, payments and credit fees.

Consumer legislation is designed to help protect the interests of consumers and promote fair competition. Providing information and advice to businesses and consumers about these Acts and how they apply is an important part of our role. In addition to introducing new provisions to protect consumers, the Fair Trading Act amendments introduced in 2013 provide the Commission with new tools such as compulsory interview powers, product safety powers and management banning orders.

Under the Commerce Act, the Commission can approve a merger that does not substantially lessen competition (known as a clearance). We can also approve a merger or a restrictive trade practice that lessens competition but would ultimately benefit New Zealanders (known as an authorisation). Clearances and authorisations offer businesses protection from legal action under the Commerce Act.

Regulation

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

Commerce Act 1986 (Part 4)	Telecommunications Act 2001	Dairy Industry Restructuring Act 2001
Part 4 provides for the regulation of price and quality of goods and services in markets where there is little or no likelihood of a substantial increase in competition.	Regulates the supply of telecommunications services in New Zealand.	Promotes the efficient operation of dairy markets in New Zealand by regulating the activities of Fonterra to ensure New Zealand markets for dairy goods and services are contestable.

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

Under Part 4 of the Commerce Act, we have regulatory responsibility for suppliers of electricity lines and gas pipeline services (distribution and transmission) and specified airport services (at Auckland, Christchurch and Wellington International Airports). Our responsibilities for these regulated industries include:

- administering an information disclosure regime (for all services)
- setting and enforcing price-quality paths (which specify maximum revenue or maximum prices, and quality standards) for gas pipeline services, non-consumer-owned electricity distribution services and Transpower
- approving major capital investments in the national grid or the high-voltage electricity transmission network for Transpower
- setting and reviewing input methodologies (upfront regulatory rules and processes) for all regulated services
- conducting inquiries under the Commerce Act into whether particular goods or services should be regulated or controlled, and making recommendations to the Minister.

The Commission administers the Telecommunications Act. Under the Act, we make determinations on designated access and specified services as well as undertaking costing and monitoring activities.

Under the Dairy Industry Restructuring Act, we have both enforcement and adjudication roles in relation to Fonterra's obligations in certain domestic dairy markets. We also have responsibilities to oversee Fonterra's approach to setting the base milk price paid to its suppliers.

Our values

EXCELLENCE

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

INTEGRITY

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

ACCOUNTABILITY

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

RESPECT

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

GOOD JUDGEMENT

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

Operating environment

Our work is influenced by a wide range of external factors, including the state of the economy, policy developments and legislative changes, the litigation environment and our relationships with other agencies.

The economy and marketplace

The state of the New Zealand economy provides significant context to the work we do because of its impact on the way businesses operate and consumers behave.

The rebuild of Christchurch and significant population growth in Auckland have created hubs of economic activity and growth for the New Zealand economy. Overseas experience demonstrates that, post-disaster, there is considerable potential for collusion and misleading practices in the Christchurch reconstruction phase. In addition, the rapid growth of the construction sector, combined with its importance to the economy, makes it an area of focus for the Commission. With this in mind, we will continue our education and enforcement activity in the wider construction industry to improve understanding about the benefits of competition and consumer laws, and compliance with them.

Our work is influenced by external market forces as much as it is driven by our assessment of the best areas to focus our attention. For example, while we have discretion about which issues we target, we must handle all mergers and authorisations that come in from the market.

Markets in New Zealand are often concentrated as a result of our geographic isolation and small population. This increases the possibility of higher prices and lower-quality goods and services for consumers. In a concentrated market, the role of competition law and the enforcement agency is vital. Applying the law correctly helps to ensure markets do not become less competitive as a result of anti-competitive conduct.

We are committed to supporting the Government's priority to deliver better public services. We work as efficiently as possible and ensure our resources are moved to priority areas in response to demand. We remain focused on improving the efficiency and effectiveness of our work and being financially sustainable in line with the Government's drive for effective fiscal management.

Policy and legislative change

Currently significant changes are being made to the legislative frameworks that we operate within.

The Consumer Law Reform Bill was passed in December 2013 and most of the provisions come into force in June 2014. The new provisions aim to modernise consumer law and improve alignment with Australia. This has given us new powers that allow our interventions to be more effective and timely. Some of the new powers, such as compulsory interviews, came into effect in December 2013 and are already being used by the Commission.

Changes to the Credit Contracts and Consumer Finance Act are also likely to be progressed in the next year. These include new responsible lending provisions and other amendments to improve the protections for borrowers.

The Commerce (Cartels and Other Matters) Amendment Bill currently before Parliament:

- clarifies the civil price-fixing prohibition
- introduces criminal sanctions for cartel conduct
- removes the exemption for international shipping
- proposes a clearance regime for collaborative activities that do not substantially lessen competition.

We are working to provide guidance to business, promote awareness of the law changes and develop the necessary systems, processes and policies to implement the updated legislation effectively.

In the regulatory area, the Government has begun a review of telecommunications regulation. This review will set the shape of future regulation in the telecommunications sector. A critical component of the review will be considering the nature and extent of future regulation of the fibre network after 2020. It may therefore have a significant impact on our work in economic regulation. We anticipate that our market monitoring activities will also assist this review by providing information about how competition in the sector is evolving.

As a result of legislative requirements, there will be a review of the state of competition in the New Zealand dairy industry; this will take place as soon as practicable after 1 June 2015.

We will continue to work constructively with officials on the implications of any legislative reform.

Examination of our decisions

Over the last 12 months several of the Commission's decisions have been subjected to increased public scrutiny. Our final decision on the additional costs of Chorus' unbundled bitstream access (UBA) service was the subject of significant public debate, as well as litigation that was resolved in favour of the Commission. We aim to be as transparent as possible and to engage with stakeholders on these issues in a proactive and constructive way. It is understandable that any decision that has a significant impact both on business and consumers receives a great deal of attention from various view points.

We expect the level of public scrutiny to remain high in the future with outcomes on high profile investigations and determinations due over the next 12 months. We will engage effectively with stakeholders on all of these matters and are committed to being as transparent as we can without compromising privacy, fairness or due process.

Engagement

Engagement with businesses, consumers and other stakeholders is an essential part of our work. It is vital that we understand the needs and concerns of all of our stakeholder groups and put in place ways to address them. This engagement helps to shape the Commission's strategic direction by identifying areas where there are issues and a need for greater focus.

We will increase our level of engagement with market analysts where appropriate to make sure they understand the regulatory frameworks that we operate within and reduce the potential for regulatory determinations to create surprises for markets.

Litigation

Our litigation workload varies considerably each year based on:

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

Court judgments can also impact on our workload and the approach we take to our work.

In December 2013 the High Court delivered its judgment on the merits reviews of input methodologies set by the Commission in 2010, under Part 4 of the Commerce Act. The Court ruled in favour of our decisions on all but two relatively minor points out of at least 58 challenges. This was a long process, but an extremely important one as it signals a significant step forward in the maturity of New Zealand's regulatory regime. The decision provides greater regulatory certainty for all parties concerned and a clear direction for input methodologies.

There is still uncertainty about the application of section 36 of the Commerce Act, which deals with monopolistic conduct. The way New Zealand's courts have interpreted section 36 has created difficulties in applying the law. Given the complexity and cost of these types of cases, we choose very carefully which potential monopolisation cases to investigate. We would like to see a review undertaken of section 36 and will contribute to any potential reform in this important area.

Working with other agencies

We work cooperatively with relevant government agencies to achieve our goals without duplication or conflict, and to share information and expertise where required. We work closely with other regulators, particularly the Electricity Authority and the FMA, to ensure that collectively we deliver better outcomes for consumers without duplication of effort in markets where we are both active.

A specific example of interagency cooperation is the signing of a memorandum of understanding (MOU) with the FMA. As of 1 April 2014 the FMA became the primary regulator of misleading and deceptive conduct in relation to financial products and services under the Financial Markets Conduct Act 2013. This is a role the Commission previously had under the Fair Trading Act. While the Commission and the FMA already have an excellent working relationship, the MOU formalises that relationship and clarifies our roles and responsibilities in light of the change. We are working closely with the FMA to ensure a smooth transition of responsibility and an effective complaints process for consumers.

We are an active participant in all-of-government initiatives where appropriate. We seek to foster cross-government links where we can and to understand the roles of different government agencies as we work collectively to achieve common goals for all New Zealanders.

Internationally, we are actively involved with our counterpart agencies through forums such as the Organisation for Economic Co-operation and Development (OECD), the International Competition Network, the International Consumer Protection Network and the Utility Regulators Forum.

We continue to have a close and productive working relationship with the Australian Competition and Consumer Commission (ACCC). Where appropriate, we discuss investigations and work together to ensure good investigation outcomes.

What we seek to achieve for New Zealanders

New Zealanders benefit when markets work well

We seek to achieve the following for New Zealanders.

- Markets are more competitive and consumers' interests are protected.
- The performance of regulated suppliers and markets provides long-term benefits for consumers.

These contribute to the Government's broader priorities such as building a more competitive and productive economy.

Everything we do as an organisation contributes to achieving these goals. By fostering competition, or putting in place well-targeted regulation where competition is not possible or practical, we encourage businesses to be efficient and innovative, and to meet consumer demands. When businesses operate outside the law and harm consumers, we take action aimed at stopping the behaviour, deterring future breaches and remedying the harm.

Businesses benefit from a competitive environment that encourages innovation and investment or in which there is effective regulation. Consumers benefit from optimal prices, quality and choice.

In this part of our statement of intent we set out the measures we intend to use to track our progress against these goals. The measures reflect our commitment to comply with reporting requirements in the Crown Entities Act 2004 and present our strategic intentions in terms of our competition and regulation work. The measures and surrounding context also give us an opportunity to make our day-to-day operations transparent and be held accountable for our performance.

The impact measures on the following pages show how we intend to assess our progress over the medium to long term.

The focus on the medium to long term is deliberate. This time period recognises that outcome and impact measurement can be a complex task, and that the results can be influenced by internal and external factors.

Establishing a direct cause and effect relationship between the work we do and changes in market and consumer behaviour is not straightforward. It may take several years before change is apparent. From year to year there may be significant variation in the factors that underpin market and consumer behaviour. This variability means that only analysis over the medium to long term allows us to adjust our operational settings or address undesirable outcomes.

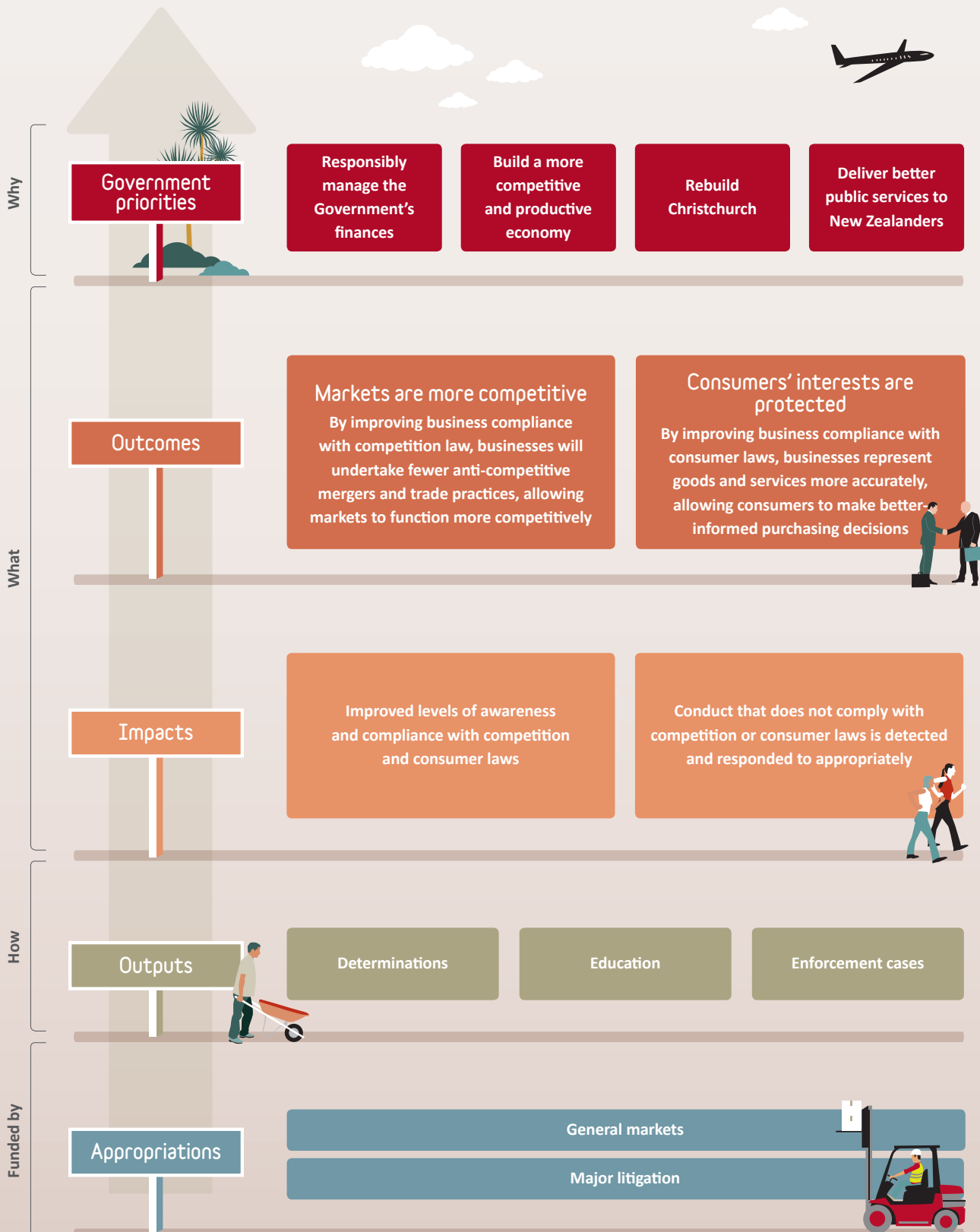
Our accountability frameworks (pages 20 and 32) show the links between our impacts and outcomes (what we seek to achieve) and outputs (how we do it), and how we contribute to the Government's priorities.



Competition and consumer



Competition and consumer Accountability framework



Competition and consumer Outlook

Minimising harm and maximising benefit

Because we have limited resources, we focus our efforts where we can have maximum impact. We will select investigations and areas of advocacy that target harm we have identified as an important part of using our resources well.

We will continue to work proactively to resolve problems before they become established. In some cases it might mean enlisting the support of other agencies, consumer groups, or industry bodies who can help us identify and resolve risks. For example, we use complaints data from other agencies to inform our knowledge of where to focus our resources.¹

EXAMPLES



Daily deal websites

Daily deal websites were causing considerable consumer harm overseas, resulting in many complaints to consumer protection agencies. When the sites started up in New Zealand, the Commission made it a high priority to respond to every complaint received. We worked with the traders who operated these sites to explain how they could improve their levels of compliance and reduce harm to their customers. The result has been a low number of complaints and a high level of ongoing compliance by the traders.

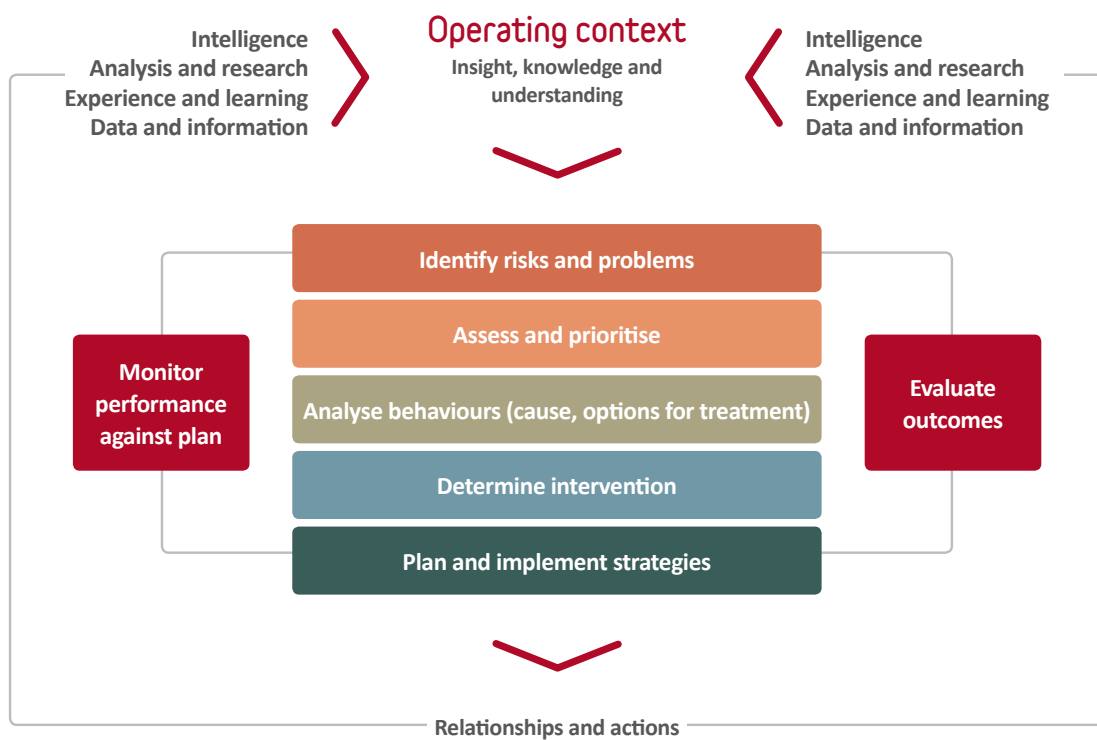
Penny auction websites

Many New Zealand consumers have been misled by penny auction websites that appear to be New Zealand based, but are in fact operated from overseas. Although the Commission's ability to take action against overseas websites is constrained, we still need to protect the interests of New Zealand consumers. The Commission issued a media release warning consumers to be aware, and naming the site that we had received the most complaints about. The release was immediately taken up by media outlets, including radio stations and news sites informing a great number of people. There have been no complaints received since.

1. In 2014 we used data from Ministry of Business, Innovation and Employment (MBIE), FMA, Insurance & Savings Ombudsman, Banking Ombudsman, Financial Dispute Resolution Services, Financial Services Complaints Ltd, the NZ Federation of Family Budgeting Services and Consumer New Zealand. We also received information for our risk assessment from ACCC.

We have established a new screening and enquiry unit, and developed new systems and processes for this. We will continue to refine the way we screen and prioritise investigations so we select cases that are likely to have the greatest impact. We also take cases that allow us to work alongside traders and bring about rapid compliance through advice and education. Using complaint data and other intelligence helps us understand the areas of greatest risk to consumers. We are also undertaking proactive projects to address those risks, protect consumers, and minimise the number of complaints we receive. This is about working smarter and more creatively to address the underlying problems that cause harm to consumers. As a result of these changes we may see a reduction in the number of investigations we undertake, but an increase in our overall effectiveness.

Our compliance risk framework



Law reform

Ensuring we use the tools we have as effectively as possible is critical to our success. The Fair Trading Amendment Act 2013 was passed into law in December 2013 and provides us with some new tools:

- compulsory interview powers
- enforcement undertakings (a form of out-of-court negotiated settlement)
- substantiation powers (requiring traders to substantiate claims about products or services)
- the ability to seek management banning orders through the Court
- product safety monitoring and enforcement powers (the ability to issue infringement notices)
- increased fines, including banning orders (some penalties have more than tripled).

We have an internal training programme underway to equip our team to use these tools effectively.

We will continue to prepare for the introduction of the amendments to the Commerce Act.

The amendments are expected to criminalise cartels, introduce a clearance regime for collaborative activities and remove the exemption for international shipping. We have released draft Competitor Collaboration Guidelines, which outline our approach to assessing collaborations between competitors and are designed to help the business community prepare for the amendments.

We are also liaising with stakeholders in the shipping sector to discuss the implications of the changes and our collaboration guidelines.

A key focus will be making sure businesses and consumers are aware of legislative changes to the Fair Trading Act, the CCCF Act and the Commerce Act. We have an extensive advocacy and communications campaign underway to ensure all our materials are updated and as many businesses and consumers as possible are aware of changes.

Education

In order to make markets more competitive and protect consumers' interests, we will continue to:

- make determinations (clearances and authorisations)
- undertake enforcement cases
- educate New Zealanders about the laws we enforce.

Determinations are largely demand driven, which makes it difficult to anticipate how many we may see in the future. Our current view is that we can expect to see a steady level of activity in this area in the next few years. When the collaborative activity clearance regime is introduced as part of the amendments to the Commerce Act, overall determinations activity is likely to increase.

The complexity of competition issues raised in clearance and authorisation applications has increased in recent times, with many more involving global markets. This has made it more challenging to issue a determination within the statutory timeframe, so we will need to consider some of our performance measures in light of this trend.

We are committed to working with MBIE to improve timeliness measures for merger clearance and authorisation applications during 2014/15. In particular, we will consider implementing a two-part performance measure that provides appropriate targets for standard and complex applications.

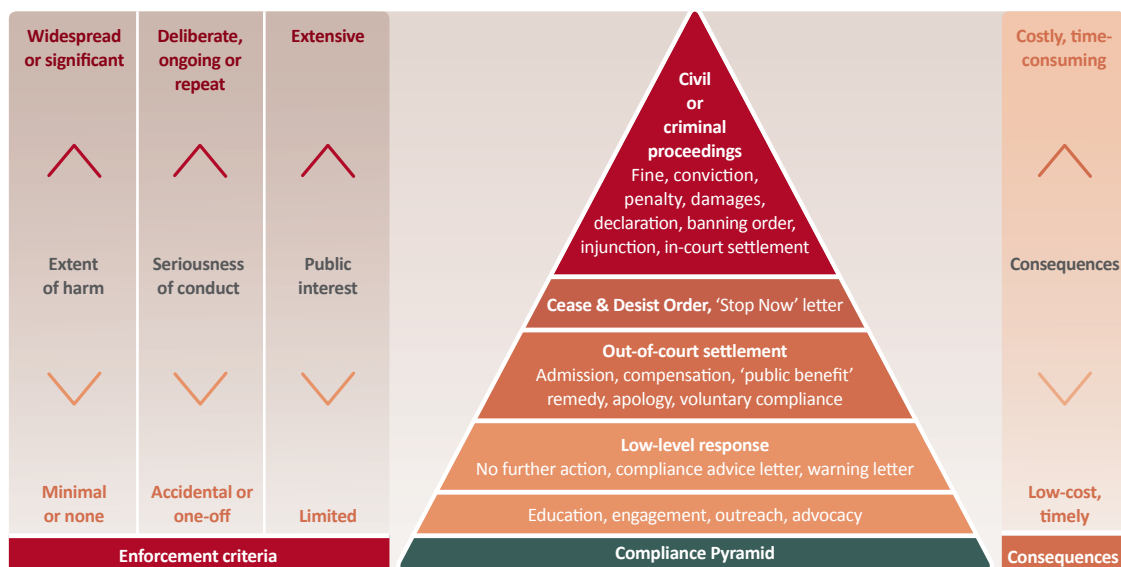
We understand the impact of our decisions on businesses and consumers and the importance of timeliness in making these decisions.

Our aim remains to complete current and future investigations and enforcement cases promptly and efficiently. We are committed to undertaking regular reviews and ensuring our priorities are right during the lifetime of a case. We will continue to take cases to court where we believe this is likely to achieve the most effective outcome. Litigation will also be a course of action where we seek to establish or develop precedent, particularly under the CCCF Act or in relation to recent legislative changes.

Our targeted compliance work in the Telecommunication sector will continue, including regularly visiting traders, sharing complaints with traders to get their response, and conducting ongoing surveys on compliance in the sector.

In the area of consumer credit we will continue our programme of lower-tier lender visits and look for innovative ways to stop harm to people in debt. We have appointed a dedicated credit advocacy adviser who has extensive grass-roots community experience with budgeting and financial services. We will also be translating our 'Know Your Rights' publications into other languages such as Samoan and Tongan in an effort to extend our reach within vulnerable consumer groups.

Enforcement Response Model



By using education to raise awareness of the benefits of competition, we can increase levels of compliance with competition and consumer laws. We plan on continuing our work to provide advice, education and support to businesses and consumers throughout New Zealand. The construction sector will still be a particular focus area.

We will use media of all forms to let New Zealanders know about businesses and business practices that are dishonest or pose a risk to consumers. By doing this we not only prevent harm through warning consumers, but we also disrupt the practices of those who are trying to take advantage of consumers.

Businesses that have models that harm vulnerable consumers will be a focus of our investigative efforts. We will also provide educational material to groups targeted by these traders to increase their awareness.

Another focus will be increasing our work promoting product safety under the Fair Trading Act, taking enforcement action where necessary. We prioritise every product safety complaint we receive, and will continue to do so. As well as considering complaints, in 2013/14 we conducted more than 50 inspection visits to better understand where the greatest risk of harm is, and where we should focus our efforts.

We look forward to building closer and more effective relationships with agencies that work with people in debt, particularly vulnerable consumers. Our newly appointed consumer credit advocate will help us to be better connected with vulnerable communities, and better informed about lending practices and issues arising for consumers.

Over the last couple of years, the proportion of domestic cartel investigations has increased in comparison with international investigations. We expect this trend to continue, and it may increase with continued education in this area, as well as public announcements of high-profile cases as they are concluded.

The major trader programme provides the opportunity to improve trader compliance through a cooperative approach with the Commission. Using our new risk-based approach, we will identify major traders to focus on, and provide them with information and tools to help raise levels of compliance.



Competition and consumer Performance

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

The Commission plays a crucial role in promoting competition and ensuring consumers are well informed and protected. We are responsible for administering and enforcing the Commerce Act, the Fair Trading Act and the 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.

What do we seek to achieve?

We have two intended outcomes: Markets are more competitive and consumers' interests are protected.

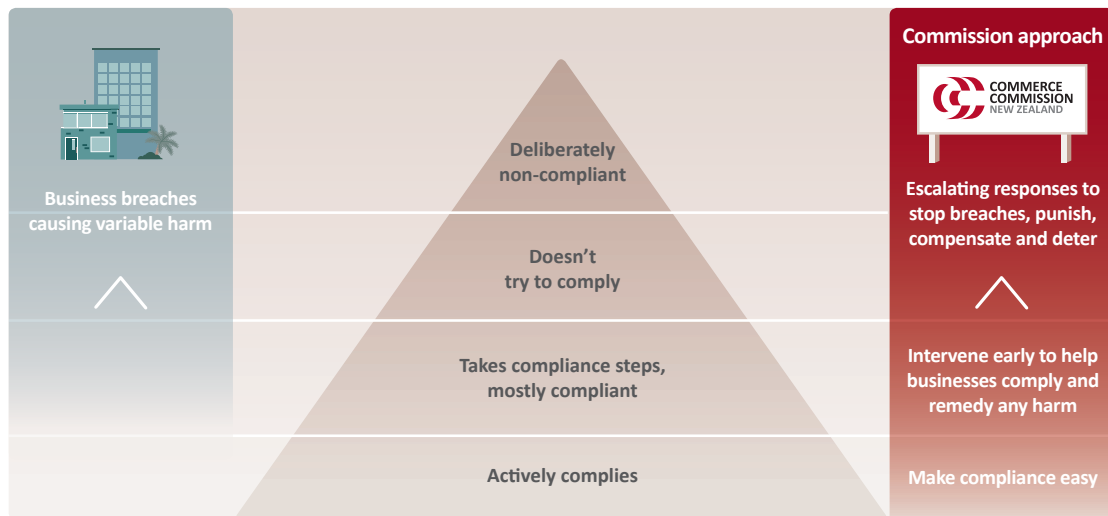
The impacts we seek to have over time are:

- improved levels of awareness and compliance with competition and consumer laws
- conduct that does not comply with competition or consumer laws is detected and responded to appropriately.

How do we achieve it?

Businesses need to know how to comply with the law and we need to make compliance easy. An important aspect of our work is therefore to help businesses understand their competition and consumer obligations, and to create incentives to encourage compliance.

Business approach to compliance



Part of our education and advocacy programme is providing accurate, timely and understandable information and guidance to businesses. Among other things, we produce fact sheets and guidelines, meet with and present to industry groups, and contribute to industry publications. Where we see emerging issues or identify areas of concern, we target our efforts in these sectors. This allows us to focus our efforts cost-effectively where there is the most opportunity to improve compliance and protect consumers' interests.

Promoting a wider awareness and understanding of the laws we enforce (and any changes to those laws) is an important element of achieving our goals. Businesses must know their obligations and consumers need to understand their rights. We continue to improve our communications by writing in plain English and listening to feedback from stakeholders.

Publicising and explaining our enforcement decisions and determinations is another way we try to improve understanding of the law and how the Commission works. We provide guidance about our approach and make every effort to provide timely decisions to businesses seeking clearance or authorisation.

To help us understand how markets have evolved following a merger determination, we analyse and evaluate previous decisions to inform future investigations, analysis and decision making.

While we operate under the premise that most businesses want to comply with the law, unfortunately there will always be businesses that deliberately operate outside the law. To ensure we identify intentional and unintentional breaches of the law, we put a lot of effort into detecting issues proactively as well as assessing complaints effectively.

Each year we receive thousands of complaints from businesses and consumers. We aim to assess all complaints promptly against our published enforcement criteria. Our criteria consider the extent of the harm, the seriousness of the conduct, and the public interest.

Our screening and intelligence unit routinely monitors and assesses specific market sectors, analysing areas where we are seeing high or increasing levels of complaints, and sources information from local and overseas agencies. Through our leniency and cooperation policies, we offer incentives for businesses and individuals to share information about potential breaches of the laws we enforce.

Where an issue is identified, we follow robust investigative and litigation practices. This includes working with other enforcement agencies where it is appropriate to do so. Our enforcement response guidelines help determine what action to take to stop the behaviour, deter future breaches and remedy the harm.

We seek to achieve appropriate penalties that serve as a deterrent, refunds and/or compensation for consumers and an overall improvement in businesses' compliance with competition and consumer laws. We take a course of action that resolves the issue promptly and cost-effectively, with the most appropriate redress. For the majority of cases this will be achieved without litigation. However, sometimes the most appropriate course of action is to take the case to court.

Outcomes: Markets are more competitive and consumers' interests are protected

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

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

Impacts

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

How do we assess our performance?

The measures we have chosen are intended to help us understand whether our work increases businesses' awareness and understanding of the Acts we enforce. When businesses develop compliance programmes and use them to educate their employees, the result is greater knowledge about how to comply and in turn higher levels of compliance. By targeting our advocacy at a particular sector, the businesses in this sector should increase their awareness and understanding of competition and consumer laws. These measures will in turn lead to markets being more competitive and the interests of consumers being protected.

The final measure we have chosen is intended to help us understand whether the information we provide through compliance advice, warnings, settlements or prosecutions helps businesses understand the law and comply with it. We seek to decrease the level of repeat offending over time by using the appropriate intervention, and providing the right information to those involved. This will lead to businesses representing goods and services more accurately, allowing consumers to make better-informed purchasing decisions.

Measures	Actual 2010/11	Actual 2011/12	Actual 2012/13	Estimated actual 2013/14	Target 2014/15 – 2017/18
The percentage of businesses that have an active compliance programme under the Commerce Act, Fair Trading Act and Credit Contracts and Consumer Finance Act increases over time	Not measured	Commerce Act: 38% Fair Trading Act: 41% Credit Contracts and Consumer Finance Act: 22%	Commerce Act: 44% Fair Trading Act: 56% Credit Contracts and Consumer Finance Act: 21%	Survey to be completed in June 2014	Year-on-year increase
Targeted sector surveys indicate that a higher proportion of businesses are aware of and understand competition and consumer law than before the intervention	Competition law (non-residential construction sector): 30% Consumer law: Not measured	Competition law (non-residential construction sector): 47% Consumer law: Not measured	Competition law (health sector): 54% Consumer law (non-bank lenders sector): 63%	Competition law (health sector): Survey to be completed in June 2014 Consumer law (non-bank lenders sector): Survey to be completed in May 2014	Year-on-year increase in targeted sector
Targeted surveys indicate that a higher proportion of consumer stakeholder groups are aware of and understand consumer and credit law than before the intervention	Not measured	Not measured	Not measured	Not measured	Baseline to be set
As a result of our interventions, the percentage of businesses who receive more than one enforcement response over 3 years decreases ²	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%	Fair Trading Act: 18% Credit Contracts and Consumer Finance Act: 8% Commerce Act: 0%	Year-on-year decrease

2. This measure looks at enforcement responses in the preceding three years. An enforcement response can include compliance advice, warning, settlement or prosecution.

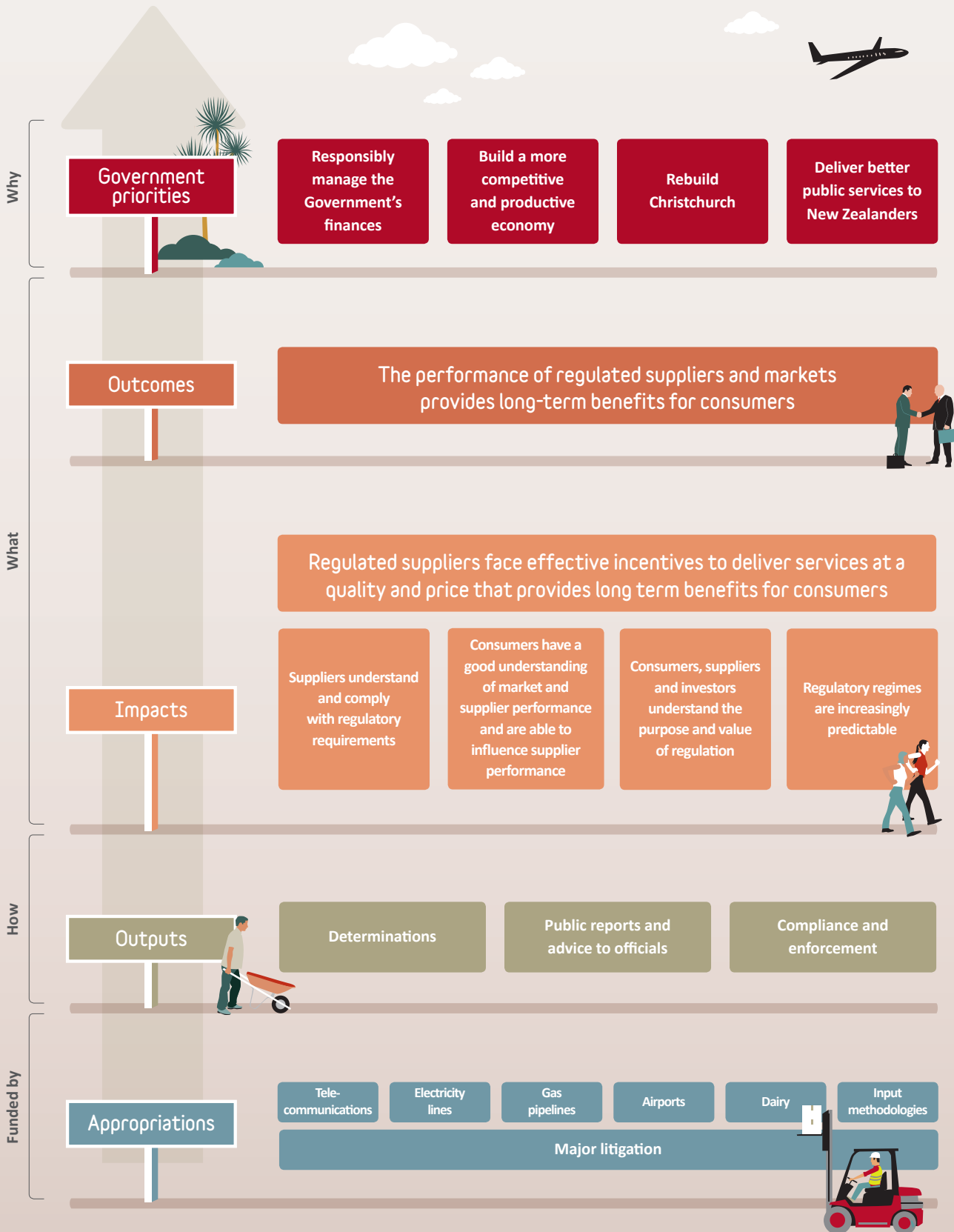


Regulation



Regulation

Accountability framework



Regulation Outlook

Our desired outcome is that the performance of regulated suppliers and markets provides long-term benefits for consumers. We will continue to use the tools we have – determinations, public reports and advice to officials, and compliance and enforcement – to work towards this.

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

Information about the performance of regulated suppliers can be difficult for the public to understand. Providing understandable information is an important part of our role, as we can create incentives for suppliers by providing analysis and commentary on supplier and market performance. The information allows public recognition of good performance as well as the exposure of poor performance, which in turn can create incentives for suppliers. We are committed to communicating this information in plain English and as effectively as possible. If we improve consumers' understanding of supplier and market performance, they can put pressure on suppliers to focus on the long-term benefit of consumers in their planning and performance (if this is not already occurring).

Regulatory predictability is a core feature of effective regulation as it promotes incentives to invest. Suppliers and consumers need to understand the likely impact of our regulatory decisions so they can make appropriate investment decisions. We continue to do what we can to enhance predictability through transparent and timely processes, and clarity about the criteria for our decision making.

Part 4 (electricity lines, gas pipelines and major international airports)

The regulatory instruments created under Part 4 of the Commerce Act are now fully in place. This includes the establishment of input methodologies, price-quality paths, and information disclosure requirements.

This development has provided increased predictability for suppliers and consumers. Input methodologies, which provide the methodologies, rules and processes for the regime, have been put in place, have gone through a substantial merits appeals process, and have been largely confirmed by the High Court.

Future work on Part 4 will focus on incremental improvements to the regime, with a specific focus on:

- promoting improved regulatory predictability
- improving the incentive regimes for the default price-quality paths and for Transpower's individual price-quality path
- promoting a better understanding of supplier performance over time, as trends in performance emerge
- promoting ongoing improvements in levels of compliance with the new regulatory instruments that have been established.

The Government has confirmed our funding levels for the Part 4 regime for the 2014-19 years in line with these priorities. This approach is also consistent with feedback that we received as part of our stakeholder consultation on our ongoing funding levels.

Major projects in the next four years will include resetting price-quality paths for all of the regulated businesses and undertaking the first review of input methodologies.

We will continue to focus on providing guidance and education on regulatory requirements and compliance advice to suppliers. When required we will undertake investigations into the cause of breaches, and take enforcement action or find other ways of responding to breaches.



In order to effectively assess the performance of regulated suppliers we will continue to develop our assessment approaches and produce summary and analysis reports for each sector, based on what would be of most value and interest to stakeholders.

To ensure we use the resources that we have as effectively and efficiently as possible we prioritise work across our different regulatory workstreams. Our key prioritisation criteria are based on bringing long-term benefits to consumers. Our near-term major priorities include:

- resetting the default price-quality path for electricity distribution businesses
- resetting the new price-quality path for Transpower
- undertaking more work on the use of the 75th percentile of the weighted average cost of capital (WACC) range in setting prices³
- assessing a higher than anticipated number of major capital expenditure investments from Transpower
- reviewing Wellington Airport's revised prices for the period to 2019.

Telecommunications

In the telecommunications area we will continue to promote competition in the fixed line and mobile markets through regulation of wholesale telecommunications services. We will monitor the performance of the supply of regulated services, and the competitiveness of telecommunications markets through our annual monitoring reports.

In the next four years there is likely to be significant change in regulatory outlook in the Telecommunications area. The review of the policy framework for regulating telecommunications services are likely to have an impact on our work programme and possibly our role. One of the ways we will contribute to the review is by providing our assessment of the effectiveness of the current regime that we are responsible for applying. We are committed to providing information that may assist in decision making and the overall improvement of regulation in the sector.

The ongoing implementation of the Government's Ultra-Fast Broadband initiative will change the landscape of the telecommunications sector. Other technology changes will also continue with the roll-out of the 4G network, and Rural Broadband Initiative (RBI) networks. These technology changes are likely to have an impact on our work programme, particularly in the monitoring area.

3. This project responds to comments made by the High Court merits appeal judgment.

We have several monitoring roles including producing our annual monitoring report and local fibre company information disclosure. Using this monitoring information to further understand the market and communicate that information to stakeholders is a key role for the Commission.

We will continue to help stakeholders understand the regulatory processes better, for example by holding briefings with analysts throughout regulatory processes.

We have significant immediate work associated with completing the cost models for Chorus' unbundled copper local loop (UCLL) and bitstream (UBA) services. The amount of work involved is large and technically complex.

The cost-based price for copper services should mean Chorus gets an appropriate return for delivering these services, and has appropriate incentives to invest in new and innovative services. However, these benefits will only be realised once the full cost-based approach is completed. The completion of this work will provide a strong methodological foundation that should help give a level of pricing certainty that the industry has sought.

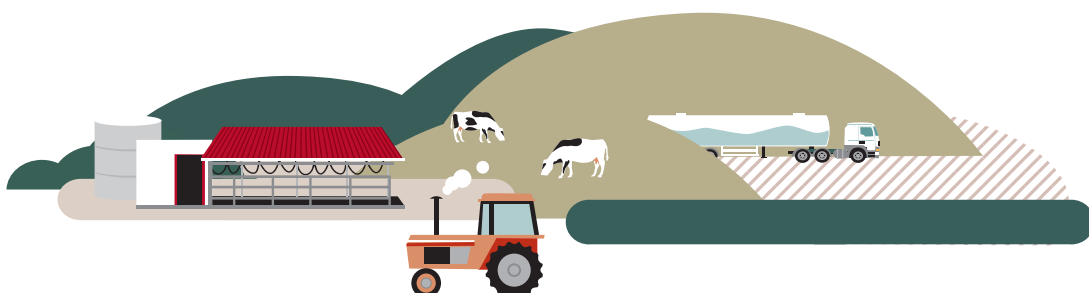
We will also see the final reduction in price of the mobile termination rates soon. The reduction in these rates is intended to reduce barriers to entry for new mobile service providers, particularly where there is regional concentration. We will continue to monitor the competitiveness of regional mobile markets in response to this intervention.

After two iterations of the Telecommunications Development Levy, we have developed a framework for identifying parties and assessing their liability that should allow for a more streamlined process.

Dairy

Our focus is on monitoring Fonterra's approach to setting the farm gate (base) milk price, and providing input to the Government's review of the dairy industry. As part of the Government's review, which must be commenced by 1 June 2015, the Commission may be asked to report on the state of competition in the New Zealand dairy industry.

The volume of other dairy work, including determinations and investigations, is demand driven and depends on the number of complaints or applications we receive.



Regulation Performance

In markets where there is little or no competition, regulation can help create similar outcomes to those seen in competitive markets. This ensures a benefit for consumers in the long term, as they are more likely to pay prices that reflect the cost and quality of goods or services they receive.

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.

What do we seek to achieve?

We have one key outcome: that the performance of regulated suppliers and markets provides long-term benefits for consumers. We seek to achieve this by ensuring regulated suppliers face effective incentives to deliver goods and services at a price and quality that reflect their demands.

The incentives we create are most likely to be effective when:

- consumers have a good understanding of market and supplier performance and are able to influence supplier performance
- regulatory regimes are increasingly predictable
- suppliers understand and comply with regulatory requirements
- consumers, suppliers and investors understand the purpose and value of regulation.

How do we achieve it?

It is important that we get the balance right between cost, quality and service. While lower prices may benefit consumers in the short term, the cost in the long term could be significant if regulated businesses cannot afford to invest in equipment and technology. Given the size of investments and timelines often involved, understanding these trade-offs is vital.

Regulation can only be effective if all parties meet their requirements. Our aim is to achieve voluntary compliance wherever possible. We do this by educating suppliers about the rules and their obligations and engaging with them when we are developing rules. However, if a regulated business does not comply, we can take enforcement action. This can take the form of a warning letter, reaching a settlement, or seeking penalties or compensation through the courts.

Increasing understanding of regulated markets, how they work and their benefits is part of our role. Our audience includes market analysts, commentators, businesses and the general public. Regulatory decisions can have a significant impact on the value and operation of companies. We work with stakeholders to ensure that they understand the regulatory framework in which we operate and that we provide as much regulatory certainty as possible.

By increasing the predictability of our regulatory decisions we improve incentives to invest in the supply of regulated services (as suppliers understand how their potential investments are likely to be treated). It also helps consumers understand the cost of using the services provided by regulated suppliers.

Where possible, and while retaining our independence, we work closely with the industries that we regulate. An example of this is our work as part of the Electricity Networks Association's (ENA) Quality of Supply and Incentive (QoS/I) Working Group. The working group was established to review possible refinements to the network performance metrics used for price-quality regulation. This was done with a view to ensuring there are long-term incentives for Electricity Distribution Businesses (EDBs) to deliver services that are in the long-term interests of consumers.

We are committed to making continuous improvement to our processes. After completing our first customised price-quality path (CPP) under Part 4 of the Commerce Act for Orion and our section 56G reviews of airports, we contacted stakeholders to ask them for feedback on the approach and process the Commission had followed. That feedback will help us understand what worked well, what could be improved, and how any improvements could be made. Summaries of feedback will be published and the lessons will be used to build on our processes.

Part 4 (electricity lines, gas pipelines and major international airports)

The aim of Part 4 of the Commerce Act is to achieve outcomes that are for the long-term benefit of consumers and consistent with outcomes you would get in a competitive market. Our work in this area helps to ensure suppliers of regulated services:

- have incentives to innovate and invest
- have incentives to improve efficiency and provide services at a quality that reflects consumer demands
- share with consumers the benefits of efficiency gains
- are limited in their ability to extract excessive profits.

To achieve these aims, we focus on promoting regulatory certainty, setting robust price-quality paths, monitoring performance and gaining compliance.

The information disclosure regime that applies to regulated suppliers provides us with quality information about their performance. This information gives us greater insight into the levels of investment and innovation being undertaken by suppliers. It also gives us a broader understanding of their profitability. We monitor a wide range of measures to ensure regulation under Part 4 is effective and targeted.

We work closely with suppliers to help them understand their obligations and requirements, as well as helping them to develop effective compliance systems.

Electricity lines and gas pipelines

Electricity lines and gas pipeline services are subject to price-quality regulation. As part of that regulation we set a price-quality path which aims to ensure suppliers deliver quality services and achieve at least normal returns over a five-year regulatory period, without extracting excessive profits.

Once the price-quality path is set, we monitor ongoing performance to detect breaches and look for ways to promote better compliance. We aim to make sure any breaches of the path do not increase over time. We work to understand the reasons for breaches so we can address them effectively and prevent them happening again. Our focus is on compliance with both the price and quality aspects of the price-quality path.

Major international airports

We monitor Auckland, Wellington and Christchurch International Airports on their delivery of aircraft and freight services, airfield activities and specified passenger terminal services. Suppliers of airport services are not subject to price-quality regulation; our focus is on ensuring sufficient information is available to interested persons to allow them to assess whether the outcomes are consistent with those produced in competitive markets.

We aim to create incentives for airports to deliver services that are in the long-term interests of consumers by providing publicly available analysis of airport performance that can be understood and used by consumers, airports and others.

Telecommunications

We regulate telecommunications services to promote competition in telecommunications markets for the long-term benefit of end users. Our role includes promoting competition in the fixed line and mobile markets and monitoring the performance of suppliers. In addition, we produce annual monitoring reports that look at the competitiveness of relevant telecommunications markets.

As well as encouraging compliance by suppliers, we promote a greater understanding and transparency of telecommunications market performance by regularly publishing and promoting our monitoring reports.

Dairy

Our role under the Dairy Industry Restructuring Act (DIR Act) involves dispute resolution and enforcement of the DIR Act. We also review Fonterra's approach to setting the base milk price for its suppliers.



Outcome: The performance of regulated suppliers and markets provides long-term benefits for consumers

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 at the price and quality they might get if the market was competitive.

How we assess our performance

The measures we have chosen are intended to help us understand whether we have been effective in setting the right incentives for suppliers and markets. Feedback from attendees at our key decision briefings will help us gauge how predictable our decisions are based on publicly available information. Compliance with price-quality paths and other regulatory requirements will help us understand whether our approach to promoting compliance is working. Stakeholder understanding of supplier market performance and the purpose of regulation will help us understand whether we have been effective in communicating.

Impact

→ Regulatory regimes are increasingly predictable

Measure	Actual 2010/11	Actual 2011/12	Actual 2012/13	Estimated actual 2013/14	Target 2014/15 – 2017/18
Percentage of market analysts and advisers who are able to predict our regulatory price setting determinations based on publicly available information	Not measured	Not measured	Not measured	Baseline to be set in 2014/15	Year-on-year maintenance or increase

Impact

→ Suppliers understand and comply with regulatory requirements

Measures	Actual 2010/11	Actual 2011/12	Actual 2012/13	Estimated actual 2013/14	Target 2014/15 – 2017/18
Breaches of the regulatory requirements by businesses reduce over time: – Number of default price-quality path breaches	1	6	2	4-5	Year-on-year decrease
Breaches of the regulatory requirements by businesses reduce over time: – Information disclosure breaches	Not measured	Not measured	0	2	Year-on-year decrease

Impact

→ Consumers have a good understanding of market and supplier performance and are able to influence supplier performance

Measure	Actual 2010/11	Actual 2011/12	Actual 2012/13	Estimated actual 2013/14	Target 2014/15 – 2017/18
Understanding of the performance of regulated services by targeted business and consumer groups increases over time ⁴	Not measured	Electricity: 57%	Electricity: 64% Gas: 39% Airports: 80%	Survey to be completed in June 2014	Year-on-year increase

Impact

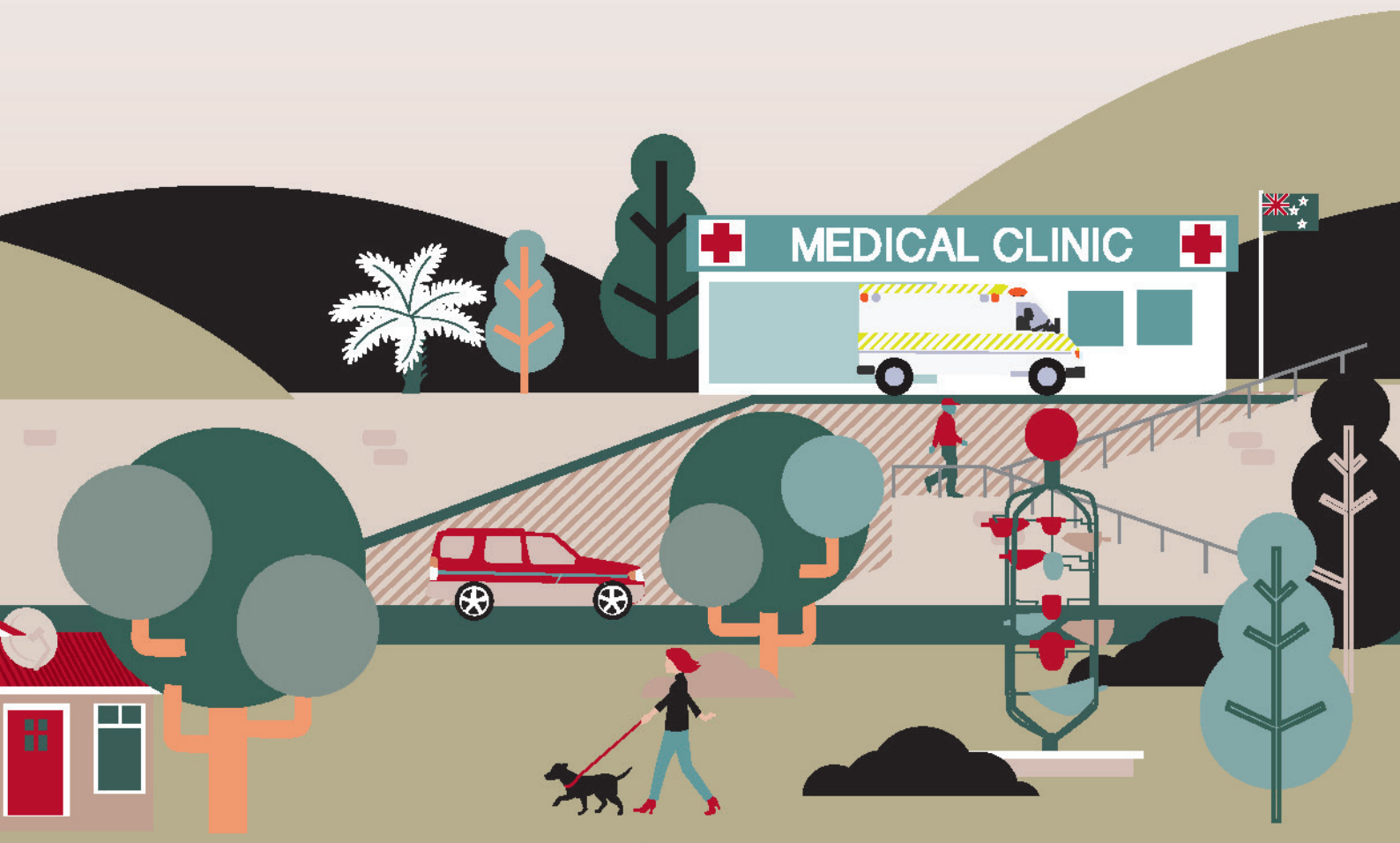
→ Consumers, suppliers and investors understand the purpose and value of regulation

Measure	Actual 2010/11	Actual 2011/12	Actual 2012/13	Estimated actual 2013/14	Target 2014/15 – 2017/18
Stakeholders' understanding and awareness of the regulatory regimes and the benefits of regulation increases over time	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% Airports: 100% Percentage of sector stakeholders that understood regulation that applied to their sectors: Electricity: 92% Gas: 78% Airports: 92% Percentage of sector stakeholders that understood the benefits of information disclosure regulation that applied to their sectors: Electricity: 73% Gas: 73% Airports: 92% Percentage of sector stakeholders that understood benefits of price-quality regulation that applied to their sectors: Electricity: 85% Gas: 85%	Survey to be completed in June 2014	Year-on-year increase

4. Percentage of those with an interest who rated their understanding as 'good-excellent' in the survey.



Organisational capability and health



Organisational capability and health Outlook

Maintaining and improving organisational health and capability is essential in helping us to achieve our outcomes.

In 2012/13 we refocused our capability improvement into three capability themes – Connect, People and Efficiency.

Our intention in the medium term is to build on our progress and strengthen our organisational health and capability. We aim to provide the right environment, tools, support and leadership to enable our people to do their jobs effectively and grow our capability as an organisation.

Connect

Our connect theme recognises that to do our job well we need to focus on how we connect with our stakeholders. This means listening to their needs and communicating with them in ways that are easy to understand. It also means identifying new methods of engagement. Communicating better internally is also important, sharing information and knowledge so we are best placed to deliver on our outcomes.

A key focus will continue to be on our education and information work related to changes to competition and consumer laws, and promoting voluntary compliance. We will also use targeted sector specific advocacy where there is evidence of competition problems.

We will continue our regular programme of stakeholder meetings and presentations, building transparent and robust consultation processes with stakeholders involved in regulatory decisions. Where appropriate we will maintain high levels of engagement with market analysts and advisers around market sensitive regulatory decisions.

Online tools such as our website and e-newsletter (*Bulletin*) continue to be an effective and accessible mode of communication with stakeholders. These tools improve the way external stakeholders access the Commission. We plan to build up this capacity exploring the use of dedicated 'microsites' to support our education and information work.

People

Our people strategy is aimed at ensuring we attract, develop and retain great people who are capable of performing at a high level, driven to achieve goals, and aligned with the Commission's values. Having capable people is vital to our ability to be an effective competition authority and regulatory agency. With such significant change both internally and externally it is important that we are focused on updating our skills to remain current, efficient and effective.

We are investing in programmes that help our people and organisational capability grow and using feedback from employee surveys to inform development and business improvement opportunities. We take an integrated approach to recruitment and development, including promoting equal employment opportunities and ensuring business improvement in this area is consistent with the seven key elements of being a good employer (as set out by the New Zealand Human Rights Commission).

Building on a successful Manager Development Programme introduced in 2013/14, targeted coaching and team leader development programmes are intended to develop our leadership capability further. This investment in lifting leadership and management capability, alongside other technical professional development, is aimed at lifting the performance of the organisation as a whole. We are already seeing the benefits of this investment in our healthy and increasing levels of employee engagement.

At an organisation-wide level we will continue providing learning and development opportunities to keep developing our people capability. In this context we continue to develop more tailored professional development opportunities linked to the sectors we work with, and the specialist skills and knowledge we require (eg, economics, law, finance, engineering, investigations). Along with professional development, we recognise that the capability of our people can be improved by sharing knowledge and providing appropriate training and guidance when there are law changes or changes to underlying processes.

Efficiency

Our efficiency theme is aimed at simplifying our processes and the way we work, as well as making it easier to do business with the Commission and within the Commission. In the medium term we will continue our drive to simplify and improve our processes.

Key contributors to our ability to operate more efficiently are the delivery of programmes in our Information Systems Strategic Plan (ISSP) and our ongoing commitment to resource sharing across agencies where this can deliver cost savings or quality improvements. We also intend to review and update operational processes in light of legislative change and continue to look at information management across the Commission.

Information systems strategy

Our ISSP provides clarity about what we need from our information systems to support our business over the medium to long term. The ISSP sets out the road map for information systems investment and how this will align with the planned information technology architecture of the Commission.

Resource sharing

We continue to look for service improvements and cost efficiencies. We have put in place a number of shared service arrangements with the Electricity Authority. We will continue to explore other possible back-office shared services arrangements and seek out opportunities to use or provide shared services with other agencies where it makes good business sense to do so.

We will also continue to adopt All-of-Government contracts to achieve value-for-money improvements.

Organisational capability and health Performance

Evaluating our capability and health

An important part of our operating philosophy is continuous improvement, which requires us to measure and monitor our progress towards achieving our outcomes. This helps ensure we are making the right investments to support our long-term capability needs.

We continue to use the Benchmarking 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 actively use the framework and benchmark ourselves against BASS metrics to identify strengths and weaknesses, and areas for improvement.

We aim to keep our administrative and support costs as a proportion of our total organisation running costs in line with the median for the BASS small agency cohort.

In addition to benchmarking, we will use the following measures to monitor and report on our overall organisational health and capability. Measures for staff turnover and average number of years of service are included to provide transparency on our mix of employees. We do not set targets for these measures, but monitor them alongside our workforce planning and capability programmes. We will aim to ensure these measures reflect a healthy level.

How do we assess our performance?

Measures	Actual 2010/11	Actual 2011/12	Actual 2012/13	Estimated actual 2013/14	Target 2014/15 – 2017/18
The overall level of employee engagement shows an improvement year-on-year	Not measured	Not measured	Improvement achieved	Improvement achieved	Improvement achieved
The percentage of total organisation running costs spent on administrative and support functions decreases year-on-year	13.47%	13.17%	13.74%	Results available early 2015	Decrease achieved
Staff turnover	18%	16%	15%	14%	N/A
The average number of years of service of our employees	4.84	5.18	6.0	5.41	N/A

Glossary

Authorisation	Under the Commerce Act, certain agreements and mergers are prohibited as they can lead to anti-competitive outcomes, such as increased prices or lack of choice. However, the Commerce Act recognises that in some circumstances an anti-competitive transaction may lead to sufficient public benefits that would outweigh the competitive harm. In this case the Commission can grant an authorisation for the agreement or merger to proceed.
Clearance	Under the Commerce Act, the Commission can grant a clearance for a proposed merger if we are satisfied that it is not likely to substantially lessen competition in a market. We compare the likely state of competition if the merger proceeds with the likely state of competition if the merger does not proceed.
CCCF Act	Credit Contracts and Consumer Finance Act 2003
CPP	Customised price-quality path. A regulated business can apply for a customised price-quality path when they have a specific need that isn't met by the DPP. For example, a business may need to invest more in its network than provided for under the DPP or may have been affected by an event outside its control (eg, a natural disaster). Customised price-quality paths are based on the Commission's analysis of information specific to the business, and require in-depth audit, verification and evaluation of the information provided by the regulated business.
DPP	<p>A default price-quality path is the way the Commission determines appropriate price and quality controls for applicable regulated industries under Part 4 of the Commerce Act (eg. Electricity distribution businesses). The main components of a DPP are the:</p> <ul style="list-style-type: none">→ maximum prices/revenues that are allowed at the start of the regulatory period (ie, starting prices)→ annual rate at which maximum allowed prices can increase (ie, rate of change)→ minimum service quality standards that must be met. <p>The Commission must also reset the components of a DPP before it expires to create a new path for the next regulatory period.</p>
FPP	Final pricing principle. A process using an economic cost model to determine the true cost of a particular access service under subpart 1 of Part 2 of Schedule 1 of the Telecommunications Act 2001.
IMs	Input methodologies. These involve setting upfront regulatory methodologies, rules, processes, requirements and evaluation criteria for services that are regulated under Part 4, and for undertaking Part 4 inquiries.
Impact	Contribution made to an outcome by a specified set of outputs, or actions, or both.
Outcome	State or condition of society, the economy, or the environment; includes a change in that state or condition.
Output	Goods or services that are supplied by a Crown entity.

Part 4	<p>Part 4 of the Commerce Act. Under Part 4 of the Commerce Act, the Commission has a role regulating the price and quality of goods or services in markets where there is little or no competition and little prospect of future competition. Part 4 is designed to ensure suppliers of regulated goods or services:</p> <ul style="list-style-type: none"> → have incentives to innovate and to invest → have incentives to improve efficiency and provide services at a quality that reflects consumer demands → share with consumers the benefits of efficiency gains in the supply of the regulated goods or services, including through lower prices → are limited in their ability to extract excessive profits.
Regulated supplier	A supplier of goods or services regulated under either the Commerce Act or the Telecommunications Act.
Section 36	Section 36 of the Commerce Act. This section deals with monopolistic conduct and has three key elements. A business will breach the Commerce Act if it: has a substantial degree of market power, takes advantage of that power, and has an anti-competitive purpose.
Telecommunications Development Levy	An annual levy paid by companies earning more than \$10 million per year from operating a component of a public telecommunications network (fixed or wireless). The levy is used to pay for telecommunications infrastructure including the relay service for the deaf and hearing-impaired, broadband for rural areas, and improvements to the 111 emergency services.
TSO	Telecommunications Service Obligations. Under the Telecommunications Act 2001, TSOs are entered into in order to facilitate the supply of certain telecommunications services to groups of consumers that may not otherwise be supplied on a commercial basis, or at a price that is considered affordable to consumers by the Minister for Communications and Information Technology. There are currently two TSOs – residential telephone services and services for the hearing impaired.
UBA	Unbundled bitstream access. Regulated service giving wholesale access to Chorus' DSL full speed broadband service. It allows telecommunications companies to supply broadband services to customers without the need to replicate Chorus' electronics or software.
UCLL	Unbundled copper local loop. Wholesale access to the copper line connecting a phone user to the local exchange.
WACC	Weighted average cost of capital.





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