

**NATIONAL ELECTRICITY CONSUMERS
ADVOCACY PANEL**

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REQUEST FOR COMMENTS

HOW CAN THE EFFECTIVENESS OF PROJECTS BE ASSESSED?

FIXED COSTS INCLUDED IN PROJECT BUDGETS – SHOULD THEY BE FUNDED BY THE PANEL?

Request for comment

The Advocacy Panel (the Panel) would appreciate comments from potential and current applicants for funding on two matters - how the effectiveness of projects can be assessed and whether or not the Panel should fund fixed costs included in project budgets.

The Panel would appreciate your comments on these matters. Please forward comments to the Panel's office by email to djlb@axtonjones.com.au by Friday, 11 May 2007.

Effectiveness of projects

The National Electricity Rules (the Rules) require the Panel to allocate funding to eligible applicants and projects. The requirements for eligibility are set out in the Panel's funding criteria and application guidelines which are based on principles set down in the Rules, and are subject to consultation with interested parties and the approval of the Australian Energy Market Commission. A requirement not expressly stated, but which the Panel feels is implied by the Rules, is that the Panel should assess the effectiveness of the manner in which the funds it grants are used by successful applicants in undertaking advocacy on behalf of end-users of electricity that they represent.

The Panel has therefore decided to assess the effectiveness of funded projects, focusing initially on capacity building projects. This consultation is part of a process being undertaken by the Panel to arrive at a robust and valid evaluation methodology.

Projects proposed to the Panel by applicants for funding fall into two categories – individual projects that focus on one specific topic or issue and capacity building projects under which applicants seek funding for employee-advocates to undertake advocacy on a range of topics and issues.

In recent years there has been a significant increase in the funding allocated to capacity building projects, as shown in the following table:

Capacity building projects undertaken	
	\$
2004/2005	342,346
2005/2006	474,718
2006/2007*	539,103
* to 17 April 2007	

The Panel has therefore decided that it wishes to seek the views of interested parties on how the effectiveness of projects can be assessed.

A number of organisations to whom the Panel currently provides capacity building funding sought further funding to enable their projects to continue in 2007/2008. The Panel has advised those organisations that it is undertaking this review and has invited them to provide comments. In order that the projects can continue for the time being, the Panel has approved funding for the period 1 July to 31 December 2007 at the current year cost plus 4% to cover recent cost increases. The Panel appreciates that its decision to extend these projects only until 31 December will impact on the longer term plans of the applicants and therefore it has undertaken to reach and publish its decision on the capacity building effectiveness review by 30 September 2007.

The Panel's review will initially focus on capacity building projects. The Panel has no particular view on how the effectiveness of these projects should be assessed.

It welcomes the views of interested parties as to mechanisms and processes that will provide a fair and effective review of the effectiveness of capacity building projects.

A relevant issue that should be considered when preparing comments is that the cost of the proposed review process will be an important issue. It will be counterproductive if the cost of undertaking the reviews exceeds the resultant benefits or is a significant proportion of the funding devoted to capacity building projects. The funds provided to the Panel ultimately come from end-users of electricity and therefore the Panel must always be conscious of the cost of its operations.

Funding of fixed costs

Under the Panel's funding criteria and application guidelines¹, applicants for funding are required to provide a cost budget for the proposed project. Generally, the costs included in such budgets fall into three categories:

1. Imputed costs – costs that are not actually paid by the applicant e.g. the estimated value of time devoted to a project by volunteers such as committee members or employees of organisations which are members of the applicant organisation;
2. Incremental costs – additional costs directly incurred by the applicant as a result of the project being undertaken; and
3. Fixed costs – a share of the overhead costs of an applicant that does not vary as a result of the project being undertaken.

As advised on the Panel's website on 10 April 2007, the Panel has resolved that imputed costs are not incurred by the applicant and therefore cannot be included in a project budget or considered to be a contribution by the applicant towards the cost of a project. The Panel's decision is based on its understanding of Rule 8.10.3(d)(4) which sets out the principles that the funding criteria used by the Panel for allocating funding must be consistent with. Paragraph (d)(4) provides that "the applicant for funding must fund a share of the project costs from a source other than funding provided by the Advocacy Panel."

Incremental and fixed costs are costs incurred by the applicant and therefore can be included in a project budget and can be claimed as part of the co-payment that Rule 8.10.3(d)(4) requires of an applicant, unless a waiver from the co-payment responsibility is given by the Panel.

Because of their nature - additional costs directly incurred by the applicant as a result of the project being undertaken – incremental costs are clearly eligible to be funded by the Panel.

The issue on which the Panel would appreciate comment is whether fixed costs should be eligible for funding.

¹ The document can be found at <http://advocacypanel.com.au/applications/fundingCriteria.htm>

The following arguments have been suggested to support an argument that fixed costs should not be funded:

1. The Panel's funding criteria and application guidelines provide that:
 - "The prime objective of funding support is to increase end-user input into consultation processes towards the longer term goal of increased end-user involvement in the national electricity market and making that market more efficient and effective."² and
 - "The Panel aims to increase the overall resources committed by end-users to advocacy and not substitute resources that end-users would otherwise commit."³

Incremental costs result from the use of additional resources to increase advocacy whereas fixed costs represent the re-deployment of existing resources.

2. If fixed costs are funded by the Panel, the applicant will make a profit because its revenue will increase as a result of the funding but its fixed costs will not increase. Examples of fixed costs often included in project budgets are the cost of the applicant's chief executive in supervising the project and the cost of rent and cleaning.

If the project is undertaken, the cost to the organisation of the chief executive will not increase and, generally, the cost of cleaning and rent will not increase. Therefore any funding provided by the Panel for such fixed costs will be a profit to the applicant. Given that the Panel has limited funds and that end-users of electricity would benefit more from advocacy of their interests rather than seeing applicants become more 'profitable', fixed costs should not be funded.

It could be argued that some fixed costs should be funded by the Panel because they represent the cost to an applicant of forgoing the use of those resources for other purposes. As an example, the organisation may be happy to devote its chief executive's time to an advocacy project rather than some other project. However, as part of a chief executive's role is to supervise staff and to advocate the interests of the organisation, it may be difficult to distinguish the time spent on this normal activity from time spent on the advocacy project proposed to the Panel, which would also be in the interests of the applicant.

The Panel has not taken a position on this issue although it will be discussing the matter at its meeting on 30 May 2007. Before taking a position, the Panel wishes to receive comments from potential and current applicants who may raise any relevant issues but it particular are requested to respond to the following questions;

1. Should an applicant's fixed costs be funded if the effect of the funding is to provide a 'profit' to the applicant as the costs will not vary if the project is undertaken?
2. Given that it is difficult to be precise about the value of fixed overheads and the extent to which they may vary if an advocacy project is undertaken, should, as a compromise, a proportion of fixed overhead costs be funded e.g. 1/3rd of the cost?

Comments

Please forward responses on these issues to the Panel's office by email to djlb@axtonjones.com.au. It would be appreciated if responses could be submitted by Friday, 11 May 2007.

David J L Bremner
Executive Officer
20 April 2007

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