

DISCUSSION PAPER FOR STAKEHOLDER COMMENT
January 2010

The Consumer Advocacy Panel has identified two research priorities for 2009/10:

- research addressing the needs of rural and regional energy consumers; and
- research to enhance the capacity of consumer advocacy organisations to participate effectively in distribution network price reviews.

Stakeholders are encouraged to

1. comment on the identified priorities, including putting forward other preferred projects - and the rationale for that change - where they believe there are other projects of greater assistance to consumer advocacy organisations; and
2. propose specific research projects that would improve advocacy on behalf of rural and regional consumers.

The Panel will then invite consumer advocacy organisations to submit applications to undertake those projects, with the aim of beginning projects in May 2010.

The Panel requests feedback from stakeholders by close of business 27 February 2010.

Submissions should be directed to the Panel's Executive Director, Kerry Connors, at info@advocacypanel.com.au.

Background

The Consumer Advocacy Panel funds research into consumer energy issues within its funding criteria (detailed in Appendix A). The Panel currently has two research programs:

- Research initiated by other organisations: the Panel provides funding to consumer organisations and academic institutions to undertake research on electricity and gas issues; and
- Research initiated by the Panel: in its 2009/10 budget, the Consumer Advocacy Panel committed a total of \$140,940 for Panel-initiated research in consumer electricity and consumer gas issues.

This paper outlines the Panel-initiated research agenda for 2009/10, detailing the purpose and criteria for determining research projects.

It also outlines the major consumer energy issues identified at the Panel's Stakeholder Forum in October 2009, and proposes a priority research project for consideration by the Panel's key stakeholders.

Purpose of research

The Panel undertakes research for the following purposes:

1. To raise awareness of emerging consumer energy issues
2. To provide information that can be used to facilitate consumer advocacy; and
3. To stimulate discussion or debate on consumer energy issues.

Criteria for selection of potential areas for research

In choosing issues, the following criteria have been used:

- Projects directly enhance advocacy by consumer organisations;
- Projects are of broad benefit to a number of classes of consumer organisations; and
- Projects add value and do not duplicate other work underway.

Consumer advocacy priorities

On 12 October 2009, the Consumer Advocacy Panel convened a stakeholder forum, *Mapping consumer energy issues 2009-2014* in Melbourne. The proceedings of the Forum are available on the Panel website.

The following summarises the priority themes and issues identified by the Panel as emerging from the day's discussion, and which have informed the Panel's deliberations on the research priorities:

1. Helping consumers cope with change
 - Adapting to the different tariffs and different energy products arising from smart meters and the potential introduction of an emissions trading scheme
 - Managing increased prices at a time when other household or business costs are increasing
2. Improving the capacity of the policy and regulatory regime to promote demand management/ demand-side response
 - Realigning incentives to improve their effectiveness
 - Informing and empowering consumers on opportunities (and risks)
 - Programs and policies tailored to consumer needs
 - Harmonising regulations to minimise the burden on consumers
3. Minimising the price of energy to ensure access and affordability for all classes of consumers
 - Low-income consumers continue to require particular focus in light of their vulnerability. Issues raised at the Forum included: the need for a conceptual framework to develop the discourse; National Energy Customer Framework (NECF) hardship provisions need to be robust and the intent of the framework clear; and the value of a national review of energy rebates.
 - Addressing the need of other disadvantaged consumers : small and medium enterprises, tenants, rural and regional consumers
 - Price transparency for all users
 - Emissions trading – ensuring effective, appropriate compensation for disadvantaged consumers
4. Creating effective markets
 - Addressing information asymmetries
 - Developing policy for the long-term
 - Consumer protections that are fit for purpose, promote competition and provide appropriate protection
 - Improving regulatory mechanisms to enhance reliability and quality, including
 - i. Ensuring service standards are providing incentives for improvement
 - ii. Performance reporting that is meaningful and contributes to effective consumer engagement with network planning

5. Ensuring adequate resourcing of consumer advocacy

- Is it time to consider a national voice?
- Building capacity for advocacy: more work on consumer gas issues, and network pricing.
- Using new media/mechanisms to facilitate outreach and engagement

Research priority projects

While the Forum discussions covered the range of consumer energy issues, the Panel's analysis has indicated there is work in train or underway that covers many of those areas.

As such, the Panel has decided to focus its resources in the following two areas:

Priority 1: Identifying rural and regional consumer issues in the National Energy Market (NEM)

What's the problem to be addressed?

The Panel has agreed to commit the majority of its budget to research projects that address the needs of rural and regional energy consumers, a major class of consumers whose needs are too often poorly understood by policy and regulatory decision-makers.

Issues faced by rural consumers that are different from metropolitan consumers include: less access to competition; poor reliability and quality of electricity supply, and limited capacity to influence/inform network investment decisions; impact of restricted fuel choice; and lack of access to decision-makers. It is likely that consumers in different jurisdictions will share some similar problems, but may prioritise issues differently.

There has been little systematic analysis across the NEM of rural consumer issues, by class of consumers or by region. There has been work done in some jurisdictions, but for the most part consumer organisations have not had the mandate or resources to investigate national rural consumer issues systematically.

Objectives of research projects

- To enhance the capacity of rural and national consumer advocates to represent the interests of rural consumers in policy and regulatory decisions
- To produce a systematic outline of rural consumers' issues to feed into decision-making
- To engage rural and regional consumer organisations into the debate, and alert them to information and advocacy networks that would facilitate their involvement.

Outcomes

- Better informed decision-making by policy-makers and regulators around access to infrastructure, benefits of competition, and ensuring consumer protections are appropriately targeted.

Focus of research and methodologies

The Panel invites interested consumer advocacy organisations to propose research projects that would provide more information about rural and regional consumers and/or engage rural and regional consumer advocates more effectively into decision-making in the NEM.

Research into the needs of rural and regional consumers could take a variety of approaches, for example focusing on a particular issue in the market, or convening a gathering of rural and regional consumers to discuss solutions to their issues, or surveying consumers to identify and prioritise problem issues.

The Panel welcomes stakeholder comments on possible foci of research, and methodologies.

Budget

The Panel has allocated around \$120,000 to review rural and regional energy consumer needs, with the aim of funding one or two projects that offer the greatest value against the eligibility criteria.

Priority 2: Masterclass on distribution network pricing

What's the problem to be addressed?

The largest element in a small consumer's energy bill is the distribution network component, which is approved in each jurisdiction every five years by the Australian Energy Regulator (AER); currently the AER is considering electricity distribution prices in South Australia, Queensland and Victoria, and gas distribution prices in New South Wales. In addition, the AER conducts a five yearly assessment of the weighted average cost of capital to be adopted for electricity transmission and distribution businesses, with the next review scheduled to begin in 2013.

The Panel has provided funding in 2009/10 to advocacy organisations to represent particular classes of consumers in the AER reviews in Queensland, Victoria and South Australia, but is keen to build capacity on distribution network pricing nationally, and with a range of consumer advocacy organisations.

While the impact of distribution prices is felt most immediately by small and medium end-users, it is envisaged that access to the masterclass would also be open to representatives from large end-users.

Objectives of research project

To enhance the capacity of consumer advocates to represent the interests of their constituents in regulatory decisions on distribution network pricing through

- Developing an understanding of the key cost drivers (new and replacement capital expenditure, operating and maintenance costs) and their impact on consumer prices
- Acquiring the capacity to assess in-depth the components of a distribution network service provider's price proposal
- Creating resource materials for consumer advocates to assist them in the analysis of distribution businesses' proposals, to be published on the Panel's website.

Outcomes

- Improved and increased advocacy in network pricing decisions
- Better informed decision-making by the AER on consumer interests and concerns
- Enhanced understanding of DNSPs on consumer interests and engagement

Methodology

The Panel envisages that a 2-3 day workshop or masterclass would be the most efficient mechanism to achieve the research objectives, but welcomes stakeholder comments on that approach, as well as possible topics that could be covered through the event.

Budget

The Panel has committed around \$20,000 to develop and deliver a masterclass, but welcomes stakeholder feedback on the budget.

Next Steps

The Panel invites stakeholders to provide comments on the following:

1. the suitability of the approach outlined above;
2. if there are other research projects considered to be more important to consumer advocacy organisations, and why;
3. what rural and regional consumer issues should be given priority by the Panel in seeking grant applications; and
4. what is the best structure and content of an event to improve advocacy in distribution network pricing.

The Panel will consider stakeholder feedback, and in early March will invite grant applications to undertake the research.

Applications will then be considered by the Panel at its next possible meeting, with the intention of starting the research projects as soon as practicable.

Grant guidelines and application form are available at the Panel's website www.advocacypanel.com.au.

All submissions should be sent to Kerry Connors, Executive Director, Consumer Advocacy Panel, by email to info@advocacypanel.com.au by close of business 27 February 2010.

Appendix A: Consumer Advocacy Panel funding criteria

To be eligible for funding a project must address national electricity and/or gas market issues as follows:

Electricity Projects

A project intended to benefit consumers of electricity should—

- (a) relate to the development, design or operation of, or policies associated with, the national electricity market or the retailing of electricity, or relate to other issues covered by the National Electricity Law or the National Electricity Rules; or
- (b) directly relate to an aspect of the responsibilities of the AER, the AEMC or NEMMCO under the National Electricity Law or the National Electricity Rules; or
- (c) have some other relevance to the national electricity market or the retailing of electricity, when viewed as a whole.

Gas Projects

A project intended to benefit consumers of gas should—

- (a) 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
- (b) 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
- (c) have some other relevance to the national gas market or the retailing of gas, when viewed as a whole.