

NATIONAL ELECTRICITY CONSUMERS ADVOCACY PANEL

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DETERMINATION OF ELECTRICITY ADVOCACY FUNDING REQUIREMENT FOR 2007/2008 FINANCIAL YEAR

Under the current National Electricity Rules (the Rules), the Advocacy Panel (the Panel) is required to determine the proposed funding requirement for each financial year¹. 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 this consultation paper is issued in order that interested parties may comment on the electricity advocacy funding requirement proposed by the Panel for the 2007/2008 financial year.

The Panel has noted that the Standing Committee of Officials of the Ministerial Council on Energy (SCO)² has announced that legislation is being prepared which will give the Panel responsibility for allocating funding for consumer advocacy and research in respect of both gas and electricity. SCO advises that under the legislation funding for national electricity market related advocacy will continue to come from participation fees charged by NEMMCO with the amount for each financial year to be proposed to the Ministerial Council on Energy (MCE) by the Panel following consultation with interested stakeholders. SCO also advises that a "long-term funding mechanism will need to be determined for gas-related grants"³.

As the legislation foreshadowed by SCO is not expected to be enacted until 2007, the proposal of the funding requirement for the financial year 2007/2008 is being undertaken by the Panel in accordance with the current Rules and therefore relates only to the funding requirement for end-user advocacy on electricity and the expenses of the Panel in carrying out its functions under the Rules.

The Panel assumes that funding for gas advocacy will be provided to it after the foreshadowed legislation has been enacted.

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:

18 September 2006	Consultation paper issued and consultation commences
30 October 2006	Closing date for submissions on consultation paper
20 November 2006	Panel to have considered submissions
4 December 2006	Panel to have met with respondents, if required
18 December 2006	Panel to issue draft determination

¹ Clause 8.10.5, National Electricity Rules.

² P31, Statement of Scope "A National Legislative Framework for Gas and Electricity", July 2006

³ P33

10 January 2007	Closing date for submissions on draft determination
7 February 2007	Panel to issue final determination
12 February 2007	Panel to recommend funding requirement to the AEMC

Proposed funding requirement

The Panel proposes a funding requirement for the 2007/2008 financial year of \$2,245,100 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 cost of advocacy and research projects, the expenses incurred by the Panel in carrying out its functions and its retained funds.

The funding requirement in past financial years (inclusive of GST) has been 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

In order to calculate the proposed funding requirement the Panel has set the following provisional budget for 2007/2008:

Advocacy Panel Budget 2007/2008		
	Budget 2007/2008	Est. 2006/2007
	\$	\$
Revenue		
NEMMCO Fee incl GST	2,245,100	1,925,000
Interest on Funds on Deposit	52,000	67,000
Total	2,297,100	1,992,000
Expenditure		
GST on NEMMCO Fees	204,100	175,000
Project Costs excl GST	1,640,000	1,330,000
Panel Expenses excl GST	553,000	507,308
Total	2,397,100	2,012,308
Revenue Surplus/(-Deficit)	-100,000	-20,308
Net Retained Funds at Beginning of Year	222,692	243,000
Retained Funds at End of Year	122,692	222,692

The budget calls for total revenue of \$2,297,100 including \$2,245,100 to be provided by NEMMCO. The revenue, in conjunction with provision for funding of \$100,000 to be sourced from funds the Panel has retained from earlier years, will enable the payment of the GST on the NEMMCO fees received, the funding of advocacy projects to the value of \$1,640,000 and payment of Panel operating expenses of \$553,000.

The NEMMCO contribution to the Panel's funding has been calculated as follows:

	Budget 2007/2008 \$	Est. 2006/2007 \$
Calculation of NEMMCO Fee		
Project Costs excl GST	1,640,000	1,330,000
Panel Expenses excl GST	553,000	507,308
Total Expenditure	2,193,000	1,837,308
Less		
Interest on Funds on Deposit	52,000	67,000
Projects Funded from Retained Funds	100,000	20,308
Funding to be Provided by NEMMCO	2,041,000	1,750,000
GST on NEMMCO Fee	204,100	175,000
Total NEMMCO Fee incl GST	2,245,100	1,925,000

Under the Rules, NEMMCO is required to provide the funds needed to pay the Panel's advocacy project expenses and operating costs, i.e. a total of \$2,193,000, excluding GST, in 2007/2008. However, the amount NEMMCO is to provide will be reduced to \$2,041,000 because of interest the Panel earns on funds it has on deposit awaiting allocation to projects (\$52,000) and the use of part of the retained funds from previous years (\$100,000).

In the early years of the Panel's operations not all funds received were allocated to projects and therefore the Panel is expected to have retained funds of \$222,692 at 30 June 2007 and will use part of the retention to fund projects in 2007/2008.

Generally, the Panel expects that each year it will allocate all of its revenue to advocacy projects. This expectation is based on experience over the past year where the value of projects proposed to the Panel by applicants for funding exceeded the funds available to the Panel. This presents a challenge to the Panel in that if it allocates all of its available funds for a year and then an unforeseen, urgent issue arises, there is no mechanism by which the Panel can obtain additional funds from NEMMCO to allocate to the new issue. Consequently, end-users' views may not be heard on an issue that is important to them with the result that regulatory authorities and decision makers such as the MCE may be denied important information. The alternative strategy for preserving funds for unforeseen issues would be to deny funding to worthy projects early in the year on the off-chance that an unforeseen issue develops later in the year. If the unforeseen issue does not arise, the Panel will have funds left over and the national electricity market will have lost the benefit that could have been achieved from the rejected project. It is therefore prudent for the Panel to take advantage of funds unspent in previous years by retaining a reasonable level of those funds for use in funding advocacy on unforeseen issues.

The budget for advocacy projects has been established by reference to recent experience and an expectation that a further round of electricity market reform will arise, particularly from the work of the recently appointed Energy Reform Implementation Group.

The budget for project expenses has been calculated as follows:

National Electricity Market Project Funding			
	No of Projects	Average Cost \$	Total Funding \$
2002/2003 Actual			
Staff position funding	1	130,000	130,000
Other projects	4	28,230	112,919
Total	5	48,584	242,919
2003/2004 Actual			
Staff position funding	4	53,921	215,684
Other projects	36	24,035	865,257
Total	40	27,024	1,080,941
2004/2005 Actual			
Staff position funding	6	72,185	433,109
Other projects	36	31,668	1,140,042
Total	42	37,456	1,573,151
2005/2006 Actual			
Staff position funding	6	63,993	383,955
Other projects	31	28,502	883,561
Total	37	34,257	1,267,516
2006/2007 Budget			
Staff position funding	8	85,000	680,000
Other projects	23	28,261	650,000
Total	31	42,903	1,330,000
Total 2003 to 2007			
Staff position funding	25	73,710	1,842,748
Other projects	130	28,091	3,651,779
Total	155	35,449	5,494,527
Budget for 2007/2008			
Funding for applicants			
Staff position funding	8	85,000	680,000
Other projects	28	30,000	840,000
Research projects commissioned by the Panel			
Commissioned projects	4	30,000	120,000
Total	40	41,000	1,640,000

The number and value of advocacy projects funded by the Panel or budgeted for 2007/2008 is shown in the above table.

During the four years to 30 June 2006, the Panel approved a total of \$4,164,527 for advocacy projects. A dissection of those funds by electricity market issue is as follows:

Issue	Total		
	No of Projects	Funding \$	Funding %
Attendance at Forums	17	81,491	2.0%
Staff Position Funding	17	1,162,748	27.9%
Connection	2	94,692	2.3%
Demand Management	10	391,502	9.4%
Distribution	17	563,564	13.5%
Retail	2	59,061	1.4%
Transmission	22	645,144	15.5%
Wholesale Market Design	37	1,166,325	28.0%
Total	124	4,164,527	100.0%

The funding for staff positions enabled advocacy by the recipients on a range of market issues and therefore if it were possible to reallocate that funding, the proportion of the Panel's funds spent on issues such as connections, demand management, etc would actually be higher.

There are two categories of projects – projects which fund staff positions for advocates to work within the applicant organisation, and which are usually of a higher than average cost in terms of funding, and other projects which consist of the preparation and advocacy of a report or submission.

By 30 June 2007, the Panel expects to have approved a total of twenty five projects for funding of advocate positions within organisations representing the interests of a reasonable number of end-users. The average cost of these projects is \$73,710. In 2007/2008 the Panel expects to fund eight such projects at an average cost of \$85,000 per project.

The funding of a staff position enables an applicant to engage in advocacy on behalf of the end-users it represents and to retain within the organisation the knowledge that is learnt from the experience. This enables the organisation to participate in advocacy for a longer period of time and over a wider range of issues. Staff position funding is therefore of a greater advantage to such an organisation than is funding for a short-term project utilising external consultants.

By 30 June 2007, the Panel expects to have approved a total of 130 'other projects' at an average cost of \$28,091. In 2007/2008 the Panel has budgeted for twenty eight projects resulting from applications by advocacy organisations and provision has also been made for a further four projects in case issues are identified which are important to end-users and which have not been adequately dealt with by applicants for funding.

The number of projects the Panel will fund is dependent upon a number of factors such as the quantum of funds it has available, the number of issues in the national electricity market that end-users would want to advocate on and the pace of the energy reform agenda. It is therefore difficult to predict how many projects will be funded. However, it appears that the pace of the energy reform agenda is not diminishing and will in fact increase in the near future. As an example of the number and breadth of issues that could be the subject of applications for funding by end-user advocates, a summary of relevant issues for 2006/2007 is provided in attachment A.

The average cost of projects is shown in the table above. The dispersal of the actual costs around the average is shown in the following table:

Number of projects by quantum of funding granted						
	Applications	Number of Applications Approved for Funding by Value				
	Rejected	\$0-30,000	\$30,001-60,000	\$60,001-90,000	\$90,001-120,000	\$120,001+
2002/2003						
Staff position funding						1
Other projects	4	2	2			
Total	4	2	2	0	0	1
2003/2004						
Staff position funding		2	1			1
Other projects	27	25	9	2		
Total	27	27	10	2	0	1
2004/2005						
Staff position funding		1	2		2	1
Other projects	26	21	10	3	1	1
Total	26	22	12	3	3	2
2005/2006						
Staff position funding	1	2	2			2
Other projects	39	21	6	4		
Total	40	23	8	4	0	2
Total - Number of projects						
Staff position funding	1	5	5	0	2	5
Other projects	96	69	27	9	1	1
Total	97	74	32	9	3	6
Other projects - % of approvals						
		64.5%	25.2%	8.4%	0.9%	0.9%

For 'other projects', 64.5% of projects have cost up to \$30,000 and a total of 69.7% in the range of \$0-60,000. The average cost of \$30,000 per project is considered reasonable in the light of past experience.

The Panel's view is that the number of projects and their anticipated cost is reasonable in the light of past experience and current knowledge of the agendas of relevant regulatory authorities and decision-makers.

As mentioned earlier, the Panel has not budgeted for expenditure on gas projects on the basis that when its power to fund gas advocacy is implemented, it will receive additional funding for those projects.

The budget for the Panel's administrative expenses is based on the current administrative structure plus changes expected to occur when the Panel becomes responsible for gas advocacy in 2007/2008. The budget is as follows:

Advocacy Panel Operating Costs Budget 2007/2008		
	Budget 2007/2008	Budget 2006/2007
	\$	\$
Panel Expenses		
Staff Salaries and Superannuation	252,273	181,911
Panel Member Sitting Fees and Superannuation	138,593	143,567
Meeting Expenses	31,888	35,440
Administration Expenses		
Accounting & Audit	38,000	34,000
Advertising	6,000	6,000
Consultant's Advice	40,000	78,000
Insurance - WorkCover	1,681	1,100
Internet and Computer Expenses	12,000	5,000
Postage, Printing & Couriers	4,400	1,800
Rent	12,000	10,200
Reviews of Funded Reports	12,000	6,000
Other Expenses	4,165	4,290
	<u>553,000</u>	<u>507,308</u>

Staff costs are anticipated to increase in 2007/2008. To date, the Panel has employed one person on a part-time basis but by 1 July 2007 it is anticipated that the staffing requirement will increase to two fulltime people – an executive director and an administrative assistant.

The sitting fees for members of the Panel and their meeting expenses are anticipated to decline slightly in 2007/2008 due to a reduction in the number of sitting fees expected to be claimed by members compared with the higher than normal number of sitting days expected to be claimed in 2006/2007. The budgeted sitting days for 2006/2007 will be higher than normal as the new Panel, to be appointed in October 2006, holds additional meetings to determine its policies, strategies and procedures. The daily sitting fees are based on those proposed by the AEMC in its draft guidelines for appointment of Panel members issued in September 2006.

Similarly, the cost of engaging consultants to advise the Panel will decline after the new Panel has completed its establishment phase.

The Panel's operating costs budget is 24.1% of the total revenue to be received in 2007/2008 compared with 25.5% in 2006/2007.

Request for comment

The Panel requests interested parties to consider its proposed determination that the funding requirement for 2007/2008 be \$2,245,100 including GST and, if they wish, to comment on it.

Comments should be forwarded to the Executive Officer of the Panel by 5.00 pm on 30 October 2006, preferably by email at info@advocacypanel.com.au.

David J L Bremner
Executive Officer
18 September 2006

Projects for 2006/2007

Australian Energy Market Commission

Referrals from the MCE as they arise;

Rule changes

- Statement of regulatory principles – revenue cap re-opening;
- Management of negative settlement residues in the Snowy region;
- Treatment of contingent projects under current Transgrid revenue determination;
- Region boundaries;
- Reform of the regulatory test principles;
- Last resort planning power;
- Review of the Snowy regional boundary;
- Metrology harmonisation;
- Economic regulation of transmission services;
- Technical standards for wind generation;
- Reallocations;
- Management of negative settlement residues by re-orientation;
- Transmission network replacement and reconfiguration;
- Other Rule changes as they arise throughout the year;

Current reviews underway:

- Electricity transmission revenue and price Rules;
- Congestion management review;
- Enforcement and compliance with technical standards;

Reliability Panel

Tasks include comprehensive reliability review, Tasmanian reliability and frequency standards review and VoLL 2006 review.

Australian Energy Regulator

- Powerlink electricity transmission revenue cap determination;
- ElectraNet electricity transmission revenue cap determination;
- Victorian (SP Ausnet, Vencorp) electricity transmission revenue cap determination;
- Development of guidelines for transmission and distribution network regulation;
- Distribution network regulation guidelines;
- Review rebidding guidelines under cl 3.8.22 of the Rules and market monitoring reporting requirements under cl 8.7.2 of the Rules;

Jurisdictional energy regulators

- Essential Services Commission of South Australia;
- Essential Services Commission of Victoria;
- Independent Pricing and Regulatory Tribunal of New South Wales;
 - Review of regulated tariffs in NSW;
- Energy Competition Commission of Queensland
 - FRC Issues;
- Office of the Tasmanian Energy Regulator
 - Retail price determination for retail and distribution;

Ministerial Council on Energy

2006 draft legislative package including National Gas Law, National Electricity Law, other acts, regulations and Rules-

transfer of economic regulation of electricity distribution to the AER and AEMC as from 1 January 2007;

a limited merits review model for both gas and electricity;

the MCE's response to the report of its expert panel on revenue and network pricing adopting recommendations on pricing principles and a 'fit-for-purpose' decision making framework;

Amendments to the AEMC Establishment Act to provide a long-term consumer advocacy funding model for both gas and electricity advocacy;

2007 draft legislative package

National distribution and retail framework implementation including transfer of regulation of distribution (non-economic) and retail (non-price) functions to the AER and AEMC. The Retail Policy Working Group has been established to assist in this task;

Progressive roll out of electricity smart meters;

Implementing a comprehensive and enhanced work program to establish effective demand side response mechanisms in the electricity market;

Ensuring the separation of generation and transmission activities under the NEL;

Expansion of the National Framework for Energy Efficiency;

Renewable and Distributed Generation Working Group;

Energy Reform Implementation Group

To report to COAG by end 2006;

Matters arising in 2007;