

National Consumers Electricity Advocacy Panel

Request for comment on paper:

Determination of Electricity Advocacy Funding Requirement for 2007/2008 Financial Year

Response by

Australian Council of Social Service (ACOSS)

ACOSS is pleased to take the opportunity to contribute to deliberations by the Panel regarding its approaches to funding. ACOSS is the peak council of the community welfare sector in Australia and the national voice for the needs of people affected by poverty and inequality. Our interest in the Panel is primarily the result of our interest in matters affecting disadvantaged Australians.

ACOSS acknowledges an interest in these processes as the beneficiary of a current Panel grant. We note that as the peak council of the community welfare sector, we have considerable experience in working with grant-making bodies and hope that our remarks below reflect that experience.

The state of the Market

While the National Electricity Market (NEM) is not yet mature and its operations are in some respects provisional, the policy, legislative, technical and regulatory frameworks of the NEM are well developed. Our sense of the NEM is that work to finalise its design, at least the initial design, will be near complete by the end of 2007.

The agenda for work to that end, set out by the Ministerial Council on Energy (MCE) and others, is extensive. There are still significant areas of unresolved detail. Many of those areas are of particular interest and relevance to the ACOSS constituency. The convergence of the electricity and gas markets, notably at the retail level, may present additional challenges in the near future.

It is perhaps worth noting that the current operation of the NEM, its participants individually and collectively, is informing developmental work. The task of monitoring and analysing the current and progressing state of the NEM is something of a task in itself. Many of the domestic end-user voices have some role in this work.

Beyond January 2008 there will, of course, be continuing work in developmental areas (demand management, energy efficiency and metrology for example) and operational areas (consumer protection, reviews of the effectiveness of competition, pricing, revenue and so on). We hope that the NEM per se is the subject of regular review against the terms of the NEM objective.

The Council of Australian Governments (COAG) may have presaged a further stage of development for the NEM with its Energy Reform Implementation Group (ERIG). The advent of ERIG has had a considerable (and at April of this year, largely unpredictable) impact on the work of many advocates, both individuals and organisations.

This response, regarding funding for the '07-'08 financial year is framed with a view to these factors, in summary:

- a high (if not, in fact, peak) workload for consumer advocates in this phase of market development;
- the likelihood that decisions made over the course of this period will significantly affect consumers for many years to come

- the need to monitor developments and impacts as they occur with a view to informing current advocacy; and
- the potential for unforeseen issues to arise, especially as a result of COAG and MCE processes and the need for contingency resources for advocacy to be available if required.

The Panel and AEMC (and NEMMCO)

As we understand the intended operation of the National Electricity Amendment (Advocacy Panel) Rule 2006 No.8 at 8.10.5 (b) and (c), the Panel must submit its proposed funding requirements to the Australian Energy Market Commission (AEMC) not later than 12 February each year ie for the following financial year. In turn the AEMC is expected to respond [approve] funding not later than 14 March or in the worst case to have in place a bridging arrangement not later than 31 March. At p.3 the Panel's paper asserts that

[T]his presents a challenge to the Panel in that if it allocates all of its available funds for a year and then an unforeseen, urgent issue arises, there is no mechanism by which the Panel can obtain additional funds from NEMMCO to allocate to the new issue. Consequently, end-users' views may not be heard on an issue that is important to them with the result that regulatory authorities and decision makers such as the MCE may be denied important information.

Our sense is that, and certainly with a view to calendar year 2007 and the half year beyond, the agenda for work in the NEM is fairly clear. At Attachment A the Panel's paper included a comprehensive but not exhaustive list of work in train over this period. One could foresee circumstances in which work on aspects of the agenda became drawn out and or new items of some significance were added to the agenda. Were this to happen after the Panel had allocated all or most of its budget, additional resources would be required.

Our reading of the Rule is that it is silent on the matter of the Panel seeking a variation in the funding requirements for end-user advocacy. The prospect is not specifically excluded. The requirement for 'exceptional circumstances' as grounds for seeking a variation in Panel expenses might be assumed as grounds for seeking a variation (ie an increase) in funds for end-user advocacy should the Panel have exhausted funds available for that purpose. Although not desirable this would seem a better course than the denial of information to decision-makers.

Budget for 'Project Costs' – Grant Funding

The logic behind the Panel's proposals in this regard would seem to be sound and allow for a reasonable number of both funded advocate positions and discrete projects. We will reiterate our earlier remark such that the next 18 months present a demanding and critical period for consumer advocates. ACOSS has two reservations about the total sought.

Firstly, we recommend that the Panel acknowledge the contribution to capacity building and sector development made by the National Consumers' Roundtable on Energy, a project based at the Consumer Action Law Centre but, effectively, a joint project of the domestic small end user sector. This project, funded at a cost to the Panel of approximately \$100,000 in year '06-'07, has resulted in more effective representation on a wide range of NEM-related issues by consumer advocates. It offers great potential as a resource for advocates in the gas market. It represents very good value for money. It may be that the Roundtable extends its membership or needs to meet more frequently; its costs will certainly increase as a result of inflation. We suggest to the Panel that it assume responsibility for continued funding of the Roundtable at a similar cost in '07-'08 and increase the overall budget for project costs accordingly.

Secondly, the Panel's paper notes that the Panel has budgeted for retained earnings of \$222,692 at 30 June 2007 and to expend \$100,000 of that sum to cover the deficit of expenditure over revenue in the following financial year. We suggest that, given the real potential for unanticipated demands on grant funds in '07-'08, the Panel should seek from AEMC the total amount it anticipates will be required, thereby leaving a more reasonable pool of funds for 'emergencies'. If these funds are not called on in '07-'08 the Panel might then part-fund '08-'09 operations from retained earnings.

Budget for Advocacy Panel Operating Costs

In a recent response to two other papers issued by the Panel, ACOSS expressed concern at what we regard as very high administrative costs relative to grants made. Approximately one quarter of revenue will be expended on internal administration in '07-'08. Given a more or less break even budget, the same ratio applies vis expenditure ie about 25% of expenditure is on account of internal administration. In the year ended 30 June 2005 the ratio was similar. The budget for operating costs in '07-'08 is \$553,308, the budget in '06-'07 is \$507,308. Actual operating costs including salaries in '04-'05 totalled \$369,274 and in '03-'04 totalled \$277,450. Actual costs for '05-'06 have not yet been published.

From year ended 30 June 05 to year ended 30 June 08 rent will have nearly doubled from \$6,800 to \$12,000.

Of particular concern is the budget for staff salaries and superannuation. The paper notes that, to date (and in the '06-'07 year), the Panel has employed one person on a part-time basis and that the budget for that position in '06-'07 is \$181,911 inclusive of superannuation (and apparently other on-costs as they are not listed separately: workers' compensation insurance, annual leave loading, etc). That figure would seem to be rather high, not least when compared with the result for year '04-'05: approximately (and generously) \$70,627 *. The proposed budget for '07-'08 of \$252,273 is close to a quadrupling.

[* As per Annual Report 2004-2005, *Trading, Income and Expenditure Statement* the sum of Insurance – Workcover \$1503, Meeting Minute Taker \$1802, Secretarial Services \$4177, Superannuation Contributions \$15,516 (estimate based on total \$29,785 less contributions on account of Panel members (9% of \$158,550 = \$14,269 leaving \$15,516 although this would seem to be inexplicably high), Temporary Staff – Administrative \$16,290 and Wages \$31,339].

The paper suggests elsewhere that the cost of funding an advocate position in an organisation will average about \$73,701 in year '06-'07 and \$85,000 in '07-'08. Even allowing for an executive director with specialist skills on a full-time basis and an administrative assistant, it seems that a projection of \$252,273 is rather high. The proposed cost of **two** Panel employees is approximately the same proposed cost of funding **four** external advocate positions if costs such as rent and utilities are factored in.

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In summary **ACOSS recommends that the Panel:**

- increase its budget for project costs in '07-'08 by \$100,000 to allow for continued resourcing of the National Consumers' Roundtable on Energy;
- increase by \$200,000 the amount sought from the AEMC with a view to holding in reserve the estimated \$222,692 (retained funds) as a source of funds for end-user advocacy in the event of unforeseen demand over '07-'08 (ie with the increase suggested above, to budget for break even over '07-'08);
- seek clarification from the AEMC with regard to the prospect of requesting a variation (ie increase) in the agreed funding requirement to meet an increase in demand for funding for end-user advocacy (and particularly in circumstances where this demand results from events unforeseeable at the time of advising the requirement);
- seek to minimise its operating expenses within reason and relative to the amounts made available for project funding (ie grants).