



GOVERNMENT  
PRICES  
OVERSIGHT  
COMMISSION



# ANNUAL REPORT | 1997-98

Dr the Hon D Crean MHA  
Minister for Finance  
Level 9  
Executive Building  
15 Murray Street  
HOBART TAS 7000

Dear Minister

I have pleasure in submitting to you the Annual Report of the Government Prices Oversight Commission for the year ended 30 June 1998, in accordance with Section 40 of the *Government Prices Oversight Act 1995*.

Yours sincerely

A handwritten signature in black ink, appearing to read 'A J Reeves', written in a cursive style.

Andrew Reeves  
COMMISSIONER

November 1998



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## Commissioner's Report

This report describes the second full year of operation of the Government Prices Oversight Commission. The Commission was established in January 1996 primarily to investigate the pricing policies of the major Tasmanian public sector monopolies<sup>1</sup>. Three pricing investigations have now been completed, as well as a review of the structure of the distribution and retail businesses of the former Hydro-Electric Corporation.

During 1997-98, the Commission commenced two further investigations: the Commission's second investigation into the pricing policies of the former Hydro-Electric Corporation, and a review of the pricing policies of the State's bulk water suppliers.

The powers to investigate the pricing policies of electricity entities were transferred from the Commissioner to the Tasmanian Electricity Regulator on 1 July 1998 and responsibility for the current electricity pricing investigation was taken over by the Regulator. As Commissioner of the Government Prices Oversight Commission, I also hold the office of the Tasmanian Electricity Regulator.

Since the Commission is responsible for the oversight of Government monopoly businesses, it is appropriate that the Commission subject itself to review. A survey of its major stakeholders in December 1997 showed that the Commission was seen as a highly effective, independent, credible investigative organisation. It has established a reputation for thorough and professional work.

The Commission's reports have been well received. They are recognised for the comprehensive analysis of the scope, costs and efficiency of the operations of the enterprises investigated. In addition, the investigation itself serves to focus management attention on key issues, costs and risks. Lack of consultation with some arms of Government was perceived by some stakeholders as a weakness, and the respective proper roles of

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<sup>1</sup> The *Government Prices Oversight Act 1995* provides for the investigation of the pricing policies of certain Government Agencies, Government Business Enterprises, Local Government Bodies, statutory authorities and State-owned companies that are monopoly or near monopoly providers of goods and services in Tasmania.

the Commission, as an independent body, and Government is discussed in this report.

Recent amendments to the *Government Prices Oversight Act 1995* have created a new role for the Commission — that of a complaints body to investigate alleged breaches of the competitive neutrality aspects of the National Competition Principles Agreement. This new role provides further opportunity for the Commission to build on the expertise of its staff for the promotion of efficiency of Government businesses and the benefit of the Tasmanian community.

Andrew Reeves  
COMMISSIONER

November 1999



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## The Government Prices Oversight Commission

The Government Prices Oversight Commission is an independent body with responsibility for investigating the pricing policies and practices of Government Business Enterprises (GBEs), Government Agencies, Local Government Bodies, statutory authorities and State-owned companies that are monopoly, or near monopoly, suppliers of goods and services in Tasmania.

The Commission was established under the *Tasmanian Government Prices Oversight Act 1995* (the Act), which commenced on 1 January 1996.

The Commission has been set up as part of Tasmania's commitment to the National Competition Policy (NCP) Agreements which were signed by the Council of Australian Governments (COAG) in April 1995.

The COAG Competition Principles require that the source of prices oversight advice have the following characteristics:

- '(a) it should be independent from the Government Business Enterprise whose prices are being assessed;*
- (b) its prime objective should be one of efficient resource allocation but with regard to any explicitly identified and defined community service obligations imposed on a business enterprise by the Government or legislature of the jurisdiction that owns the enterprise;*
- (c) it should apply to all significant Government Business Enterprises that are monopoly, or near monopoly, suppliers of goods or services (or both);*
- (d) it should permit submissions by interested persons; and*
- (e) its pricing recommendations and the reasons for them should be published.'*

The Tasmanian Government Prices Oversight Commission has been set up according to these principles.

The Commission does not have the power to investigate the prices charged by private sector organisations, as this remains the responsibility of the Commonwealth through the Australian

Competition and Consumer Commission (ACCC). However, the new powers of the Tasmanian Electricity Regulator extend to private sector electricity entities.

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## The Role of the Commission

In the first Annual Report, I commented on the perception of many in the community that the role and focus of the Commission is too narrow, in particular, that the Commission does not put sufficient emphasis on the social implications of its recommendations. That perception arises from a misunderstanding of the role of the Commission and the responsibility of Government.

The role of the Commission is primarily to investigate prices charged by government bodies for monopoly services and to recommend maximum prices to apply for the ensuing three year period. The Commission is required to take account of the terms of reference and the specific matters set out in Section 31 of the Act. These matters include:

- ⇒ the cost of supplying or providing the monopoly service;
- ⇒ interstate benchmarks for prices and costs;
- ⇒ the need to protect consumers from the adverse effects of the exercise of monopoly power;
- ⇒ the need for the monopoly provider to be financially viable;
- ⇒ the need for a reasonable return to the State, including the payment of dividends;
- ⇒ the Ministerial Charter of the GBE prepared in accordance with Section 36 of the GBE Act;
- ⇒ any community service obligations; and
- ⇒ the quality of the supply of the monopoly service.

In essence, the Commission is required to consider and recommend maximum prices based primarily on grounds of economic efficiency. These outcomes do not always accord with the Government's social and economic objectives, and the Government has the opportunity to reflect its policies in the Minister's determination of maximum prices, which is set out in an Order.

The creation of the Commission was not intended to take away the ability to use prices of Government monopoly services as instruments of policy, but to bring greater transparency.

The *Government Business Enterprises Act 1995* provides for the identification and payment of community service obligations where it requires a GBE to undertake a non-commercial activity. Non-commercial activities could include providing services at a concessional rate to a particular class of customer. The Ministerial Charter may also require a GBE to carry out certain activities required by Government.

Nevertheless, there is an expectation that the Commission will address social and other issues in its investigations. In practice, the Commission meets these expectations by accepting submissions not only on matters that specifically address the terms of reference but also on related issues. These issues are then raised for the information of Government in the Commission's reports. The Commission expects that this treatment allows Government to make better informed decisions when maximum prices are prescribed.

It is essential for the Commission's work that it understand the business of the entities under investigation. During the year, the Commission carried out a survey of stakeholders to review the effectiveness of its work. Stakeholders consider that a major strength that contributes to the quality of outcomes is the Commission's willingness to undertake informal consultations with officers of the organisations under investigation. But the Commission is also mindful of the perils of information asymmetry, ie that the investigator is initially dependent in large measure on the entity for it to gain an understanding of the business, and of 'regulatory capture'.

For these reasons the Commission seeks the expert contributions of the Assistant Commissioners and its consultants, the experience of other regulators and similar investigations in other jurisdictions and informed comment from the community and stakeholders.

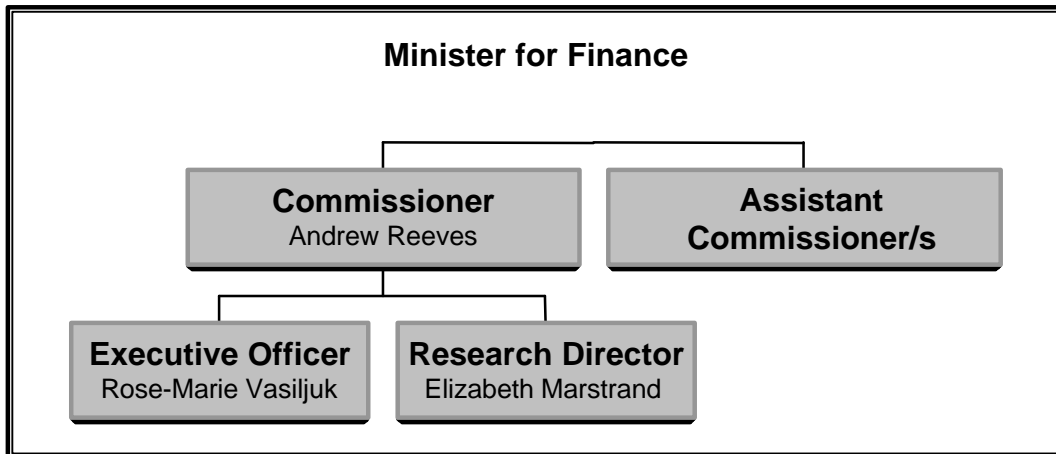
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## **Composition of the Commission**

The Commission consists of the Commissioner (appointed for three years from 1 January 1996) and any Assistant Commissioner/s appointed for a particular investigation.

To assist the Commission in performing its functions and powers, the Department of Treasury and Finance provides staff to the Commission under Section 19(1) of the Act.

The Department of Treasury and Finance also provides assistance and facilities to the Commission for human resources management, information technology and accounting services.



**Figure 1: Commission Organisation Chart**

Note: The Executive Officer and Research Director are employees of the Department of Treasury and Finance

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## Scope of the Government Prices Oversight Act

The Act provides for the investigation of the major public sector monopolies in Tasmania at least once in every three years. The timetable of the dates by which investigations of these GBEs must commence is set out in the Act as below:

- ⇒ Hydro-Electric Commission 31 January 1996<sup>2</sup>
- ⇒ Metropolitan Transport Trust 30 September 1996
- ⇒ Motor Accidents Insurance Board 31 May 1997
- ⇒ Hobart Regional Water Authority 31 January 1998
- ⇒ North West Regional Water Authority 31 July 1998.

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<sup>2</sup> As noted above, responsibility for investigation of the pricing policies of electricity entities in Tasmania (including those of the former Hydro-Electric Commission) was transferred to the Tasmanian Electricity Regulator on 1 July 1998.

The Commission may also be required to investigate any other monopoly service provided by a government body.

The *Government Prices Oversight Amendment Bill 1997* was passed by the House of Assembly on 29 April 1997 and was given Royal Assent on 2 September 1997. This effectively extended the application of the Act to Local Government Bodies.

This amendment also conferred on the Commission a new role to investigate complaints of breaches of the NCP competitive neutrality principles. Any business that is in competition with a Government service provider may now lodge a complaint with the Commission if it believes that the Government provider is competing on an unequal footing. In particular, the prices charged by Government providers should reflect the full range of taxes and charges that are incurred by the private sector. Complementary Regulations are being developed.

The *Government Prices Oversight (Amendment Act) 1998* further extended the scope of the Commission to provide for investigations of prices charged by statutory authorities and State-owned companies. This amendment gave the Commission powers over the newly-created Metro Tasmania Pty Ltd, the successor to the Metropolitan Transport Trust.

## **Conduct of Investigations**

The procedures for the conduct of major investigations, the requirements for reports and the procedures for setting of prices are described in Appendix A to this Report.

## **Public Consultation**

Public consultation is an important component of the Commission's work.

Assistant Commissioner/s are appointed for their expertise on the matter under investigation, but the Commission draws on business and community knowledge to identify the particular issues of each investigation.

Each investigation has included the release of a Background or Issues Paper to encourage initial submissions and a Draft Report with the Commission's proposals. The Draft Report becomes the focus for further submissions which are then taken

into account in preparing the Final Report and recommendations.

While the Act provides for the Commission to convene public hearings, none were held for the MAIB Premiums Investigations and, at time of writing, no public hearings are planned for the Bulk Water Investigation. Rather, the Commission prefers informal discussions with interested parties and other consultative mechanisms. The formality of a public hearing is daunting for some and the process, while effective in some circumstances for gathering information, gives less opportunity for meaningful exchange than consultations with interested parties.

A public forum was held in relation to the Review of the Structure of the HEC Distribution and Retail Businesses. This arrangement, modeled on the ACCC pre-decision conference procedures, was effective in allowing all parties to contribute to and debate complex issues in a structured but informal manner. The 'public forum' format is likely to be adopted for other investigations, particularly as a means of encouraging informed community response to the Commission's draft reports.

The Commission's website has now been established to assist access to reports and submissions.

## **Information Gathering**

Submissions from the monopoly business whose pricing policies are under investigation are a major source of information. In addition, the Commission has powers under Section 29 of the Act to require material to be provided. This provision was used for each investigation as follows:

	<b><i>Number of Section 29 Requests</i></b>
HEC Retail Prices Investigation 1998 (to 30 June 1998)	35
MAIB Premiums Investigation	52
Bulk Water Pricing Investigation (to 30 June 1998)	
• Hobart Regional Water Authority	10
• Esk Water Authority	7
• North West Regional Water Authority	9

The Commission also held regular briefings and consultations with officers of each organisation under review.

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## **Report on the Performance of the Commission's Functions and Powers**

During the year the Commission finalised the MAIB Premiums Investigation, and commenced investigations into the pricing policies of the (former) Hydro-Electric Corporation and the three Tasmanian bulk water authorities. A description of each of these undertakings is provided below.

The Commissioner was also Chairman of a committee which undertook and completed a review of the structure of the Hydro-Electric Corporation's distribution and retail businesses. This review was commissioned to comply with NCP requirements for the review of the structure of an industry supplied by a Government monopoly business prior to the introduction of competition or sale of the business.

### **Motor Accident Insurance Board Premiums Investigation**

The investigation commenced 16 April 1997 when the Commission received the terms of reference. The Commission was required to investigate the pricing policies of the Motor Accidents Insurance Board (MAIB), the monopoly provider of motor accident (personal injury) insurance in Tasmania. Consulting actuary Lindsay Cutler was appointed Assistant Commissioner.

The Commission released a Background Paper in April 1997 and received 22 submissions in response. It met with nine associations or individuals and visited MAIB and Rehabilitation Tasmania facilities to gain a better understanding of the business and activities of the MAIB.

The Background Paper demonstrated that the MAIB provides the most comprehensive scheme of any Australian jurisdiction and at the second-lowest cost for the vast majority of motorists. Prior to a 28 per cent increase in premiums on 1 December 1996, MAIB premiums were the lowest in Australia for all but a few minor classes of motor vehicles.

A draft report containing the Commission's proposals for maximum premiums was released in July 1997 and 18 submissions were received from a range of interested individuals and organisations.

The Final Report was forwarded to the Minister for Finance and the Minister for Transport on 31 August 1997. The main recommendations contained in the Final Report were:

- under the existing arrangements certain classes of vehicles, trucks, buses and motorcycles were not paying their fair share of MAIB premiums. The Commission recommended that motorists' premiums reflect the insurance risk attached to particular classes of vehicles;
- the Commission recommended small increases (less than 5 per cent) in MAIB premiums for the majority of motor vehicles (eg cars) but recommended substantial increases (ranging between 55 and 158 per cent) for motorcycles, trucks and medium buses;
- certain changes be made to the benefits available under the scheme, including
  - eligibility for MAIB insurance be restricted to claims arising from the driving of a motor vehicle, rather than its use,
  - MAIB cover only be available for off-road or recreational class vehicles when a premium has been paid and is current for that vehicle,
  - MAIB be allowed to recover costs from uninsured vehicle owners, reject claims for persons injured while driving their own uninsured vehicle and that MAIB be allowed the right to seek indemnity from negligent third parties, and
  - all accidents be reported to the police before the MAIB accepts a claim, but that the MAIB have the discretion to waive this requirement.

These amendments were proposed to improve the equity of the scheme.

The Government accepted the Commission's recommendations of the Final Report in relation to changes to existing policy (without significant amendment), but rejected the recommendations relating to the quantum of future premiums. With regard to premium changes, the Government opted for a transition strategy which involved the creation of four classes of

vehicles, with different arrangements for premium increases for each of the four classes.

Under the amended premium structure, the maximum premium increases in the first year will not exceed 15 per cent of the former premium level for any vehicle class. Maximum premiums in the second and third years are calculated using a component based on the percentage increase in average weekly earnings in Tasmania, plus a percentage increase in premium levels not exceeding 12.5 per cent for any vehicle class.

The Commission also considered the effectiveness of the 'no-fault' and 'future care' features of the MAIB insurance scheme. It is pleased to have recommended the retention of these features. They are an equitable and affordable means of ensuring quality care for those injured in motor vehicle accidents. Tasmanians enjoy the fairest benefits of any Australian jurisdictions at premiums which are comparatively low cost. The Commission was informed, through submissions and consultations, of the high regard in which the MAIB is held in its dealings with injured parties and claimants.

### **Review of the Structure of the HEC's Distribution and Retail Businesses**

A committee of Andrew Reeves, Commissioner of the Government Prices Oversight Commission and Paul Breslin, economic consultant, was formed by the Minister for Finance (Tasmania) and given the task of recommending an appropriate structure and regulatory environment for the distribution and retail businesses of the Hydro-Electric Corporation.

The review was necessary to meet COAG requirements for a review prior to sale of a government business or the introduction of competition into a market traditionally supplied by a public monopoly. It was triggered by the Government's proposal for sale of the transmission, distribution and retail businesses of the HEC.

The Committee was advised that the Government proposed to introduce competition in the wholesale and retail electricity markets when Basslink is commissioned.

The Committee examined a number of options including a single distributor and multiple retailers, multiple distributor/retailers with ring-fenced operations, a combined distributor/retailer and a single distributor and legally separate retailer.

In view of the comparatively small size of the Tasmanian retail market (240 000 customers), the Committee recommended a single distributor and a separate legal entity to carry out the retail business when retail competition is introduced. Legal separation was considered to be the minimum requirement necessary to facilitate competition from new entrants in retail supply.

The Committee also recommended accounting separation (ring-fencing) of the distribution and retail functions of a combined entity in the period prior to the introduction of competition.

The Committee received a number of submissions and contributions on matters outside the terms of reference. In particular, a number of respondents stressed the importance of structure in the wholesale electricity market to deliver effective competition at this level. Some expressed concern that, even with Basslink, there may not be adequate competition in the generation sector, with the incumbent HEC generator having market power.

On 1 July 1998, the Government disaggregated the HEC into three organisations: Aurora Energy Pty Ltd (a ring-fenced distributor/retailer); Transend Networks Pty Ltd (a transmission company) and the Hydro-Electric Corporation (responsible for generation and system control).

### **Bulk Water Investigation**

In January 1998 GPOC was requested to undertake an investigation into the pricing policies associated with the provision of bulk water by the Hobart Regional Water Authority (HRWA), the North West Regional Water Authority (NWRWA) and the Esk Water Authority (EWA).

The ownership of both the HRWA and the EWA has recently been transferred to local government and re-established under the *Local Government Act 1993* as joint local government authorities. Both these authorities are subject to full tax equivalent, dividend and guarantee fee regimes. The NWRWA is expected to be transferred to local government after 1 July 1998.

The terms of reference require the investigation to be completed by 30 November 1998. As part of the Investigation, the Commission was requested to prepare a paper by 31 August 1998 on the general water pricing principles that should apply in Tasmania.

The Terms of Reference request that the Commission take into account:

- (a) The desirability and feasibility of uniform and consistent pricing principles being developed for, and applied by, the Hobart Regional Water Authority, the Esk Water Authority and the North West Regional Water Authority;
- (b) The need for the pricing principles developed in (a) to be consistent with:
  - the water pricing principles and other related matters required by the COAG Agreement on the Efficient and Sustainable Reform of the Australian Water Industry, which forms part of the National Competition Policy agreed by all Australian Governments in April 1995; and
  - further work on water pricing undertaken by the National Taskforce on COAG Water Reform established by SCARM under ARMCANZ.

The Commission intends to invite submissions on the Pricing Principles Paper. These Principles, when finalised to take account of responses received in submissions, will provide the framework for the development of pricing policies and the recommendation for maximum prices for each water authority.

### **Electricity Prices Investigation**

The Government Prices Oversight Commission commenced an investigation of pricing policies of the HEC in regard to the monopoly services of generation, transmission, distribution and retailing of electricity and system control in April 1998.

With the transfer of pricing functions to the Regulator and the expansion of powers, the Regulator is now required to determine maximum prices to apply for the period from 1 January 2000 for up to five years. The Final Report is required by 29 January 1999.

The recent reforms to the Tasmanian electricity sector, including the establishment of the Office of the Regulator are explained below.

## **Office of the Tasmanian Electricity Regulator**

On 1 July 1998 the Hydro-Electric Corporation was disaggregated with the creation of Aurora Energy Pty Ltd and Transend Networks Pty Ltd. The Tasmanian Electricity Code has been established, setting out the framework for the integrated operation of the Tasmanian electricity system and documenting the regulatory requirements for the benefit of the electricity consumer.

The function of the Tasmanian Electricity Regulator has been expanded, and the Commissioner was appointed as the Regulator. The Regulator has been given the powers to make determinations in regard to prices charged for services provided by electricity entities. The Regulator may declare a service for investigation and determination of maximum prices if he is satisfied that the electricity entity has substantial market power in respect of the service and the promotion of competition, efficiency or the public interest requires the making of the declaration.

The Office of the Tasmanian Electricity Regulator is co-located with the Government Prices Oversight Commission.

Further information about the electricity sector reforms is contained in the Annual Report of the Tasmanian Electricity Regulator.

## **Freedom of Information Act 1991**

No requests for information were made of the Commission under the *Freedom of Information Act 1991*.

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## **FINANCIAL STATEMENTS**

For the period ended 30 June 1998

The following financial statements are included:

- ⇒ Certification
- ⇒ Audit Report
- ⇒ Notes to the Statement of Expenditure and Receipts
- ⇒ Statement of Expenditure and Receipts.

# Government Prices Oversight Commission

## Certification of Financial Statements For the period ended 30 June 1998

The accompanying Financial Statements of the Government Prices Oversight Commission have been prepared in compliance with the provisions of the *Government Prices Oversight Act 1995*. The statements are in agreement with the relevant accounts and records so as to present fairly the financial transactions for the period ended 30<sup>th</sup> June 1998 and such components of financial position as at 30<sup>th</sup> June 1997 which the Minister requires under section 40(3) of the *Government Prices Oversight Act 1995* to be disclosed in the Financial Statements.

At the date of signing I am not aware of any circumstances which would render the particulars included in the Financial Statements misleading or inaccurate.



Andrew Reeves  
COMMISSIONER

24 August 1998



# Government Prices Oversight Commission

## Notes to the Statement of Expenditure and Receipts

### 1. Basis of Accounting

The Financial Statements have been prepared in accordance with the *Government Prices Oversight Act 1995* and Ministerial Directives under section 40(3) of that Act.

The transactions of the Government Prices Oversight Commission are funded through the Consolidated Fund. The records are maintained on the cash basis of accounting by the Department of Treasury and Finance on behalf of the Commission.

Figures presented have been rounded to the nearest thousand dollars and as a consequence may not add to totals. Records are maintained and controls apply to figures in dollars and cents.

### 2. Non-Current Assets

The Commission has a policy of recording all assets regardless of value in its asset register. These assets are recorded at cost and are not depreciated. However, for reporting purposes assets with a value greater than \$2 000 and an estimated useful life greater than two years are shown below. Assets are shown in total and are not segregated into classes.

As at 30<sup>th</sup> June 1998 the Commission controlled assets to the value of \$ 80 852.00

### 3. Debtors

As at 30<sup>th</sup> June 1998 the Commission had no outstanding debtors.

### 4. Creditors

As at 30<sup>th</sup> June 1998 the Commission had no outstanding creditors.

# Government Prices Oversight Commission

## Statement of Expenditure and Receipts For the period 30 June 1998

1997 \$'000		1998 \$'000
	Expenditure	
266	Salaries and Related Payments	241
30	Materials and Supplies	14
10	Communications	8
29	Travel and Transport	28
57	Property Services	58
2	Office Machines	11
8	Information Technology	9
6	Recruitment and Personnel	19
59	Consultants	49
36	Other	28
503	Total Expenditure	465
	Receipts	
140	Recoveries from Monopoly Service Provider	244
1	Sale of Submissions and Publications	2
141	Total Receipts	246



## **Government Prices Oversight Commission**

### **Summary of Procedures**

This appendix summarises the Commission's Investigation procedures and the procedures for setting of prices following an investigation.

#### **Conduct of Investigations**

##### **The Notice**

An investigation is initiated by the Minister administering the Act (now the Minister for Finance) with the agreement of the Portfolio Minister (the Minister with responsibility for the "monopoly provider"). Upon receiving the requirement to conduct an investigation, the Commission is required to give notice to the monopoly provider and in Tasmanian daily newspapers.

Such a notice must include the terms of reference and specify the purpose of the investigation, how submissions may be made to the Commission and the matters that the Commission would like submissions to address.

##### **Matters To Be Considered**

In addition to issues specifically mentioned in the Terms of Reference, Section 31 of the Act requires the Commission to consider certain matters. These include:

- ⇒ the cost of providing the monopoly service;
- ⇒ interstate or international benchmarks for prices, costs, revenues and return on assets;
- ⇒ the need to protect consumers from any adverse exercise of monopoly power;
- ⇒ any community service obligations of the monopoly provider;
- ⇒ the need for efficiency in the provision of the monopoly service and for the monopoly provider to be financially viable; and

⇒ the impact on pricing policies of any borrowing, capital, dividend and tax equivalent obligations of the monopoly provider, including obligations to renew or increase assets.

## **The Investigation Process**

In conducting an investigation, the Commission may receive written and oral submissions, consult with any person, hold hearings and seminars and conduct workshops.

Preliminary notice of any hearing is required to be advertised in the Tasmanian daily newspapers. The hearing is to be held in public unless the Commission considers that for reasons of public interest, or because the evidence to be presented is likely to be confidential or commercially sensitive, the hearing should be held in private.

## **Freedom of Information Act 1991**

The *Freedom of Information Act 1991* (FOI Act) applies to the activities of the Prices Oversight Commission. However, where the Commission gives directions prohibiting or restricting the publication of information provided to it, the FOI Act will not apply in respect of that information.

## **Section 29 Requests**

The Commission may require any person, normally an Agency or GBE, to supply information by a request under Section 29(1) of the Act. This information may be in oral or written form. Section 30(2) enables the Commission to give directions prohibiting or restricting the publication of all or part of this information.

As noted above, where the Commission gives such a direction under Section 30(2), the FOI Act will not apply in respect of that information or to records relating to the production of such information.

If information is provided in response to a Section 29 requirement and the provider of the information requests that the Commission give a direction under Section 30(2) to prohibit or restrict the publication of that information, the Commission will not make that information available to any person without prior consultation with the provider.

## **Reports and Recommendations**

### **Draft Report**

The Commission may prepare a draft report when required by the terms of reference, or by the Minister and Portfolio Minister, or by its own decision. If a draft report is made public, any person may make submissions. The Commission is required to take these submissions into consideration before making a final report.

### **Final Report**

The Commission must prepare a final report containing a recommendation in relation to the appropriate maximum prices chargeable by the monopoly provider for the monopoly service during the three years after completion of the report.

Section 4 of the Act sets out the form in which maximum prices may be expressed. These include:

- ⇒ maximum prices or the maximum rate of increase or the minimum rate of decrease in maximum prices;
- ⇒ average prices or average rates of increase or decrease in such average prices;
- ⇒ pricing policies or principles; and
- ⇒ by reference to a general price index, the cost of production, revenue, a rate of return on assets or any other factor.

### **Price-setting**

The Portfolio Minister must lay a copy of the Final Report before each House of Parliament within 20 sitting days of receiving the report. Copies are to be available for purchase by members of the public.

Where the monopoly provider sets its prices by statutory rule, or has been declared a "prescribed monopoly provider", then the process for price-setting includes Parliamentary oversight as described below:

- ⇒ Within 60 days of receiving the final report, the Portfolio Minister is required to consult with each Minister of the Crown and the monopoly provider in relation to the recommendations of the Commission. The Portfolio Minister must either accept the Commission's recommendations in relation to the

maximum prices, or take some alternative decision about those maximum prices.

- ⇒ The Portfolio Minister must then make an order (which is disallowable in Parliament) that gives effect to that decision.
- ⇒ The Act further requires that the monopoly provider must, during the 60 days between when the order is made and when it takes effect, re-determine its prices, tariffs or charges so that new arrangements are in place to conform with the order from the day it commences.
- ⇒ In re-setting its prices and in varying those prices at any time during the next three years, the monopoly provider must obtain a certificate from the Commission to the effect that the proposed prices are within the maximum prices which have been established by the order.

In all other cases, the Act simply requires that after receiving a final report the Portfolio Minister, after consulting with each Minister of the Crown and the monopoly provider, must determine the maximum prices to be charged by the monopoly provider during the next three years and take such action as is necessary to ensure that those maximum prices are met.

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**APPENDIX B****Government Prices Oversight Commission  
Payment to Consultants 1997-98**

K Prendergast	\$1 000	Terms of reference for review of network expenditure proposals
Intelligent Energy Systems	\$8 057	Review of network expenditure proposals and national generation price forecasts
R Kelly	\$4 800	Customer capital contributions
Erlunda Associates	\$12 450	Network and retail electricity pricing
Sinclair Knight Merz	\$22 363	Valuation of HEC network assets