

**NATIONAL ELECTRICITY CONSUMERS  
ADVOCACY PANEL**

**DRAFT REPORT ON RESPONSES BY INTERESTED PARTIES TO  
THE ELECTRICITY ADVOCACY FUNDING REQUIREMENT FOR 2008/2009  
CONSULTATION PAPER ISSUED ON 13 NOVEMBER  
2007 AND DRAFT DETERMINATION**

22 January 2008

### **Call for submissions to the draft report**

Registered participants, intending participants, and interested parties are invited to make written responses to the Advocacy Panel (the Panel) on this draft report. Responses should be forwarded by email to reach the Panel's office by no later than 5.00 pm on 11 February 2008.

The Panel's contact details are as follows:

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For further details please contact the Panel's Executive Officer.

### **Consultation Process**

#### **Call for Submissions**

Under clause 8.10.5 of the National Electricity Rules (the Rules), the Panel must determine the proposed electricity advocacy funding requirement for each financial year. The proposed funding requirement must be submitted to the Australian Energy Market Commission (the AEMC) by 12 February each year for its approval. Once approved, the AEMC must provide to the Panel in respect of the financial year the amount that is the approved funding requirement and is reimbursed by the National Electricity Market Management Company (NEMMCO).

The Panel must determine the proposed funding requirement in accordance with the Rules consultation procedures and therefore a consultation paper was issued on 13 November 2007 in order that interested parties may comment on the electricity advocacy funding requirement proposed by the Panel for the 2008/2009 financial year.

A notice advising of the consultation paper and inviting responses to it was provided to NEMMCO for distribution to registered participants and intending participants. The notice was also displayed on the Panel's website and forwarded to each organisation on the Panel's distribution list of former applicants. The notice was also provided to the AEMC for its information.

The notice called for submissions to be made by no later than 5.00 pm on 20 December 2007 i.e. at least 25 working days was provided for responses.

The consultation paper proposed the funding requirement for electricity advocacy in accordance with the Panel's current responsibilities under the Rules. In view of impending changes to the Panel's responsibilities to flow from the *Australian Energy Market Commission Establishment (Consumer Advocacy Panel) Amendment Act 2007* (the Act) recently passed by the South Australian Parliament, the Panel also sought stakeholders' comments on funding for natural gas (gas) advocacy and energy research in order that the Ministerial Council on Energy (MCE), AEMC, and NEMMCO could be made aware of stakeholders' views. The Act is expected to commence on 1 July 2008.

As a result of consultation on its original paper, the Panel will in this draft report propose:

- A budget for advocacy and research on electricity and gas issues in 2008/2009 as required under the Act; and
- The funding requirement for electricity advocacy in 2008/2009, as required by the current Rules.

#### **Submissions to the consultation paper**

By the deadline for responses to the consultation paper, responses were received from:

Centre for Credit and Consumer Law at Griffith University (CCCL)  
 Australian Council on Social Service (ACOSS)  
 Ian Jarratt (Jarratt)  
 Consumer Action Law Centre (CALC)  
 Major Energy Users Inc (MEU)

In their comments on the proposed budget for electricity and gas advocacy and energy research, CCCL and ACROSS proposed increases in the budget for gas issues. CCCL, ACROSS, and CALC also proposed increases in the electricity funding requirement in order to support further training for consumer advocates.

Jarratt proposed that funding should be provided for the establishment of a national consumer advocacy centre to be supported by jurisdictional advocacy organisations, also funded by the Panel.

The MEU submitted that there should be wide consultation with stakeholders on the Panel's funding priorities and budgets. MEU also listed what it sees as the priority issues for funding. It considers that 65% of the advocacy budget should be allocated to electricity issues and 35% to gas.

No respondent requested a meeting with the Panel to discuss its response.

Respondents foreshadowed an increase in demand for advocacy funding to support the activities of existing advocacy/capacity building projects and to extend their activities. As a result, the Panel proposes the following changes to the original budget for 2008/2009:

- Advocacy/capacity building projects for gas advocacy – include three projects at a value of \$95,000 each;
- Training for consumer advocates – include the equivalent of two additional joint electricity/gas advocacy projects at a value of \$27,000 each;
- Database of advocacy information – include the equivalent of an additional gas advocacy project to the value of \$27,000 ; and
- Joint electricity/gas advocacy projects – include two additional projects to the value of \$27,000 each in order to provide a larger pool of funds for such projects. Due to the uncertainty about the level of advocacy required for gas and to the movement towards the harmonisation of the electricity and gas laws, the additional funds will give the Panel more flexibility to deal with applications.

The changes set out above are for the purposes of the budget and do not indicate approval for the projects. When detailed applications are received, the Panel will consider them in accordance with its normal processes.

The table set out below contains a summary of the issues raised in responses to the consultation paper that the Panel considered to be material and the Panel's response to each issue.

## Summary of responses

Main comments	Response
<p data-bbox="105 341 525 373">Centre for Credit and Consumer Law</p> <p data-bbox="210 389 966 454">The Panel should expand its funding requirement to enable funding of;</p> <ul data-bbox="252 454 966 925" style="list-style-type: none"> <li data-bbox="252 454 966 568">Professional development for advocacy/capacity building advocates through the conducting of master classes. The Panel rejected previous applications by CUAC to conduct such classes;</li> <li data-bbox="252 568 966 649">A national consumers energy conference during 2008 – a way of involving more Queensland end-user groups in NEM advocacy;</li> <li data-bbox="252 649 966 747">Gas advocacy in Queensland. This will involve funding another advocate to deal with issues such as regional price variations;</li> <li data-bbox="252 860 966 925">Advocacy organisations in jurisdictions that currently do not have government funded energy advocates.</li> </ul>	<p data-bbox="966 454 1789 519">Noted. The budget has been amended to enable consideration of such projects.</p> <p data-bbox="966 568 1789 633">Noted. ACOSS has submitted an application for funding for the conference.</p> <p data-bbox="966 649 1789 1039">CCCL says its advocate does not have the capacity to take on gas advocacy. Several advocacy/capacity building advocates previously suggested that they be given responsibility for gas advocacy rather than the Panel possibly duplicating resources by funding separate gas advocates. This appears not to be possible for CCCL and therefore it would be prudent to add an additional advocacy/capacity building project to the gas budget for 2008/2009. The Panel will be reviewing the major consumer classes in the national energy market, their interests, and their current involvement in energy market issues. This will enable the Panel to further consider how its funding budget ought to be allocated in order to best promote the interests of all consumers of energy while paying particular regard to benefiting small to medium consumers of energy.</p>
<p data-bbox="105 1055 525 1088">Australian Council of Social Service</p> <ul data-bbox="252 1104 966 1347" style="list-style-type: none"> <li data-bbox="252 1104 966 1201">ACOSS recommends additional funding for training of advocates (i.e. master classes) and foreshadows two such applications for training in 2007/2008 and four in 2008/2009.</li> <li data-bbox="252 1201 966 1347">ACOSS notes that an application for funding of a national energy consumer conference (\$94,455) has been submitted and foreshadows additional applications for websites for electricity (\$18,852 in 2007/2008) and gas advocacy documentation (\$14,352 in 2008/2009).</li> </ul>	<p data-bbox="966 1104 1789 1169">Noted. The budget has been amended to enable consideration of such projects.</p> <p data-bbox="966 1201 1789 1234">Noted.</p>

## Main comments

## Response

- ACOSS notes that there is no allowance in the proposed funding requirement for gas advocacy for advocacy/capacity building projects. ACOSS recommends two advocacy/capacity building projects be budgeted for as new projects or extensions to existing projects.

Noted. Two additional advocacy/capacity building projects for gas advocacy have been budgeted for.

## Ian Jarratt

- Jarratt proposes the funding of a national consumer advocacy centre and the funding of support positions in jurisdictional advocacy organisations. Therefore the funding requirement should be much greater.
- Jarratt says the Panel's funding requirement is insignificant in the overall scheme of consumer expenditure on electricity and therefore the Panel should not be concerned about the impact of the funding requirement on consumer costs.

Noted. The comment relates to the overall strategy for advocacy funding.

Noted.

## Consumer Action Law Centre

- CALC supports the training of advocates through master classes and also supports the national consumer energy conference.
- CALC says the Panel's funding prioritisation process should be flexible.

Noted.

Agreed.

## Major Energy Users Inc

- MEU says there should be wide consultation with stakeholders on advocacy priorities and budgets.
- MEU lists what it sees as the priority issues for funding.
- MEU considers that the electricity advocacy budget should represent 65% of the total budget and gas advocacy 35%.

The Panel has undertaken wide consultation as required under the Rules consultation procedures.

Noted.

Noted. In the proposed budget for 2008/2009 issued for consultation, electricity advocacy was 69%.

### **Proposed electricity and gas advocacy budget for 2008/2009**

When the Act commences, the Panel will be required to prepare an annual budget for electricity and gas advocacy that deals with the following matters:

- A budget for advocacy and research projects;
- A budget for the administrative costs of the Panel's functions;
- A methodology for allocating between electricity and gas funding the following joint costs:
  - The cost of projects in research or consumer advocacy for the joint benefit of consumers of electricity and consumers of gas;
  - Administrative costs relating to the performance of the Panel's functions relevant to both consumers of electricity and consumers of gas;
- The funding required of NEMMCO and the AEMC for the budgeted project and administrative costs.

These matters for the 2008/2009 financial year are dealt with below.

#### *Advocacy and research project budget*

Since being established in 2001, the Panel had received 304 applications for funding of electricity advocacy projects of which it resolved to provide funding for 176 projects (58% of applications). In order to be granted funding, the applicant and the project must be eligible under the funding criteria determined by the Panel following consultation with stakeholders. The criteria can be found on the Panel's website<sup>1</sup>.

An analysis of the number of projects approved each year and the value of funds allocated to projects is shown in the table below:

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<sup>1</sup> <http://advocacypanel.com.au/applications/fundingCriteria.htm>

<b>National Electricity Market Project Funding</b>			
	No of Projects	Average Cost \$	Total Funding \$
<b>2002/2003</b>			
Advocacy/capacity building projects	1	130,000	130,000
Advocacy projects	4	28,230	112,919
Total	<u>5</u>		<u>242,919</u>
<b>2003/2004</b>			
Advocacy/capacity building projects	4	53,921	215,684
Advocacy projects	36	24,035	865,257
Total	<u>40</u>		<u>1,080,941</u>
<b>2004/2005</b>			
Advocacy/capacity building projects	6	72,185	433,109
Advocacy projects	35	31,397	1,098,896
Total	<u>41</u>		<u>1,532,005</u>
<b>2005/2006</b>			
Advocacy/capacity building projects	6	57,541	345,248
Advocacy projects	29	30,520	885,072
Total	<u>35</u>		<u>1,230,320</u>
<b>2006/2007</b>			
Advocacy/capacity building projects	8	66,949	535,590
Advocacy projects	25	22,141	553,528
Total	<u>33</u>		<u>1,089,118</u>
<b>2007/2008 to date</b>			
Advocacy/capacity building projects	8	89,391	715,124
Advocacy projects	14	26,838	375,733
Total	<u>22</u>		<u>1,090,857</u>
<b>Total 2003 to date</b>			
Advocacy/capacity building projects	33	71,962	2,374,755
Advocacy projects	143	27,213	3,891,405
Total	<u>176</u>		<u>6,266,160</u>

The Panel categorises projects as being either advocacy/capacity building projects or advocacy projects. Both types of project involve advocacy of the interests of consumers of electricity but advocacy/capacity building projects have the following additional features:

- They generally involve the recruitment of an in-house advocate by the applicant organisation;
- They generally cover a longer timeframe than advocacy projects and involve a wider range of issues;
- They include activities designed to develop knowledge, experience, and skill within the organisation in order to build its capacity to advocate in the future.

The funding of a staff position enables an applicant to engage in advocacy on behalf of the consumers it represents and to retain within the organisation the knowledge that is derived from the experience. This enables the organisation to participate in advocacy for a longer period of time and over a wider range of issues.

An analysis of past grants of funds by the issue that was the subject of the advocacy is set out below:

SUMMARY OF FUNDING BY NEM ISSUETO DATE														
Issue	2002/3		2003/4		2004/5		2005/6		2006/7		2007/8		Total	
	No of Projects	Funding \$	No of Projects	Funding \$	No of Projects	Funding \$	No of Projects	Funding \$	No of Projects	Funding \$	No of Projects	Funding \$	No of Projects	Funding \$
Attendance at Forums			11	42,661	4	31,250	2	7,092	2	14,860			19	95,863
Capacity Building	1	130,000	4	215,684	6	433,109	6	345,248	8	535,590	8	715,124	33	2,374,755
Connection					1	67,692	1	27,000					2	94,692
Demand Management			5	232,148	3	66,714	2	92,640			2	63,773	12	455,275
Distribution			9	287,664	5	150,880	2	59,500	2	41,920	3	54,248	21	594,212
Generation									1	25,968	1	29,000	2	54,968
Retail			1	48,352			1	10,709	3	66,485	1	22,500	6	148,046
Transmission	2	43,319	5	143,000	2	76,280	13	438,065	5	137,384	3	98,400	30	936,448
Wholesale Market Design	2	69,600	5	111,432	20	706,080	8	250,066	12	266,911	4	107,812	51	1,511,901
<b>Total</b>	<b>5</b>	<b>242,919</b>	<b>40</b>	<b>1,080,941</b>	<b>41</b>	<b>1,532,005</b>	<b>35</b>	<b>1,230,320</b>	<b>33</b>	<b>1,089,118</b>	<b>22</b>	<b>1,090,857</b>	<b>176</b>	<b>6,266,160</b>

  

PERCENTAGE OF APPROVALS AND FUNDING BY ISSUE														
Issue	2002/3		2003/4		2004/5		2005/6		2006/7		2007/8		Total	
	Projects	Funding	Projects	Funding	Projects	Funding	Projects	Funding	Projects	Funding	Projects	Funding	Projects	Funding
Attendance at Forums			27.50%	3.95%	9.76%	2.04%	5.71%	0.58%	6.06%	1.36%	0.00%	0.00%	10.80%	1.53%
Capacity Building	20.00%	53.52%	10.00%	19.95%	14.63%	28.27%	17.14%	28.06%	24.24%	49.18%	36.36%	65.56%	18.75%	37.90%
Connection					2.44%	4.42%	2.86%	2.19%	0.00%	0.00%	0.00%	0.00%	1.14%	1.51%
Demand Management			12.50%	21.48%	7.32%	4.35%	5.71%	7.53%	0.00%	0.00%	9.09%	5.85%	6.82%	7.27%
Distribution			22.50%	26.61%	12.20%	9.85%	5.71%	4.84%	6.06%	3.85%	13.64%	4.97%	11.93%	9.48%
Generation									3.03%	2.38%	4.55%	2.66%	1.14%	0.88%
Retail			2.50%	4.47%			2.86%	0.87%	9.09%	6.10%	4.55%	2.06%	3.41%	2.36%
Transmission	40.00%	17.83%	12.50%	13.23%	4.88%	4.98%	37.14%	35.61%	15.15%	12.61%	13.64%	9.02%	17.05%	14.94%
Wholesale Market Design	40.00%	28.65%	12.50%	10.31%	48.78%	46.09%	22.86%	20.33%	36.36%	24.51%	18.18%	9.88%	28.98%	24.13%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

The funding provided to advocacy/capacity building projects was used to fund advocacy mainly on issues related to consumer protection, demand management, renewable energy, and market design/policy.

In proposing the budget for energy advocacy and research, the Panel has considered its past experience with electricity advocacy, the work programs of the MCE, AEMC and AER, and likely future developments in the energy reform agenda.

In arriving at the number of projects to propose for inclusion in the 2008/2009 budget the Panel has taken into account:

- The MCE reform agenda which currently includes the continuation of the movement towards greater national regulation of the electricity market through the development of national arrangements for electricity distribution (non-economic) and retailing (non-price) regulation, the establishment of the Australian Energy Market Operator, the review of national transmission planning, a consistent national framework for Community Service Obligations, the encouragement of demand side management and renewable and distributed generation, and the introduction of smart meters;
- The broadening of the responsibilities of the Australian Energy Regulator (AER) to include the economic regulation of electricity distribution networks;
- The commencement of the National Gas Law and Rules and their impact on the harmonisation of energy laws and rules and on the activities of bodies such as the AER and AEMC;
- The development of the Bulletin Board and short term trading market for gas;
- The activities of jurisdictional regulators that have an impact on the national electricity market;
- The possibility that priorities and reform issues may change to reflect the new Federal Government's agenda; and
- The need to ensure that funding is available to consumer classes that are currently under-represented on energy issues, including rural consumers and local government.

In setting the electricity advocacy budget the Panel is also mindful of the impact of the electricity advocacy funding requirement on electricity consumers who currently bear its cost through the fees they pay to retailers.

As a result of consultation on the original budget, the Panel proposes the following budget for advocacy and research projects:

	No of Projects	Average Cost \$	Total Funding \$
<b>Budget for 2008/2009 (Electricity and Gas)</b>			
<b>Electricity - specific projects</b>			
Advocacy/capacity building projects	8	95,000	760,000
Advocacy projects	29	27,000	783,000
Research projects			
Panel initiated	1	27,000	27,000
Stakeholder initiated	3	27,000	81,000
<b>Total</b>	<b>41</b>		<b>1,651,000</b>
<b>Gas - specific projects</b>			
Advocacy/capacity building projects	3	95,000	285,000
Advocacy projects	13	27,000	351,000
Research projects			
Panel initiated	1	27,000	27,000
Stakeholder initiated	3	27,000	81,000
<b>Total</b>	<b>20</b>		<b>744,000</b>
<b>Electricity and gas - joint projects</b>			
Advocacy/capacity building projects			
Advocacy projects	8	27,000	216,000
Research projects			
Panel initiated	1	27,000	27,000
Stakeholder initiated	2	27,000	54,000
<b>Total</b>	<b>11</b>		<b>297,000</b>
<b>Total - Electricity and Gas</b>			
Advocacy/capacity building projects	11	95,000	1,045,000
Advocacy projects	50	27,000	1,350,000
Research projects			
Panel initiated	3	27,000	81,000
Stakeholder initiated	8	27,000	216,000
<b>Total</b>	<b>72</b>		<b>2,692,000</b>
<b>Evaluation of project effectiveness</b>			
Electricity projects	10	5,000	50,000
Gas projects	4	5,000	20,000
Joint projects	2	5,000	10,000
<b>Total</b>	<b>16</b>		<b>80,000</b>

The budget assumes average costs of \$95,000 for advocacy/capacity building projects and \$27,000 for advocacy projects. The average costs in the last full financial year were \$66,949 and \$22,141 respectively and for the current financial year are \$89,391 and \$26,838. The current year's averages are considered to be the most appropriate and relevant basis for the budgeted cost although a slightly higher budget has been allowed for advocacy/capacity building projects as costs in this area have risen in recent years.

The Panel anticipates that it will fund eleven advocacy/capacity building projects in 2008/2009 – eight will concentrate on electricity advocacy and three on gas advocacy.

The budget provides for fifty advocacy projects – twenty nine for electricity advocacy, thirteen for gas and eight joint electricity/gas projects. The gas advocacy projects would:

- Relate to the development or operation of gas pipelines, or policies associated with obtaining access to gas pipelines, or relate to other issues covered by the National Gas Law or the National Gas Rules; or
- Directly relate to an aspect of the responsibilities of the AER or the AEMC under the National Gas Law or the National Gas Rules, or the responsibilities of the Economic Regulation Authority under that law or those rules in Western Australia; or
- Have some other relevance to the national gas market or the retailing of gas, when viewed as a whole.

The budget includes provision for eleven research projects. The Panel anticipates that research projects will involve issues and topics that are not being adequately dealt with either through consumer advocacy projects or through the energy reform agenda. The Panel also anticipates that

research projects will be selected through a consultative process whereby consumer advocates will be involved in the nomination and selection of projects and, possibly, the undertaking of approved projects.

There is no experience that the Panel can draw on in the setting of the number of research projects but the Panel feels that eleven would be a manageable number in the first year - four in electricity market issues, four in gas market issues and three in issues that relate to both consumers of electricity and consumers of gas. The Act limits research expenditure to no more than 25% of the project funding budget; the proposed budget of eleven projects would be equivalent to 11% of project funding.

As was the experience with electricity advocacy, it is expected that the number of gas projects will grow in future years as the experience and skills of consumer advocates develop in gas market issues and the national regulation of the gas market matures.

The Panel has recently consulted stakeholders on the design of a process for evaluating the effectiveness of the projects it funds and will soon issue a statement of the process it will follow in conducting such evaluations. The evaluations will be carried out by suitably experienced and skilled external consultants in conjunction with input from the applicants whose projects are reviewed, other advocacy bodies involved in the projects and decision-makers to whom the advocacy or research projects were directed. The purpose of the evaluation process is twofold – to assist advocates to undertake projects in the most effective manner and to provide guidance to the Panel on the allocation of funding to projects.

The Panel anticipates that sixteen evaluations will be conducted during 2008/2009 at an average cost of \$5,000 each.

#### *Administrative costs budget*

The Panel's principal administrative costs consist of staff wages, member sitting fees, advice from consultants, and meeting expenses. The administrative costs budget is set out below:

Advocacy Panel Administrative Costs	2006/2007	2007/2008	2008/2009 Budget			
	Actual	Est Actual	Total	Specific Costs		Joint
	\$	\$	\$	Electricity	Gas	Costs
				\$	\$	\$
Panel Expenses						
Staff salaries and superannuation	116,406	108,000	140,858			140,858
Panel member sitting fees and superannuation	42,707	77,600	90,000			90,000
Meeting expenses	18,420	33,500	39,400			39,400
Administration expenses						0
Accounting & audit	10,132	14,000	10,000			10,000
Advertising		6,000	4,000			4,000
Consultant's advice		50,000	30,000	10,000	20,000	0
Insurance - WorkCover	759	1,000	1,000			1,000
Internet and computer expenses	672	5,000	7,000		5,000	2,000
Postage, printing & couriers	810	3,400	3,200			3,200
Rent	10,200	10,200	13,152			13,152
Other expenses	904	3,200	5,040		700	4,340
<b>Total administrative expenses</b>	<b>201,010</b>	<b>311,900</b>	<b>343,650</b>	<b>10,000</b>	<b>25,700</b>	<b>307,950</b>
Advocacy project funding received/required	1,744,876	1,778,168	2,810,650			
Interest received	80,383	52,000	55,000			
<b>Total income</b>	<b>1,825,259</b>	<b>1,830,168</b>	<b>2,865,650</b>			
Total administrative expenses as % of total income	11%	17%	12%			

The assumptions that underlie the administrative costs budget for 2008/2009 are as follows:

- The Panel's responsibilities for gas advocacy and energy research will commence on 1 July 2008, the anticipated date for the commencement of the Act and the National Gas Law;
- As a result of its new responsibilities, in addition to the existing executive officer, the Panel will require additional administrative support and therefore provision has been made for a part-time employee (0.5 EFT);
- Apart from monthly meetings, the chairperson and members of the Panel will be engaged on the business of the Panel for an average of two days per month;
- Meeting expenses will be higher due to the holding of eight face-to-face meetings of the Panel during the year compared with an average of six per annum over the past eighteen months;
- Provision has been made for the engaging of external consultants to provide advice on energy market and funding issues;

- The Panel's internet site will require modification to include a section on gas advocacy and energy research;
- Rent will increase as a result of the transfer of the Panel's office from Melbourne to the AEMC office in Sydney.

The bulk of the Panel's administrative costs are joint costs because they will relate to the performance of functions relevant to both consumers of electricity and consumers of gas. Only a relatively small amount, \$35,700, will relate to costs incurred solely in relation to one particular energy source (and therefore funding source).

The Panel will continue its policy of not incurring additional expenditure until justified by an increased workload.

#### *Allocation of joint costs*

Under the Act, the funding for the Panel's activities 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.

It is proposed that the Panel will allocate costs as follows:

#### Advocacy and research project costs

- In relation to consumer advocacy and research projects, the allocation of cost by funding source will be based on the facts of the funded project as assessed by the Panel;
- If an advocacy or research project relates fundamentally to a particular energy type, the cost will be allocated to that type 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

- Administrative costs that relate to the performance of the Panel's functions relevant to consumers of one particular energy type (specific costs) will be allocated to the relevant energy type;

This will be a question of the reason why the cost was incurred. If the cost was incurred specifically to benefit one particular energy type, it will be allocated to that energy type for funding purposes. As an example, the cost of upgrading the Panel's website to include a section on gas advocacy will be allocated to the gas funding budget.

In the event that a project arises that relates fundamentally to one energy type although it has an inconsequential relationship to the other energy type, the Panel will allocate that project to the 'fundamental' energy type;

- 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 administrative costs and joint projects is as follows:

- Advocacy or research projects that are for the joint benefit of consumers of electricity and consumers of gas will provide an equal benefit to each energy type;

The Panel understands that the electricity industry is much larger than the gas industry in terms of its asset base, number of customers and value of energy produced. At first glance, it would therefore seem reasonable that electricity should bear more than 50% of the cost of a joint project. However, this approach would not take account of the key issue – the effort (i.e. the cost) required of an advocate or researcher in dealing with the electricity and gas aspects of a joint project.

As a test of the reasonableness of the 50/50 split of joint project costs, the Panel will 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;

- 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;

Stakeholders may wish to propose alternative methodologies for allocating joint costs and in doing so need to take into account that any alternative should be easily understood and calculated. A complex formula that is difficult to quantify may introduce unnecessary controversy and effort.

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

Based on the project and administrative cost budgets discussed above, the methodology proposed for allocating joint costs and after taking into account the surplus funds from previous financial years and interest on funds on hand, the funding required of NEMMCO and the AEMC is calculated in the following table:

<b>Advocacy Panel Budget 2008/2009</b>	Specific projects #		Joint projects *		Total Costs
	Electricity	Gas	Electricity	Gas	
<b>Project funding costs budget</b>					
Consumer advocacy projects					
Electricity	1,543,000				1,543,000
Gas		636,000			636,000
Joint - electricity and gas			108,000	108,000	216,000
Research costs					
Panel initiated research					
Specific projects	27,000	27,000			54,000
Joint projects			13,500	13,500	27,000
Externally initiated research					
Specific projects	81,000	81,000			162,000
Joint projects			27,000	27,000	54,000
Evaluation of project effectiveness	50,000	20,000	5,000	5,000	80,000
<b>Total project cost</b>	<b>1,701,000</b>	<b>764,000</b>	<b>153,500</b>	<b>153,500</b>	<b>2,772,000</b>
Summary					
Total for electricity				67%	1,854,500
Total for gas				33%	917,500
<b>Total project cost</b>				<b>100%</b>	<b>2,772,000</b>
<b>Administrative costs budget</b>					
	Specific costs #		Joint costs *		Total
	Electricity	Gas	Electricity	Gas	
Specific costs	10,000	25,700			35,700
Joint costs			206,327	101,623	307,950
<b>Total</b>	<b>10,000</b>	<b>25,700</b>	<b>206,327</b>	<b>101,623</b>	<b>343,650</b>
<b>Funding required</b>					
	NEMMCO	AEMC	Total		
Specific costs - projects	1,701,000	764,000	2,465,000		
- administration	10,000	25,700	35,700		
Joint costs - projects	153,500	153,500	307,000		
- administration	206,327	101,623	307,950		
<b>Sub total</b>	<b>2,070,827</b>	<b>1,044,823</b>	<b>3,115,650</b>		
Less					
Accumulated funds	250,000		250,000		
Interest on funds on deposit	55,000		55,000		
<b>Total funds required</b>	<b>1,765,827</b>	<b>1,044,823</b>	<b>2,810,650</b>		
Plus GST	176,583	104,482	281,065		
<b>Funding required</b>	<b>1,942,410</b>	<b>1,149,305</b>	<b>3,091,715</b>		
Basis of allocation					
#	Projects - based on the fundamental nature of the project				
#	Administration - based on the fundamental reason for incurring the cost				
*	Projects - based on an equal benefit to each energy type				
*	Administration - based on the ratio of electricity and gas projects in the total project cost				

In calculating the funding required of NEMMCO, the Panel has taken into account the estimate surplus funds it will have on hand at 30 June 2008. These funds originally came from NEMMCO and were provided for the purpose of advocacy on electricity issues and therefore will be treated as a reduction in the funding that NEMMCO would otherwise have to provide.

The same approach has been taken with interest received on funds on deposit as the bulk of the funds during 2008/2009 will have originated from NEMMCO. Depending on the value of electricity and gas funds on hand, a different approach may be warranted in future financial years.

#### **Electricity advocacy funding requirement for 2008/2009**

As mentioned above, the current Rules require the Panel to propose a funding requirement for electricity advocacy in 2008/2009.

The requirement proposed by the Panel is based on the project and administrative budgets discussed above less the cost of advocacy projects that relate specifically to gas, research projects, and the additional administrative costs resulting from functions relating to gas advocacy and research. The requirement includes provision for what would be joint consumer advocacy projects under the Act as they would be undertaken as electricity projects.

The funding requirement is calculated as follows:

<b>Electricity funding requirement 2008/2009</b>	Combined Budget	Less Gas	Electricity Requirement
<b>Project funding costs budget</b>			
Consumer advocacy projects			
Electricity	1,543,000		1,543,000
Gas	636,000	636,000	0
Joint - electricity and gas	216,000		216,000
Research costs (S41(6)(b))			
Panel initiated research			
Specific projects	54,000	54,000	0
Joint projects	27,000	27,000	0
Externally initiated research			
Specific projects	162,000	162,000	0
Joint projects	54,000	54,000	0
Evaluation of project effectiveness	80,000	30,000	50,000
Total project cost	<u>2,772,000</u>	<u>963,000</u>	<u>1,809,000</u>
<b>Administrative costs budget</b>			
Specific costs	35,700	25,700	10,000
Joint costs	307,950	23,476	284,474
Total	<u>343,650</u>	<u>49,176</u>	<u>294,474</u>
<b>Funding required</b>			NEMMCO
Projects			1,809,000
Administration			294,474
Sub total			<u>2,103,474</u>
Less			
Accumulated funds			250,000
Interest on funds on deposit			55,000
Total funds required			<u>1,798,474</u>
Plus GST			<u>179,847</u>
Funding required			<u>1,978,321</u>

The funding requirements in past financial years (inclusive of GST) were as follows:

2002/2003	\$1,100,000
2003/2004	\$1,100,000
2004/2005	\$1,210,000
2005/2006	\$1,540,000
2006/2007	\$1,925,000
2007/2008	\$1,955,985

If the consumer price increase for the twelve months to September 2007<sup>2</sup> of 1.9% was applied to the funding requirement for last year, the requirement would be \$1,993,148. The requirement calculated above is \$1,978,321.

### Process for further consultation

Under the Rules consultation procedures, the Panel must within 20 business days of the deadline for responses to the consultation paper consider the responses received. The Panel has considered the responses and now publishes this draft report setting out:

1. The conclusions and any determinations of the Panel in relation to the proposed budget and funding requirement for 2008/2009;
2. Its reasons for those conclusions;

<sup>2</sup> Australian Bureau of Statistics, weighted average of eight capital cities, all groups

3. The procedure followed by the Panel in considering the matter;
4. Summaries of each issue, that the Panel reasonably considers to be material, contained in the responses by interested parties and the Panel's response to each such issue; and
5. A notice inviting consulted parties to make written submissions to the Panel on the draft report.

Subject to any confidential issues in the responses, the Panel will provide on request by a consulted party copies of any material submitted to the Panel.

The Panel has provided notice of this draft report to NEMMCO for it to distribute to registered participants. The draft report has been provided to the AEMC for publication on its website and is also published on the Panel's website.

The Panel seeks responses to its draft report by 11 February 2008 being at least 10 business days from the date the draft report was provided to the AEMC. Following the deadline for responses to the draft report, the Panel will consider all valid responses within a period of not more than a further 30 business days. It will then publish a final report, available to all consulted parties, setting out:

1. Its conclusions and determinations in relation to the proposed budget and funding requirement for 2008/2009;
2. Its reasons for those conclusions;
3. The procedure it followed in considering the matter;
4. Summaries of each issue, that the Panel reasonably considers to be material, contained in the responses and the Panel's response to each such issue.

The final report and determination will be provided to the AEMC by 12 February 2008 for its consideration.

#### **Draft Determination**

Having considered the responses to the consultation paper of November 2007, the Panel makes the following draft Determination:

The proposed electricity advocacy funding requirement for the 2008/2009 financial year to be submitted to the AEMC by 12 February 2008 in accordance with the Rules is \$1,978,321 including GST.

Subject to responses to this draft report, the Panel also proposes to recommend to the MCE that it approve the budget for electricity and gas advocacy and research in 2008/2009 set out above which requires funding as follows:

NEMMCO	\$1,942,410 incl GST
AEMC	\$1,149,305 incl GST