



15 June 2018

Mr Ed Chan
Director
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Mr Chan

RE: ERC0241 Estimated meter reads, Consultation Paper, AEMC, 17 May 2018

ERM Business Energy welcomes the opportunity to respond to the Australian Energy Market Commission's (the Commission) consultation paper (the Paper) on estimated meter reads for customers.

About ERM Business Energy

ERM Power Retail Pty Ltd, which trades as ERM Business Energy, is a subsidiary of ERM Power Limited, an Australian energy company that operates generation and electricity sales businesses. Since launching in 2007, ERM Business Energy has grown to become the fourth largest electricity retailer by load in Australia, with operations in every state and the Australian Capital Territory. ERM Business Energy is now the second largest electricity retailer to the large business market by load,¹ with increasing success in the small business market.

General comments

As a retailer of business customers, ERM Business Energy understands the frustration of customers in receiving bills based on estimated readings, particularly if consecutive estimated bills transpire from chronic access issues. However, we consider that the rules as proposed only attempt to target the symptoms rather than the predominant root cause of estimated billing. In our experience, it is access issues that drives much of the sustained need for data estimation and this highlights the shortcomings of manually acquired metering data and the lack of awareness of customers in understanding their obligations to provide safe and unhindered access to meters, at all times. Ultimately, it will be either customer action to address access barriers or alternatively, smart metering installation that will obviate the predominant issues surrounding data estimation. We expect that a continued roll out of smart meters will ensure such issues will no longer plague the market.

We have made comments on the following questions in the Paper.

¹ Based on ERM Power analysis of latest published financial information.

Questions raised in the paper

1. Do stakeholders agree with the characterisation of the issues with estimated meter reads to be addressed?

The proposed rule should consider reinforcing to customers their obligations with respect to providing sufficient access to meters. The proponents have not sought to identify or target the root cause of estimation, which is overwhelmingly due to lack of access to meters. Customers have an obligation to provide safe and unhindered access to meters, and this obligation may be somewhat addressed as part of a shared responsibility between the meter asset owner and the customer. If this was addressed, beyond meter malfunction or bill smoothing arrangements agreed with the customer, there would be little reason to have bills based on estimated data.

Are there any shortfalls in the way the existing provisions in the NERR protect customers from the impacts of inaccurate estimates:

(a) Do the rules sufficiently protect customers from over and under charging?

We are of the view that the current rules in the National Energy Retail Rules (NERR) recognise that retailers have a responsibility for accurate billing and that adjustments are applied in a reasonable manner, so as not to place onerous conditions on customers when recouping underestimated bills. The current rules are reasonable as they efficiently allocate risks and responsibility, ensuring the acts or omissions of the customer, including failure to provide safe and unhindered access, are appropriately considered.

Where an energy retailer has used best endeavours to obtain an actual meter reading at least once in any 12 months, but cannot read the meter because the customer has denied access, we consider that the retailer will have met its regulatory obligation. Further, the current rules enable a retailer to recover an undercharged amount subject to timeframe limitations. Timeframe limitations will apply where the customer is not at fault. We also note that the current rules provide that customers must be offered a sufficient time to pay the undercharged amount.

The adjustment rules rightly recognise that access issues are beyond the control of retailers and that customers are not responsibility-free in receiving supply and must provide safe and unhindered access to meters. It also recognises that it is unreasonable for costs associated with the fault, omission or unlawful acts of customers to be borne by the retailer, or indeed other customers through higher costs to serve.

(b) Does rule 29 provide adequate recourse for a customer to dispute a bill based on an inaccurate estimate?

It is our view that rule 29 does not preclude a dispute on estimated bill data. This rule provides for metering data to be checked and disputes around metering data to be dealt with appropriately. Metering data, as defined in the National Electricity Rules, includes accumulated metering data, interval metering data, calculated metering data, substituted metering data, estimated metering data and check metering data. There are no impediments within the rules to dealing with disputes around

estimated data and we would caution the Commission with respect to altering rules to being overly prescriptive and limiting flexibility in the manner in which retailers can resolve disputes.

1. What are the costs and benefits of requiring that all customer bills must be based on actual meter reads? Should this option be considered further?

We strongly reject that retailers should only bill on actual reads. Retailers are billed for network charges and market acquisitions, based on estimates when actual meter reads fail to be provided to retailers. The costs associated with not being able to bill would likely be unsustainable for many smaller retailers, would be damaging to competition and could impose significant costs on industry as well as to customers if retailers need to manage this risk.

Consultation questions on prohibiting bills based on grossly inaccurate meter reads

1. To what extent does the option address the issues with estimated meter reads? What are the benefits?

2. How would the option be implemented by industry and what are the costs involved?

The proposed rule incorrectly places an obligation for metering data accuracy on the retailer. It is common practice for retailers to use the estimated data supplied by the Metering Data Provider ('MDP', typically the Local Network Service Provider or 'LNSP', responsible for reading Type 5 and Type 6 meters) for billing. This data is created according to industry's data estimation and substitution methodologies. To hold retailers to account for the accuracy of data produced in accordance with industry methodologies and supplied to them is completely misplaced.

We also consider the proponent's objective "to incentivise retailers to ensure their estimated bills are as accurate as possible"² is inappropriate, as 'incentivising' assumes control over the issue. In this case, retailers have little control over the major cause of estimation, access, and where the retailer receives an estimate for billing purposes from the LNSP, the retailer has little control over the data accuracy.

The extent to which retailers can identify 'grossly inaccurate' estimation is severely limited. In ERM Business Energy's case, we may identify where bill patterns are lower or higher than expected. In these circumstances, we endeavour to contact the customer proactively, suggesting to the customer that reads can be supplied with sufficient evidence. However, our own experience with business customers has found identification of estimation errors to be problematic, particularly with the inherent irregularity in some business customer load patterns. We often find that high bill exceptions can only be identified where there are sufficient periods to analyse and profile usage patterns. Moreover, previous readings and estimation quality is not transparent for newly acquired customers.

There are further limitations as retailers will not have insight to customer's business plans or change in use patterns. Consider for example, a customer that converts an intermittent production facility to a warehouse storage facility. To hold retailers accountable for the quality of any data or overestimation of the billing for a repurposed factory would be completely unreasonable. Similarly, retailers are often

² Minister Frydenberg, rule change request, *Estimated meter reads*, p. 4.

not privy to installation of behind the meter appliances such as solar panels which can be organised through a third party.

Overall, there are many circumstances where previous usage history will not fully inform retailers of the reliability of estimated reads. In the case of where errors or mistakes occur, it is important to ensure that any resulting compliance risks or costs are not levied on innocent parties. Without transparency to retailers we anticipate that this proposal will do little to improve inaccuracies in data estimates.

Consultation questions on requiring the retailer to accept a customer self-read

To what extent does the option address the issues with estimated meter reads? What are the benefits?

Photo or image sharing may be cumbersome and customer readings may prove unreliable compared to existing basis of estimation and substitution in the Metrology Procedures. However, we acknowledge some merit in using customer reads and photographic images of meters as evidence to resolve disputes. ERM Business Energy currently accepts customer self reads in circumstances where it can be reasonably ascertained that the estimation may differ greatly from an actual read, including where we have proactively identified a high bill and contacted the customer.

In these circumstances we base our minimum evidence requirements on our experience with what the LNSP will accept. In most cases, customers can provide photo evidence with dates (for example from capturing images and holding newspapers or phones next to the meter). The photo must contain a clear image of the meter and meter number. After receipt of an image we contact the LNSP and liaise with them so that they can substitute the customer's self-read to the meter data. The process is manual and is resource intensive. The adjusted meter data is subsequently provided to us in a data delivery process and automatically imported to our billing system for bill creation. The read quality assigned by the LNSP is 'Estimated'. Our ability to allow customer provided meter reads with photo evidence is constrained by whether customer provided reads are accepted by the network, as explained below.

1. How would the option be implemented by industry and what are the costs involved?

ERM Business Energy strongly believes that any requirements placed on retailers to accept customer reads must have reciprocal obligations on the parties to market settlement and other wholesale costs, to ensure retailers are not be subjected to negative financial impacts. We believe that the customer's estimation should be applied for calculation across wholesale settlement, Network Use of System (NUOS) charges, and green certificate liability calculations. Further, any subsequent actual read and corresponding adjustment must account for the self-read in the calculation of market settlement and NUOS charges to the retailer.

It is unreasonable that retailers would be expected to carry risk of data mismatch to NUOS charges and market acquisition costs. While minimal over a single customer, the risk is incremental over a large number of customers taking up the option to be billed on customer reads. If the costs of procedure and system changes are prohibitive to the alignment of customer self-read data to wholesale

settlement and NUOS data, it is ERM Business Energy's view that that this rule change should not progress.

4. What are the appropriate timeframes in which a customer should provide a self-read to a retailer to inform a bill?

Limiting the window for the provision of self-reads should be consistent to ensure that NUOS charges and settlement and billing data can be aligned. It should also take into consideration time to manage these reads with the network.

5. What arrangements should apply if the retailer rejects a customer self-read? For example, should the retailer be required to provide reasons to the customer and allow the customer to rectify the self-read?

If the customer cannot supply sufficient evidence or the retailer suspects the self-read is unreliable, the customer has the option to request a special meter reading. However, beyond service cost considerations, special meter reading arrangements may come with an inconvenience to customers, as the LNSP may have lengthy special read appointment windows of up to four hours. Reducing this window by LNSPs would make special meter readings a more attractive alternative, and we believe this would offer a possible solution for customers that are unwilling to provide unhindered access. We recognise however that in some cases, customers are not prepared to remain on site to provide the LNSP access for a special reading. Special meter readings are not a solution for those customers.

Ultimately, only the customer taking responsibility to rectify meter access issues or the installation of smart metering will obviate the issues surrounding data estimation inaccuracies to this group of customers. The Commission should evaluate the costs to the industry of implementing system changes to effect the identification of eligible customers at a time when there is an inevitable roll out of smart meters, which will produce a similar outcome and negate the most common need for estimates.

Consultation questions on adjustments to estimated bills

3. What are the implications of an adjusted estimated meter read and how should these be addressed? For example, are there implications on the billing cycle?

The workability of the proposal for adjustments hinges on the ability for the LNSP and wholesale parties to accept the customer self-read. If there is an inconsistency in data used between the LNSP and retailer, any adjustment, whether from a customer self-read or actual meter data may cause discrepancies in the retailer billing systems. In this event, the adjustment will be based on the data provided by the LNSP not the customer self-read.

ERM Business Energy systems are designed to ensure any adjustments from the MDPs are automatically processed to reduce the delay of adjustments. Such adjustments may initially reflect a customer self-read, however, if this self-read has not been used by the LNSP in providing future estimated reads, ERM Business Energy's read will re-align to their future estimations. ERM Business Energy questions the workability of this proposal without costly technical system changes. The only

feasible way to avoid such costs, is to ensure that the LNSP also applies the customer self-read to NUOS billing (and to AEMO for market settlement).

It is clear that the current processes and requirement of a subsequent adjustment to account for actual metering usage poses a risk to retailers and constrains the use of estimated self-reads to only where the LNSP and market settlement uses the same data.

Consultation questions on strengthening the requirements to carry out actual meter reads

We question how tightening the requirements to carry out actual meter reads will really lead to less incidence of data estimation, when in most cases the root cause lies in access issues, beyond the control of the retailer. As mentioned earlier, the proposed rule fails to consider the root cause of data estimation and the requirements on the customer to provide safe and unhindered access to the meter. If the site has repeated access issues, the customer should take reasonable steps to improve access, including arrangements for industry locks or alternatively make arrangements for the installation of a remotely read smart meter.

The Commission correctly notes that the obligations on MDPs and LNSPs to use reasonable endeavours to carry out actual meter reads within a specified timeframe are currently contained in AEMO procedures, not the rules. In addition to reinforcing customers' access obligations, we recommend the AEMC work with AEMO and the AER to ensure there is greater oversight and a means of holding LNSPs and accredited MDPs accountable for the extent to which they meet their meter reading services obligations.

Consultation questions on more accurate calculation of estimated usage

As mentioned earlier, many retailers such as ERM Business Energy, use estimates provided by the LNSP/ MDP as the basis for billing. Further, retailers may not be privy to infrastructure, such as PV installations that may impact the reliability of the existing industry estimation and substitution methodologies. This coupled with the inherent irregularity in some customer load patterns, particularly for business customers make the proponent's suggestion unworkable and cost prohibitive. We suggest the solution would be for the customer to take steps to resolve access issues or install a remotely read smart meter. Such meters provide greater time-varying load information and may provide additional benefits to those seeking to maximise their behind the meter investments.

1. Is compliance with rule 21 of the NERR an issue, and would civil penalties help to improve compliance?

We suspect there is no evidence of systemic noncompliance with rule 21 across the industry that warrants a change to the existing civil penalty regime.

Conclusion

Although the proponents seek to improve the outcomes of customers on estimated bills, we have identified possible complications surrounding the rule change proposal and we urge the Commission to

consider the resulting impacts in the cost benefit trade-off. In our assessment of any efficiency gains and impacts of this rule change, ERM Business Energy has sought to determine whether the proposal will alleviate the predominant causes of estimation inaccuracies. We have also considered if the incidence of customer harm, often measured through complaints, is significant enough to warrant the change or will actually result in other negative outcomes such as higher costs to those not impacted.

As mentioned earlier, ERM Business Energy's billing system automatically adjusts customer's bills based on newly acquired data. Mandating changes to existing processes will require significant reconfiguration of adjustment processes and will require costly system builds. We are doubtful that the proposed rules will alleviate the issues surrounding estimation and the costs will greatly outweigh any perceived benefits. Importantly the Commission should consider the rule change implementation costs in the backdrop of the inevitable roll out of smart metering, which is likely to produce broader efficiency gains and reduce any need for the rules proposed.

Please contact me if you would like to discuss this submission further.

Yours sincerely,

[signed]

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