

# NEM Consumer Advocacy Arrangements

## a briefing for government

**T**his briefing explains the need for, and the principles that should underpin, consumer advocacy in the National Electricity Market (NEM). It expands on the combined consumer group submission to the Ministerial Council on Energy (MCE) in May 2005.

The MCE considered a paper prepared by consulting company KPMG describing four options for a consumer advocacy mechanism. The option we prefer is based on a slightly modified version of Option 4.

### Structure - Company limited by guarantee

- The body should be established as a company limited by guarantee, with one member, being the Minister of the Commonwealth responsible for the time being for the Trade Practices Act 1974.

### Board

- The role of the board should be organisational governance, long-term strategic direction and grant making.

### Staff and Resourcing

- The new body needs to be sufficiently resourced, with adequate staffing and funding, to represent the interests of the 17 million consumers residing in NEM jurisdictions.

### Consultative Committee

- A Consultative Committee should guide the organisation, with its membership representing consumers from the NEM jurisdictions and consumer groups.
- The Committee, on a quarterly basis, would advise the executive director and the staff on research and advocacy directions. They would advise the board on an annual basis in relation to the long-term strategic direction of the body.

### Scope

- The body should operate based on public interest principles (see next page), addressing issues in national energy policy and regulation of relevance to Australian consumers.
- The remit of the organisation should be closely related to, although not limited to, the range of issues that fall within the authority of the MCE.
- The new body would have a grant-making function, again guided by the public interest, allowing it the flexibility to fund research and capacity-building projects, as well as advocacy.

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### The Need and Value of Consumer Advocacy

The MCE has recognised the need for consumer advocacy. Household consumers are the largest group of stakeholders in the NEM and bear many of the costs of reform. As such they have a right to be heard.

The very substantial changes either underway or planned in the regulatory framework require the adequate resourcing of consumer advocates. There are a limited number of state-based organisations working in this area. However these groups are under-resourced and are limited by their charters to a focus on state issues.

There is considerable value in well-informed consumer input to national issues. Benefits include:

- better decision-making - policy-makers and regulators will be aware of the experience of consumers, or classes of consumers, in the marketplace;
- early identification of market failures and possible solutions - reducing the regulatory and political risk of systemic problems;
- providing a counterbalance to business consumer groups - the viewpoint of consumer advocates may differ to those of large business users, and may focus on different issues;
- participation of a broad range of consumer groups, with a stake in the reform process, will engender support for change.



# Principles for Reform

**A national consumer advocacy body should be guided by a number of principles.**

## **1. Public Interest Mandate**

The constitution of any new advocacy body should focus attention and operational priorities on public interest principles, addressing issues in national energy policy and regulation of relevance to Australian citizens and consumers.

Public interest principles relating to energy include:

- Preserving universal access to safe, reliable, affordable energy as a national goal.
- Market mechanisms should be employed when they benefit the public interest and supplanted by regulatory decision-making when they do not.
- Decisions with regard to the energy system should be made at the level of government most accessible and responsive to the public, keeping in mind the need for broader coordination across jurisdictional boundaries.
- Improved energy efficiency and increased use of renewable resources are in the national interest. Government policy should actively promote the development and use of these resources.

## **2 Independence**

The development of consumer advocacy positions should be directed by careful consideration of the needs of consumers within a national energy marketplace, and formulated in the best interests of consumers.

Independence from industry, governments and regulatory agencies is therefore vital.

The national consumer advocacy mechanism should be free of

ministerial and government direction. Its Board should not receive ministerial directions as to how it should proceed or how it should allocate funds, providing that it does so lawfully and within its agreed plans.

## **3 Accountability**

The new national mechanism should ensure its accountability to its two main groups of stakeholders – the first layer of accountability must be to its funding body (or bodies), to whom it should report publicly and regularly on its activities and financial statements.

The second layer of accountability, and one too often overlooked, is to consumers themselves – the new mechanism must have substantive consultative mechanisms with consumer groups across the NEM jurisdictions, to receive advice on current and emerging issues, as well as to report on its own operations. Accountability also incorporates public access to its outputs, including research outputs.

## **4 Focus on the needs of low-income and disadvantaged consumers**

Special attention must be paid to the needs of low-income and disadvantaged consumers, recognising the particular detriment that can be caused to these groups.

There is undeniable evidence that low-income consumers require ongoing and robust protection from that potential harm – they pay a higher proportion of their income to secure supply of energy to their households, are less able to purchase appliances or undertake building improvements to increase the energy-efficiency of their households and, often, will be less capable of representing their individual interests effectively with energy retailers.

## **5 Inclusion of environmental issues**

Impacts on low-income consumers and the environment provide many synergies, including the need for and benefits of energy efficiency and demand management. Despite the fact that energy consumption in Australia is the largest contributor to greenhouse emissions, there is a dearth of consistent advocacy related to the market framework within which those emissions occur. A national consumer advocacy body must be empowered to explore the externalities that are likely to arise in the NEM, either through pricing or through increased emphasis on demand management.

## **6 Capacity-building and research**

The development of well-informed consumer input in the NEM will rely very heavily on the knowledge and networks of state-based advocacy groups, and their ability to research the problems and needs of their constituencies.

Given the pace and extent of reform and the very limited resources for these issues, a national consumer advocacy body will be called upon not only to receive information from these groups but also to inform them of NEM issues and guide them through the new regulatory arrangements.

To be effective, the new organisation will need to place a high priority on capacity-building and research on consumer energy issues, but will depend on the support and participation of state-based community and consumer groups. The ability to support those groups will be vital to its success, both through the provision of information, as well as the capacity to support consumer research.