



Consumer Advocacy
C/- MCE Market Reform
Department of Industry, Tourism & Resources
GPO Box 9839
CANBERRA ACT 2601

MCEMarketReform@industry.gov.au

Re: Consumer Advocacy

The Energy Intensive Industries Alliance has assessed the four options for consumer advocacy outlined in the Consumer Advocacy Consultation Paper. This submission contains an alternative approach to the provision of "effective and strategic consumer advocacy" across the energy market that would be more effective and less costly than the options presented. Of the options in the paper, Option 4 (Consultative Committee led by a Board and Executive Director) is the closest to the Alliance's preferred model, although more cumbersome and expensive for little or no extra benefit.

The Alliance represents the interests of industries -- and in particular cement, paper, aluminium and plastics and chemical industries -- where energy is a substantial proportion of production costs and where the cost and reliability of its supply is an important contributor to the competitiveness of trade-exposed businesses. The Alliance membership embraces large-scale companies and sites as well as a number of small and medium-sized facilities, including timber processing plants, plastics production businesses and chemical companies. Energy costs can account for up to 25 percent of the cost of members' production.

The major energy-intensive manufacturers account for about a third of Australia's electricity consumption and contribute 12 percent of gross national domestic product, 12 percent of full-time employment and 20 percent of national capital.

The Alliance seeks to ensure that the CoAG Ministerial Council on Energy accepts that the long-term interest of consumers is the test for all developments in the market reform process currently and in the future. Critical to achieving this situation is the provision of arrangements where energy users have the expertise, resources and ability to participate actively, receiving and responding to market signals -- and where market

developments are comprehensively, efficiently and effectively exposed to the perspectives of energy-intensive companies, including small and medium enterprises.

While welcoming the MCE focus on consumer advocacy requirements in the national energy market, and acknowledging the useful insights in to advocacy model options provided by the KPMG study, the Alliance believes that the conclusions drawn in the paper do not fully capture the potential for industrial users to provide input to market operations and development.

In the Alliance's perception, one of the critical factors that reduces the effectiveness of the MCE/KPMG approach is the attempt to conflate the interests of residential customers and small businesses on the one hand and large, energy-intensive customers on the other.

In particular, the consultation paper places emphasis on representation of customer interests through a new body. This may be of value to small customers but it is of marginal benefit to large industrial consumers, who already have representative bodies in operation.

In addition, it is impractical for any one body to satisfactorily deal with the interests of small and large consumers.

The Alliance perceives that an over-arching problem in the mooted approaches to consumer advocacy support is a view in government and among energy suppliers that "users" are passive in complex, technology-based industries and, as such, must have their interests looked after for them.

This implies that what is in the best long-term interest of consumers can be determined by governments and by those engaged in infrastructure development.

The Alliance, on the contrary, argues that the market must be driven by the genuine needs of consumers and that any advocacy support arrangements must be designed to facilitate direct, informed input by the full spectrum of consumer interests.

It is clear from the MCE public forums held on this issue that there is a very strong Council emphasis on residential customer needs. While the Alliance appreciates that this is important, the consumer advocacy arrangements for the national energy market need to reflect the economic importance of the energy-intensive industry sector and the fact that one third of the electricity consumed in Australia is used by this sector.

While it may be appropriate for the MCE advocacy arrangements to include the means of making a case on behalf of residential consumers, energy-intensive companies do not need third party intervention. They are seeking a process that will assist and facilitate activity by user industry itself.

Energy-intensive manufacturers, including small and medium-sized companies, do not require administrative support and representation capabilities to be provided for them -- rather, they need access to funds to enable them to engage in a policy (and rule) formulation process which at present is skewed heavily in favour of the energy supply industry, much of which is still owned by government.

The Alliance suggests that a practical means of addressing this problem is for the MCE to establish a split-funding arrangement to cater for the differing needs of small and large consumers, with the support for energy-intensive industry through allocation of funds to groups representing industrial users.

It is not for the Alliance to propose how small consumer advocacy needs should be addressed under the option now put forward by industry, but it needs to be emphasized that the funding arrangements should be separate from large-user advocacy to prevent the interests of either user group being compromised. Accordingly, the following comments are provided on how the large-user advocacy funding could be managed.

The Alliance concurs with the KPMG view that the current Panel has performed a useful role in funding projects that have allowed valuable work to be undertaken which would probably not otherwise have been possible and in deploying funding for advocacy in a way responsive to certain current issues. However, it also agrees with KPMG that the existing panel process is cumbersome and time-consuming with respect to managing the submissions for funds allocation and it concurs that the current process is not the optimum model for supporting consumer advocacy in the current and emerging national energy market.

The Alliance believes that the key criteria for a new approach should be a funding entity's:

- capacity to deliver financial support efficiently and at minimum cost;
- accountability and transparency in funding processes;
- lack of bias towards any part of the spectrum of consumers;
- adequate capacity to meet the funding required to support consumer needs, including the undertaking of research and of activity to inform and educate end-users about the energy market;
- exclusion of energy suppliers from participation in the process;
- guarantee from supporting governments of a stable, long-term basis for operation and freedom from interference in its activities;
- ability to operate nationally.

The Alliance believes that adherence to these criteria will lead to a requirement for only a small oversight and administrative approach, involving a committee consisting of no more than a chair person and two or three panel members knowledgeable in energy matters and end-user impacts.

A key issue is accountability for funding management and, given the split arrangement it is proposing, the Alliance further suggests that the new

committee could be harboured within the Australian Energy Market Commission in a similar manner to the present placement of the existing Panel within NECA.

Funding under these arrangements should be allocated by MCE, not the AEMC, on a long-term basis (perhaps five years) with appropriate arrangements for CPI adjustment as required by circumstances. The MCE should take responsibility for splitting the amount of funds provided between small and large consumers rather than leaving this to the committee.

It would be sensible also to provide a "sunset clause" for the committee's operating arrangements, requiring review every five years. The energy market environment has exhibited considerable capacity to change over the past decade and the consumer advocacy support arrangements need from time to time to be adjusted to cope with these changes.

Essentially, under the arrangement proposed by the Alliance, the consumer advocacy support committee's task would be to distribute funds to energy-intensive and other business interests to address consumer needs as represented through bids for support.

This approach does not require any form of advocacy by the funding committee itself, nor "a high degree of technical expertise" administratively and needs only a small support secretariat. In particular, this approach does not require the committee to "select and prioritise issues requiring advocacy" as its role will be to only allocate funds against clear criteria to consumer representatives to meet their needs and priorities.

A further issue requiring emphasis is the need for energy suppliers to be excluded from control or influence of this funding process. The Alliance can see no case for supplier involvement in deciding how much funding is provided (a matter for the MCE) or where, and under what conditions, it is allocated (a matter for an independent panel).

In conclusion, the Alliance is grateful that the MCE has undertaken this exercise to examine consumer advocacy needs. While none of the options presented can be fully supported, the Alliance has proposed a model, similar to Option 4, that would operate more effectively and cheaply.

The Energy Market Reform process is at a key stage. The challenge for policy-makers now is to embrace the core proposition put forward repeatedly by users, in order to meet one of the stated objectives of the reform process, that end-users must be provided with an equitable voice in Australian energy market decision-making.

Decision-makers must be as exposed to the views of end-users as they are to those of energy suppliers, particularly because most governments still retain ownership of significant electricity supply assets.

Without this approach, the dissatisfaction of end-users over a number of key energy market issues can only increase to the long-term detriment of the energy market and the Australian economy more broadly.

Yours faithfully

Miles Prosser
Senior Policy Analyst (A3P)
(for Energy Intensive Industries Alliance)