

# Consumer Advocacy Panel

## 2009/10 DRAFT BUDGET

for stakeholder consultation

revised version  
29 September 2008

### *How to comment on the Panel's draft budget*

In accordance with the *AEMC Establishment Act Regulations 2005*, the Consumer Advocacy Panel must consult with stakeholders on the preparation of its draft budget, including by publishing it on its website, at least 4 weeks before the budget is finalised for submission to the Ministerial Council on Energy (MCE).

**The Panel is seeking comment from stakeholders on the Draft 2009/10 Budget by **close of business 24 October 2008**.**

Submissions on the Panel should be sent by email to [info@advocacypanel.com.au](mailto:info@advocacypanel.com.au).

Any questions should be directed to the Panel's Executive Director, Kerry Connors, by email to [kerry.connors@advocacypanel.com.au](mailto:kerry.connors@advocacypanel.com.au) or by phone at 02 8296 7880.

## Introduction

The following sets out the Panel's initial estimates of the budget required to provide adequate support to energy and gas consumers and ensure the Panel can perform its functions in 2009/10.

In 2009/10, energy consumer advocates will continue to be asked to participate in a demanding energy reform agenda, as well as to represent their constituencies in ongoing regulatory decisions. Overlaying that 'business as usual' activity, the Panel believes it will receive significantly more funding applications for advocacy and research projects, with the emergence of implementation issues relating to the introduction of the Carbon Pollution Reduction Scheme, and concomitant government and industry programs targeting energy consumption within a broader climate change response.

The Panel's additional capacity to promote its services through the new full-time Executive Director is also expected to increase the number and diversity of organisations engaged in the sector. In developing its draft budget, the Panel has been cognisant of the volatility of the environment in which it operates, and has tried to minimise costs where possible.

To meet increased demand, the Panel is seeking an overall budget of \$3,759,571 (an increase of 22% to the 2008/09 budget), to ensure it is able to meet increased demand from consumer organisations. That increase is almost entirely for external funding applications – the Panel's administrative and research budgets have increased only in line with CPI, or with new governance requirements imposed as a result of its amended legislative status.

### **Background – the Panel's statutory obligations**

Under section 41 of the *Australian Energy Market Commission Establishment Act 2004*, the Consumer Advocacy Panel must submit a budget for the 2009/10 financial year for the approval of the Ministerial Council on Energy (MCE) by 31 October 2008.

The Act stipulates that the Panel's budget must:

- Allocate administrative costs relating to the performance of the Panel's function into three categories: those relating to electricity consumers, those relating to gas consumers, and those relevant to both gas and electricity consumers;
- Allocate grants to the following categories:
  - Consumer advocacy projects for the benefit of electricity consumers;
  - Research projects for the benefit of electricity consumers;
  - Consumer advocacy projects for the benefit of gas consumers;
  - Research projects for the benefit of gas consumers; and
  - Consumer advocacy or research projects for the joint benefit of electricity and gas consumers.

In preparing its budget, the Act also directs the Panel to

- Minimise administrative costs;
- Ensure that money for research projects does not exceed 25% of the total budget;
- Distinguish between research projects initiated by the Panel, and those initiated by others.

### **Consultation timetable**

In accordance with the *AEMC Establishment Act Regulations 2005*, the Panel must publish a draft copy of its budget on its website at least 4 weeks before it finalises its budget for submission to the MCE. The timetable for consultation is therefore as follows:

Friday 25 September 2008	Consultation period commences
Friday 24 October 2008	Consultation period ends
Thursday 30 October 2008	Panel formally approves the budget
Friday 31 October 2008	Final budget is delivered to the MCE and AEMC.

**The Panel is seeking comment from stakeholders on the draft 2009/10 budget by close of business 24 October 2008.**

## **Forecasting Demand**

In developing the budget for advocacy and research projects, the Panel has taken the view that demand will come from two different sources:

- The first essentially represents 'business as usual' – those policy and regulatory issues and processes that have been part of the energy reform agenda over the past few years. As such, future demand can be extrapolated from past years' growth in grant applications, which has followed a steady upward trend, reflecting the growth in number and expertise of consumer organisations participating in these decisions.
- The second are the emerging consumer energy issues, driven largely by climate change policy responses, which will add to, not replace, the existing level of consumer advocacy.

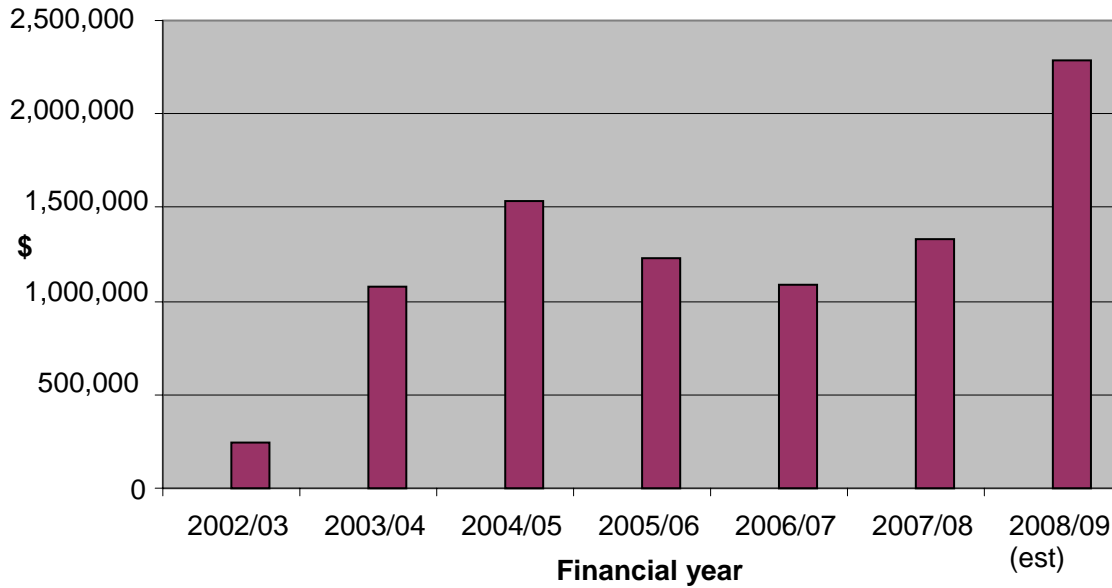
The following outlines in more detail the rationale for the proposed increase to the Panel budget, identifying the major issues, processes and trends that the Panel believes will impact demand in 2009/10.

### ***'Business as usual' consumer energy issues***

The Panel is aware of the following major decisions which will be taken or implemented in 2009/10:

- MCE reform agenda, including the introduction of the national energy consumer framework and associated transitional issues as jurisdictions cede regulation of retail and distribution (non-economic); work on a national roll-out of smart meters, including consumer participation in the various associated working groups; proposed changes to improve the uptake of renewable embedded generation; and continued progress on the National Framework for Energy Efficiency;
- Australian Energy Market Commission (AEMC) work program, including rule changes arising from its review of demand side participation, scheduled reviews such as the review of reliability standards and the review of the effectiveness of competition in NSW and perhaps the ACT. In addition, the AEMC will have to deal with electricity and gas rule changes proposed by other parties;
- Australian Energy Regulator's (AER) work program, which will see distribution network pricing determinations for South Australia, Victoria and Queensland;
- Australian Energy Market Operator (AEMO) establishment and exercise of its new national transmission planning function, as well as continued development of gas wholesale market mechanisms, including the bulletin board and gas statement of opportunities;
- Jurisdictional reviews and processes with national implications:
  - In Victoria, the roll-out of smart meters, and the impact of retail price deregulation and the effectiveness of measures strengthening information disclosure;
  - NSW may see the sale of its energy retailers, and will be managing the transition out of the gas continuity scheme and the transition of the Greenhouse Gas Abatement Scheme to a national emissions trading system;
  - Tasmania's move to full retail competition for certain classes of consumers (yet to be finalised) will come into effect on 1 July 2010, as may the introduction of feed-in tariffs;
  - South Australia will be acting on the outcomes of the AEMC's review of the effectiveness of competition, and potentially preparing the next retail price determination;
  - ACT may be the subject of an AEMC review of full retail competition; and
  - Queensland has announced a series of initiatives in relation to emerging problems since the introduction of full retail competition which will be implemented or becoming operational in 2009/10.

### Advocacy Panel: approved applications for funding 2001-2009



As at 26 September 2008, the Panel had approved 18 applications so far for the 2008/09 financial year, totalling \$1,107,034, indicating it is on track to meet its budget estimate of 72 projects (funding applications and research). A full list of approved applications is at Appendix 1.

A breakdown of approved applications by NEM issue since the Panel's establishment in 2001 is at Appendix 2, and highlights the steady demand for applications to fund consumer advocates within an organisation (advocacy/capacity-building) over the last 3 years, indicating any increase arising from emerging issues is unlikely to affect existing demand.

#### ***Meeting new demand – emerging energy consumer issues***

In addition to the processes outlined above, there are a number of emerging issues that the Panel believe will generate significantly increased new demand for its resources, in order to facilitate effective and informed input by energy consumers to government and regulatory decisions. These include

- Impact of, and implementation issues relating to, the introduction of the Carbon Pollution Reduction Scheme (CPRS)
  - Including rule changes arising from the AEMC review of the impact of the CPRS and expanded Renewable Energy Target (RET) on the NEM
- Consolidation of state renewable energy targets into the Commonwealth-administered RET
- State and Commonwealth Government policies targeting energy consumption, including
  - Federal initiatives arising from the deliberations of the COAG Working Group on climate change
  - State Government energy efficiency programs, for large users and households
- Continued upward pressure on electricity and gas prices, driven in electricity by input and capacity constraints, as well as through the CPRS and smart meters, and in gas due to high demand overseas for LNG and in Australia for use in electricity generation
  - Driving the introduction of Commonwealth and State Government changes to rebates/concession schemes to assist affordability
- Further impetus to energy reform as a result of the Commonwealth development of an Energy White Paper.

The Panel acknowledges that its estimation of the impact of these trends on the number and size of grant applications is of necessity somewhat speculative. However, 2009/10 will clearly be a watershed year for energy consumers, and the Panel believes it prudent to err on the side of caution, to ensure that consumer organisations are adequately resourced at a time of great change in markets and policy and regulatory frameworks.

It should be noted that the Panel would not expect this level of demand to continue indefinitely. Over the next few years, as the reform agenda is implemented and the impact of emissions trading incorporated into the operations of the NEM, it would be reasonable to expect growth in demand to decrease, as energy becomes less of a priority for generalist consumer organisations.

### **Research projects**

The Panel's capacity to initiate research is a new addition to its functions and there have been no research projects initiated by the Panel or by others so far this financial year, largely because Panel resources have been devoted to the establishment of the new Consumer Advocacy Panel office in Sydney.

That is expected however to change rapidly, with the Executive Director already beginning to consult stakeholders on how that capacity might best be utilised.

As has been previously affirmed, the Panel anticipates it would commission research on issues or topics that are not being undertaken by other organisations and are perceived to be of benefit to a number of classes of consumers.

**The Panel seeks stakeholder views on the level of likely demand, particularly on the accuracy and comprehensiveness of the listed 'business as usual' and 'emerging' issues above.**

## **Advocacy and research budget 2009/10**

The Panel has produced a forecast of grant applications for 2009/10, outlined in the following table. The assumptions underlying that forecast are as follows:

- The breadth and pace of change to the National Energy Market in 2009/10 will undoubtedly generate an increase in grant applications by consumer organisations. Using past growth as a guide, the Panel estimates it will receive an additional 6 electricity, 4 gas and 7 joint electricity and gas advocacy projects, reflecting the increased range of policy and regulatory decisions in which consumers will be asked to participate;
- As well, the Panel estimates that it will receive an additional 2 applications to fund staff/capacity-building projects in both electricity and in gas, meaning there will be 10 electricity and 3 gas applications received in 2009/10;
- That while the number of applications would increase, reflecting the engagement of more consumer organisations and the greater range of consumer energy issues, there would not necessarily be any real increase in the value of the average application. There have therefore been only CPI adjustments made to 2009/10 costs, based on the forecast approved by the MCE in 2008/09;
- That the number of research projects initiated by consumer organisations will increase in 2009/10, driven by the volatility of the environment and increased expertise in gas issues. The number of research projects initiated by the Panel will not change, reflecting the limited capacity of the Panel to manage more research projects within a 12 month period. The Panel does not believe that the real value of those projects needs to change. As such, a CPI adjustment has been made reflecting the forecasts approved by the MCE in 2008/09; and
- That the number and costs of evaluations would increase in 2009/10, reflecting increased applications received, but that the cost should be able to be standardised across each type.

**The Panel seeks stakeholder views on the assumptions outlined above, particularly on:**

- **level of forecast growth; and**
- **estimated value of funding applications.**

The following outlines the Panel's forecast of funding applications it expects to receive in 2009/10.

**Table 1: Forecast funding applications by grant category, 2008/09 and 2009/10**

Grant category	Project type	No. of projects	Average cost	2008/09 (revised est)	No. of projects	Average cost	2009/10 (est)
<b>Advocacy</b>	Electricity Advocacy Projects						
	o staff/capacity-building	8	95,000	760,000	10	98,800	988,000
	o advocacy	31	27,000	837,000	37	28,080	1,038,960
	Gas Advocacy Projects						
	o staff/capacity-building	1	95,000	95,000	3	98,800	296,400
	o advocacy	7	27,000	189,000	11	28,080	308,880
	Joint Advocacy Projects						
	o staff/capacity-building						
	o advocacy	4	27,000	108,000	11	28,080	308,880
<b>Research</b>	Panel initiated						
	• Electricity research	2	27,000	54,000	2	28,080	56,160
	• Gas research	1	27,000	27,000	1	28,080	28,080
	• Joint Research	1	27,000	27,000	1	28,080	28,080
	Stakeholder initiated						
	• Electricity research	3	27,000	81,000	3	28,080	84,240
	• Gas research	2	27,000	54,000	3	28,080	84,240
	• Joint Research	1	27,000	27,000	2	28,080	56,160
	<b>TOTAL</b>		<b>61</b>		<b>2,259,000</b>	<b>83</b>	
<b>Evaluation</b>	Evaluation of electricity projects	8	4562.50	36,500	10	5,000	50,000
	Evaluation of gas projects	2	5,855	11,710	4	5,000	20,000
	Evaluation of joint projects	2	5,000	10,000	2	5,000	10,000
	<b>TOTAL</b>	<b>73</b>		<b>\$2,317,210</b>	<b>99</b>		<b>\$3,358,080</b>

### Administrative costs budget 2009/10

The Panel's principal administrative costs consist of staff wages, member sitting fees, audit and accounting costs, and meeting expenses.

The main assumptions underlying the main costs in the administrative budget are:

- o A part-time administrative assistant (0.5EFT) will be engaged to support the work of the Panel. The engagement of a full-time Executive Director in 2008/09 is expected to generate a more proactive approach to promotion of the Panel with consumer organisations, and so lead to an increase in the number and diversity of funding applications. By 2009/10, it is expected that the Panel's workload will require additional administrative support;
- o The Panel will continue to meet monthly. Eight face-to-face meetings will be held, rotating between capital cities to facilitate contact with stakeholders;
- o In addition, it is estimated that Panel members will be engaged on Panel business for an average of two days per month.

**Table 2: Advocacy Panel Administrative Costs 2007/08 – 2009/10**

Advocacy Panel Administrative Costs	2007/08 (actual)	2008/09 (revised est)	2009/10
<b>Panel Expenses</b>			
• Staff salaries and superannuation	119,705	143,420	167,894
• Panel Members sitting fees and superannuation	54,826	93,888	93,888
• Panel Meeting Expenses <sup>1</sup>	42,676	40,400	35,400
<b>Administrative Expenses</b>			
• Rent	10,200	12,660	13,743
• Accounting and Audit <sup>2</sup>	13,000	40,557	48,076
• Advertising	0	4,000	4,000
• Bank charges	156	240	440
• Conference costs	0	3,000	3,500
• Consultant's advice	62,938		
o consultancy fees - electricity		10,000	10,000
o consultancy fees – gas		10,000	5,000
o consultancy fees – joint		0	10,000
• Couriers and messengers	379	400	400
• Internet expenses	1,892	2,000	2,200
• Printing and stationery	1,138	2,000	2,250
• Staff recruitment costs <sup>3</sup>		350	
• Subscriptions	600	700	700
• Telephone <sup>4</sup>	698	0	0
• Travel		4,000	4,000
• Workcover insurance <sup>5</sup>	328	0	0
<b>TOTAL</b>	<b>308,536</b>	<b>367,615</b>	<b>401,491</b>
%age of total Panel funding requirement	9.8%	17%	10%

<sup>1</sup> Variation the result of reduced travel costs with move of office to Sydney.

<sup>2</sup> Variation due to requirement to comply with reporting and auditing obligations of AEMC. Please note that costs are indicative only, with estimates at the high end until new processes are bedded down.

<sup>3</sup> Recruitment of administrative assistant

<sup>4</sup> Telephone expenses now included in rent paid to AEMC

<sup>5</sup> AEMC meets insurance costs of staff working to Advocacy Panel

## Proposed funding requirement for 2009/10

### **Cost allocation between electricity and gas**

Under the *AEMC Establishment Act 2005*, the Panel's funding comes from two sources – NEMMCO for advocacy, research and administrative costs relating to electricity advocacy, and the AEMC for equivalent costs relating to gas advocacy.

In its budget, the Panel is required to allocate costs between the two funding sources.

As was its practice in 2008/09, the Panel intends to allocate costs as follows.

In relation to consumer advocacy and research project costs, the allocation of cost by funding source will be based on the Panel's assessment of the funded project:

- If an advocacy or research project relates fundamentally to a particular energy category (electricity or gas), the cost will be allocated to that category for funding purposes. In the event that a project relates fundamentally to one energy type although it has an inconsequential relationship to the other energy type, the Panel will allocate that project's costs to the 'fundamental' energy type;
- If an advocacy or research project is for the joint benefit of consumers of electricity and consumers of gas, the cost will be allocated equally to each energy type.

Administrative costs that relate to the performance of the Panel's functions relevant only to electricity consumers or only to gas consumers will be allocated to the relevant energy category:

- Costs will be allocated based on the reason for the cost. If the cost was incurred specifically to benefit only electricity consumers, it will be allocated to that energy category for funding purposes. Where a project relates primarily to one energy category, although it has an inconsequential relationship to the other, the Panel will allocate that project to the primary energy category. In 2009/10, the sole administrative cost thus allocated will be in relation to consultants' fees;
- All other administrative costs (joint costs) will be allocated between electricity and gas based on the budgeted value of advocacy and research projects for the year.

The bulk of the Panel's administrative costs will be joint costs (e.g. staff salaries, Panel member sitting fees, rent, meeting expenses, etc) because they result from Panel functions that are relevant to both consumers of electricity and consumers of gas.

The rationale behind the allocation of joint costs is essentially relating to advocacy and research projects or administrative costs that provide equal benefit to electricity consumers and gas consumers.

By allocating joint administrative costs on the basis of the cost of advocacy and research projects, the Panel is, in effect, allocating joint costs relative to the amount of administrative effort expended on each energy type. This assumes that the effort involved by the Panel in considering projects is the same irrespective of whether the project relates to electricity, gas or to both.

As was accepted in 2008/09, the Panel has decided that joint costs will be split between NEMMCO and the AEMC, based on the budgeted value of electricity and gas advocacy and research projects respectively. To test the reasonableness of that division, in 2008/09 the Panel decided it would, during the first two years of its new arrangements, survey the advocates and researchers who undertook joint projects to obtain their estimation of how much of their effort in the projects was devoted to each energy type. This experience can then be drawn on in subsequent budgets.

### **Funding requirement of NEMMCO and the AEMC**

The Panel calculates the funding required of NEMMCO and the AEMC based on the project and administrative cost budgets discussed above, the methodology proposed for allocating joint costs, and taking into account surplus funds from previous financial years and interest on funds on hand.

As a result of advocacy projects and administrative costs being less than estimated, the Panel has in the past carried over a significant portion of its funding, using those monies to

- ensure the Panel has adequate liquidity to meet demand – NEMMCO pays its contribution to the Panel in monthly instalments, and the Panel holds funds in reserve to ensure it can provide support within budget, given demand can be lumpy; and

- reduce the funding requirement that would otherwise be required.

In calculating the funding required of NEMMCO, the Panel has taken into account the estimated surplus funds it will have on hand at 30 June 2009, detailed in the following table.

**Table 3: Retained funds**

	<b>Electricity funding</b>	<b>Gas funding</b>	<b>Total</b>
<b>Gross retained funds carried over at 30 June 2008</b>	1,605,755		1,605,755
• Less balance owing on projects until 30/6/2008	419,999		419,999
<b>total net accumulated funds</b>	1,185,756		1,185,756
<b>Revenue 08/09</b>			
• NEMMCO funding	1,805,860		1,805,860
• AEMC funding		550,000	550,000
• Interest	55,000		55,000
<b>total</b>	1,860,860	550,000	2,410,860
<b>Expenditure 08/09</b>			
• Forecast project funding to 30 June 2008	1,813,000	441,386	2,254,386
• Evaluation of projects	41,500	16,710	58,210
• Forecast administrative costs to 30 June 2008	275,711	91,904	367,615
<b>total</b>	2,130,211	550,000	2,680,211
<b>Surplus (Deficit) for 2008/09</b>	-269,351	0	-269,351
Less retained reserve as at 30 June 2009 <sup>1</sup>	-516,045		-516,045
<b>Net retained funds available for reallocation in 2009/10<sup>2</sup></b>	<b>400,000</b>	<b>0</b>	<b>400,000</b>

<sup>1</sup> Reflecting Panel's inability to adjust its budget to react to the emergence of unforeseen important consumer energy issues or grant costs, the Panel has proposed to retain a reserve that would be able to be accessed if necessary in 2009/10, and any unspent funds could be then used to reduce the 2010/11 funding requirement.

<sup>2</sup> Please note that this amount will not equate to the amount of cash in hand at 30 June 2009, as there will be grant funds approved and allocated in 2008/09 for which the Panel will not have been invoiced as at 30 June 2009.

Table 4 below outlines the Panel's summary budget and funding requirements for the year ending 30 June 2010, and reflect the forecast 24% increase in funding applications that will be received as a result of policy and regulatory decisions arising from climate change policy responses.

The Panel is very aware that its costs are ultimately borne by energy consumers, and does not seek this increase to its funding lightly. But 2009/10 promises to be a watershed year of reform in the National Energy Market (NEM), and the Panel is of the opinion that the additional impost on energy consumers is justified by the value of informed consumer advocacy in policy and regulatory decisions.

In summary, the funding requirement is as follows:

- To support consumer advocacy relating to electricity, the Panel is seeking \$2,307,193 (exc GST) from NEMMCO.
- To support consumer advocacy relating to gas, the Panel is seeking \$1,052,378 (exc GST) from the AEMC.



**Appendix 1: Grants approved year to date 2008/09 (as at 26 September 2008)**

CUSTOMER CLASS (D=domestic, B=business user)	PROJECT TYPE	APPLICANT	PROJECT	AMOUNT FUNDED
B	Elect Adv	MEU	NEM Rule change proposal to mitigate the exercise of generator market power	\$38,400
B	Elect Adv	EUAA	NEM advocacy 2008-9	\$146,538
B	Elect Adv	MEU	AER review of WACC for transmission and distribution networks	\$39,504
B	Elect Adv	MEU	Respond to ElectraNet appeal to Australian Competition Tribunal over AER's decision of 2008	\$27,952
D	Elect Adv	CALC	NEM Network coordinator and researcher and Roundtable meetings	\$146,148
D	Elect Adv	ACOSS	NEM advocate 2008-9	\$113,673
D	Elect Adv	CCCL	Advocacy and research for Queensland small end-users 2008-2009	\$127,440
D	Elect Adv	ATA	Advocacy for renewable energy micro-generation in the NEM 2008-9	\$52,564
D	Elect Adv	TEC	NEM advocacy 2008-9	\$73,660
D	Elect Adv	TASCOSS	NEM advocacy 2008-9	\$36,934
D	Elect Adv	ACOSS	Travel costs for consumer representatives on the National Smart Meter Working Groups 2008/9	\$35,991
B	Elect Adv	EUAA	Impacts of an emissions trading scheme on the NEM	\$168,000
			<b>Total electricity advocacy grants</b>	<b>\$1,006,804</b>
B	Gas Adv	EUAA	BG Group PLC Proposed Acquisition of Origin Energy Limited	\$28,000
B	Gas Adv	EUAA	Gas Market Leaders Group - participation in Steering Committee	\$36,000
B	Gas Adv	EUAA	Gas Market Leaders Group - development of GSOO	\$11,550
B	Gas Adv	MEU	NCC guideline on gas pipeline determination	\$7,840.
B	Gas Adv	MEU	NCC consideration of form of regulation for Moomba-Sydney pipeline	\$7840
B	Gas Adv	EUAA	Submission to ACCC re proposed acquisition of Sunshine Gas by QGC	\$9000
			<b>Total gas advocacy grants</b>	<b>\$88,390</b>
			<b>TOTAL GRANTS ISSUED</b>	<b>\$1,107,034.00</b>

