

## NATIONAL ELECTRICITY CONSUMERS ADVOCACY PANEL

635 Canterbury Road Surrey Hills Victoria 3127  
P O Box 43 Surrey Hills Victoria 3127  
Phone (03) 9899 5111 Facsimile (03) 9899 1666  
Email [djlb@axtonjones.com.au](mailto:djlb@axtonjones.com.au)  
ABN 42 203 580 500

### PROPOSED ELECTRICITY ADVOCACY FUNDING REQUIREMENT FOR 2008/2009 FINANCIAL YEAR

Under the National Electricity Rules (the Rules), the Advocacy Panel (the Panel) is required to determine the proposed electricity advocacy funding requirement for each financial year<sup>1</sup>. 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 the amount that is the approved funding requirement. The AEMC 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 this consultation paper is issued in order that interested parties may comment on the electricity advocacy funding requirement proposed by the Panel for the 2008/2009 financial year.

#### Timetable

The Panel's present intention is to undertake the consultation process according to the following timetable, although the timetable may need to be modified if circumstances warrant and the Rules consultation procedures permit:

14 November 2007	Consultation paper issued and consultation commences
20 December 2007	Closing date for submissions on consultation paper
21 December 2007	Panel to have considered submissions
11 January 2008	Panel to have met with respondents, if required
18 January 2008	Panel to issue draft determination
4 February 2008	Closing date for submissions on draft determination
11 February 2008	Panel to issue final determination
12 February 2008	Panel to recommend electricity advocacy funding requirement to the AEMC

In addition to the electricity advocacy funding requirement, the Panel seeks stakeholders' views on a budget for natural gas advocacy and energy research.

#### Proposed funding requirement for 2008/2009

The Panel proposes an electricity advocacy funding requirement for the 2008/2009 financial year of \$1,906,434 inclusive of GST to be provided by NEMMCO from its participation fees.

The funding requirement takes into account other sources of revenue for the Panel, the budget for advocacy projects, the expenses incurred by the Panel in carrying out its functions and its retained funds.

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<sup>1</sup> Clause 8.10.5, National Electricity Rules.

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

Details of the funding requirement calculation are set out in the following table:

<b>Funding Requirement 2008/2009</b>	2006/2007 Budget \$	2007/2008 Budget \$	2008/2009 Budget \$
<b>Calculation of NEMMCO Funding Requirement</b>			
Project Costs excl GST	1,392,000	1,640,000	1,593,000
Panel Expenses excl GST	445,308	390,168	295,122
Total Expenditure	<u>1,837,308</u>	<u>2,030,168</u>	<u>1,888,122</u>
Less			
Interest on Funds on Deposit	67,000	52,000	55,000
Projects Funded from Retained Funds	20,308	200,000	100,000
Funding to be Provided to the Panel	<u>1,750,000</u>	<u>1,778,168</u>	<u>1,733,122</u>
GST on NEMMCO Fees	175,000	177,817	173,312
Total Panel Funding Required of NEMMCO incl GST	<u>1,925,000</u>	<u>1,955,985</u>	<u>1,906,434</u>

As a result of the cost of advocacy projects and administrative expenses being less than the funding requirement in past years, the Panel has retained funds which it treats as a reserve to draw on when the current year budget is fully expended and unforeseen important issues arise which necessitate advocacy on behalf of end-users. In 2008/2009 (as in 2007/2008) retained funds will be used to reduce the funding requirement that would otherwise be required.

The following comments describe the assumptions behind the calculation of the key components of the funding budget – project funding costs and Panel administrative costs.

#### *Project funding costs*

The Panel proposes the following budget for electricity advocacy projects:

	No of Projects	Average Cost \$	Total Funding \$
<b>Budget for 2008/2009</b>			
<b>Electricity advocacy</b>			
Advocacy/capacity building projects	8	95,000	760,000
Advocacy projects	<u>29</u>	<u>27,000</u>	<u>783,000</u>
Total	<u>37</u>		<u>1,543,000</u>
<b>Evaluation of project effectiveness</b>			
<b>Total</b>			<u>50,000</u>
			<u>1,593,000</u>

In proposing the budget for electricity advocacy, the Panel has considered its past experience, the likely work programs of the AEMC and AER, and the impact of the energy reform agenda.

Since it was established in 2001, the Panel has received 299 applications for funding of which it resolved to provide funding for 172 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 are based on the funding principles set down in Rule 8.10 of the Rules and can be found on the Panel's website<sup>2</sup>.

<sup>2</sup> <http://advocacypanel.com.au/applications/fundingCriteria.htm>

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

<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	5	48,584	242,919
<b>2003/2004</b>			
Advocacy/capacity building projects	4	53,921	215,684
Advocacy projects	36	24,035	865,257
Total	40	27,024	1,080,941
<b>2004/2005</b>			
Advocacy/capacity building projects	6	72,185	433,109
Advocacy projects	35	31,397	1,098,896
Total	41	37,366	1,532,005
<b>2005/2006</b>			
Advocacy/capacity building projects	6	57,541	345,248
Advocacy projects	29	30,520	885,072
Total	35	35,152	1,230,320
<b>2006/2007</b>			
Advocacy/capacity building projects	8	66,949	535,590
Advocacy projects	26	23,703	616,286
Total	34	33,879	1,151,876
<b>2007/2008 to date</b>			
Advocacy/capacity building projects	8	45,314	362,510
Advocacy projects	9	25,635	230,712
Total	17	34,895	593,222
<b>Total 2002 to date</b>			
Advocacy/capacity building projects	33	61,277	2,022,141
Advocacy projects	139	27,404	3,809,142
Total	172	33,903	5,831,283

The Panel categorises projects as being either advocacy/capacity building projects or advocacy projects. Both types of project involve advocacy of the interests of end-users 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														
NUMBER OF PROJECTS APPROVED AND VALUE OF FUNDING														
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	362,510	33	2,022,141
Connection					1	67,692	1	27,000					2	94,692
Demand Management			5	232,148	3	66,714	2	92,640					10	391,502
Distribution			9	287,664	5	150,880	2	59,500	2	41,920	1	23,000	19	562,964
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	13	329,669	3	57,812	51	1,524,659
<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>34</b>	<b>1,151,876</b>	<b>17</b>	<b>593,222</b>	<b>172</b>	<b>5,831,283</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%	5.88%	1.29%	0.00%	0.00%	11.05%	1.64%
Capacity Building	20.00%	53.52%	10.00%	19.95%	14.63%	28.27%	17.14%	28.06%	23.53%	46.50%	47.06%	61.11%	19.19%	34.68%
Connection					2.44%	4.42%	2.86%	2.19%	0.00%	0.00%	0.00%	0.00%	1.16%	1.62%
Demand Management			12.50%	21.48%	7.32%	4.35%	5.71%	7.53%	0.00%	0.00%	0.00%	0.00%	5.81%	6.71%
Distribution			22.50%	26.61%	12.20%	9.85%	5.71%	4.84%	5.88%	3.64%	5.88%	3.88%	11.05%	9.65%
Generation									2.94%	2.25%	5.88%	4.89%	1.16%	0.94%
Retail			2.50%	4.47%			2.86%	0.87%	8.82%	5.77%	5.88%	3.79%	3.49%	2.54%
Transmission	40.00%	17.83%	12.50%	13.23%	4.88%	4.98%	37.14%	35.61%	14.71%	11.93%	17.65%	16.59%	17.44%	16.06%
Wholesale Market Design	40.00%	28.65%	12.50%	10.31%	48.78%	46.09%	22.86%	20.33%	38.24%	28.62%	17.65%	9.75%	29.65%	26.15%
<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 is used to fund advocacy mainly on issues related to demand management, retailing, and market design/policy.

The Panel has recently consulted stakeholders on the design of a process for evaluating the effectiveness of projects and will soon issue a statement of the process it will follow in conducting such evaluations. 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 budget for electricity advocacy is based on the Panel's experience and its assessment that the pace of the reform agenda will not decrease during 2008/2009. 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 activities of jurisdictional regulators that have an impact on the national electricity market.

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 \$23,703 respectively and for the current financial year are \$90,628 (the annualised cost) and \$25,635. The current year's averages are considered to be the most appropriate and relevant basis for the budgeted cost. An increase of 5% has been provided for in the average cost of each type of project to allow for salary and consultant hourly rate increases over the next 18 months.

In setting the project 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.

#### *Panel administrative costs*

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:

	Actual 2006/2007 \$	Budget 2007/2008 \$	Budget 2008/2009 \$
Panel Expenses			
Staff salaries and superannuation	116,406	136,543	117,382
Panel member sitting fees and superannuation	42,707	141,576	90,000
Meeting expenses	18,420	31,888	43,000
Administration expenses			
Accounting & audit	10,132	20,000	10,000
Advertising		6,000	4,000
Consultant's advice		30,000	10,000
Insurance - WorkCover	759	1,196	1,000
Internet and computer expenses	672	5,000	2,000
Postage, printing & couriers	810	4,400	3,200
Rent	10,200	10,200	10,200
Other expenses	904	3,365	4,340
	<u>201,010</u>	<u>390,168</u>	<u>295,122</u>
Project expenditure budget	1,392,000	1,640,000	1,593,000
Administrative costs budget	445,308	390,168	295,122
Total budget	<u>1,837,308</u>	<u>2,030,168</u>	<u>1,888,122</u>
Administrative budget as % of total budget	11%	19%	16%

The 2007/2008 budget was based on the assumption that the Panel's new responsibilities for gas advocacy and energy research would commence on 1 July 2007 and since this did not occur, the Panel anticipates that the budget will be underspent by approximately \$120,000.

The Panel's policy is to not incur additional expenditure until justified by an increased workload.

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

- Apart from monthly Panel 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 to the Panel.

### **Consumer advocacy on natural gas issues and energy research**

The Panel notes that the *Australian Energy Market Commission Establishment (Consumer Advocacy Panel) Amendment Bill 2007* (the Bill) was tabled in the South Australian Parliament on 27 September 2007. The Bill gives effect to new arrangements for advocacy on electricity and natural gas issues determined by the Ministerial Council on Energy (MCE) following consultation with stakeholders.

The Panel's assessment is that the new arrangements will have a significant impact on the activities of the Panel in that, in addition to its existing responsibilities, the Bill proposes that the Panel must:

- Identify areas of research that would be of benefit to consumers of electricity or natural gas (or both) and to fund such research projects;
- Consider and, where appropriate, approve applications for funding for consumer advocacy projects that relate to prescribed aspects of the natural gas market;
- Consider and, where appropriate, approve applications for funding for consumer advocacy projects that relate to both consumers of electricity and consumers of natural gas;

- Allocate its administrative, research and grant allocation budgets between costs relating to consumers of electricity, consumers of natural gas, and both consumers of electricity and consumers of natural gas.

Even though the Bill is still before Parliament, it would assist the MCE, AEMC and NEMMCO, as well as other interested parties, if the Panel were to consult stakeholders on funding for gas advocacy and energy research. This will enable the MCE, AEMC, and NEMMCO to be aware of stakeholders' views on funding for advocacy and research.

The Panel has no experience with gas advocacy and energy research and therefore would appreciate stakeholders' views as to the number of advocacy and research projects that could be expected in the first financial year under the new arrangements.

The Panel's present view is set out in the following table:

	No of Projects	Average Cost \$	Total Funding \$
Electricity advocacy			
Research projects	4	27,000	108,000
Total	4		108,000
Gas advocacy			
Advocacy/capacity building projects			
Advocacy projects	12	27,000	324,000
Research projects	4	27,000	108,000
Total	16		432,000
Electricity and gas - joint advocacy			
Advocacy/capacity building projects			
Advocacy projects	4	27,000	108,000
Research projects	3	27,000	81,000
Total	7		189,000
Total	27		729,000

The Panel expects that the average cost of an advocacy or research project will be the same as the 2008/2009 budget for electricity advocacy projects i.e. \$27,000 excluding GST.

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 natural gas market issues and three in issues that relate to both consumers of electricity and consumers of natural gas.

The Bill will limit research expenditure to no more than 25% of the project funding budget; the proposed budget of eleven projects would be equivalent to 13% of project funding.

The Panel anticipates twelve gas advocacy projects in the first year. Such 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 Bill also proposes that the Panel fund consumer advocacy on issues and topics that relate to both consumers of electricity and consumers of gas (joint advocacy projects). The Panel has proposed that four such projects be undertaken in the first year.

As was the experience with electricity advocacy, it is expected that the number of 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.

**Request for comment**

The Panel requests stakeholders to consider its proposed electricity advocacy funding requirement for 2008/2009 and to comment on it.

The Panel would also appreciate stakeholders' views on the proposed budget for natural gas advocacy projects, joint advocacy projects, and energy research.

Comments should be forwarded to the Executive Officer of the Panel by 5.00 pm on 20 December 2007, preferably by email to [djlb@axtonjones.com.au](mailto:djlb@axtonjones.com.au).

David J L Bremner  
Executive Officer  
13 November 2007