

3 December 2018

Chair
COAG Energy Council Standing Committee of Officials
GPO Box 797
Canberra ACT 2601
By email: energycouncil@environment.gov.au

Dear Mr Heferen

Advice: Implementation options for ACCC recommendations 8 and 9 – customer transfers

On 19 October the COAG Energy Council Senior Committee of Officials requested that the AEMC, in conjunction with AEMO, provide advice for two of the ACCC Retail Electricity Pricing final report recommendations. These recommendations related to measures that could reduce delays and improve the existing customer transfer process.

The recommendations specifically proposed that:

- AEMO amend its rules and procedures so that losing retailers are only given a loss notification on the actual date of transfer of financial responsibility for the customer to the new retailer (Recommendation 8).
- the AEMC make changes to speed up the customer transfer process, for example by enabling customers to use self-reads of their electricity meters (Recommendation 9).

The joint AEMC and AEMO advice was to consider implementation options for the recommendations, including potential rule change proposals. The advice was to also have regard to related reforms where appropriate, including the rollout of competitive metering and Consumer Data Right work.

The AEMC and AEMO consider that the recommendations by the ACCC are best addressed by a number of actions that would improve, streamline and provide greater transparency for customer transfers within the retail energy market. There are a number of issues with the existing customer transfer process that are contributing to delays. Some of the issues identified are likely due to retailer non-compliance with the procedures. Other issues are due to the out-dated nature of the processes, which were designed at the time that the market first moved to retail competition. An outline of the perceived problems with the existing processes is set out in the attached advice.

To address these problems, the AEMC and AEMO propose to undertake a broader set of reforms to customer transfers than proposed by the ACCC. This will include the following actions:

- AEMO continue to take actions to monitor and enforce the existing procedures in light of any non-compliant behaviour or activity. AEMO will make updates to the procedures as necessary to help limit delays to customer transfers in the short term.
- AEMO produce a high level design, and associated rule changes, for a customer transfer process that streamlines existing procedures and improves customer expectations and competition in the retail market. The high level design will mandate a customer transfer being completed within two days and have regard to a number of key guiding principles. It will also have regard to the appropriate timeframe for notifications and meter read options as recommended by the ACCC. The associated rule changes will take account of customer protection issues, including billing and contract information. It should also consider enforcement arrangements, including reporting of breaches by the Australian Energy Regulator (AER).

The proposed changes are timely due to the reforms currently underway, including those related to the rollout of competitive metering, the Consumer Data Right and recent AEMC rule change on customer self reads for billing. In preparing this advice we have also taken into account previous work by the AEMC on arrangements for customer switching.

The design for an improved customer transfer process will be undertaken in consultation with the AEMC and other relevant stakeholders, including the AER. The AEMC will action any rule change requests as a priority and AEMO will consider what procedure updates can be worked on in parallel with the rule change process. A detailed work program is provided in the attached advice.

The AEMC and AEMO have undertaken informal consultations with a number of the jurisdictions, the AER, Energy Consumers Australia, the Australian Energy Council, NSW Energy and Water Ombudsman and St Vincent De Paul on the proposed approach for ACCC recommendations and customer transfer process changes. Generally, these stakeholders consider the proposed approach and actions is appropriate for improving customer experiences and reducing delays for consumers switching retailers.

We look forward to the COAG Energy Council consideration of the advice at their next meeting on 19 December 2018. Please do not hesitate to contact David Feeney on (02) 8296 7811 or Peter Geers (07) 3347 3059.

Yours sincerely



Brian Spalding
Acting Chair
Australian Energy Market Commission

Audrey Zibelman
Chief Executive Officer
Australian Energy Market Operator

Request for Advice

Implementation options

ACCC recommendations 8 and 9: customer transfers

On 19 October 2018, COAG Energy Council Senior Committee of Officials requested the Australian Energy Market Commission (AEMC) in conjunction with the Australian Energy Market Operator (AEMO) to provide coordinated advice on improving the customer transfer process.

The request for advice seeks to address the Australian Competition and Consumer Commission (ACCC) Retail Electricity Pricing Inquiry final report recommendations 8 and 9. These recommendations included that:

- AEMO amend its rules and procedures so that losing retailers are only given a loss notification on the actual date of transfer of financial responsibility for the customer to the new retailer (Recommendation 8).
- The AEMC make changes to speed up the customer transfer process, for example by enabling customers to use self-reads of their electricity meters (Recommendation 9).¹

We note that these recommendations are an important part of the COAG Energy Council's consideration of the ACCC Retail Electricity Pricing Report and long term plan to improve customer engagement in the retail market and deliver lower electricity prices.

This advice proposes a number of actions to improve the existing customer transfer process. The proposed actions are broader than the recommendations proposed by the ACCC. The AEMC and AEMO recommend that AEMO continue to monitor compliance with the existing procedures and produce a high level design, and associated rule changes for an improved, streamlined and transparent customer transfer process for the retail energy market.

Context for the advice

1. The ACCC, as part of its Retail Electricity Pricing Inquiry considered a number of options to improve competition in the retail energy market. One area considered was the potential opportunities to reduce the focus and aggressiveness of save and win-back activity.²

¹ Australian Competition and Consumer Commission *Retail Electricity Pricing Inquiry Final Report*, June 2018 p.151-153.

² A save is generally known as a switch that is withdrawn before the customer switching process is complete. A win back is when the customer switches back a short time after switching retailers.

2. Saves and win back activity is one approach that retailers use to compete in the market and consumers, subject to the save or win back, can directly benefit from such deals. The ACCC considered that the current save and win back activity by retailers is not occurring on a level playing field and may be significantly affecting the ability of smaller retailers to gain scale in the market. The ACCC also considered that the current activity is contributing to increases in overall customer retention and acquisition costs.
3. In 2016 and 2017, the AEMC made similar observations about the prevalence of save and win back activity occurring in the retail energy market. In particular, the AEMC noted smaller retailers concerns about the aggressiveness of the save activity by the 'big three' and that such activity could be contributing to increased acquisition costs. The AEMC's observations were based on the retailer responses to the retail competition review's retailer survey.³
4. The ACCC did not propose that save and win back activity by retailers should be prohibited as this type of intervention may have unexpected and unintended consequences in a competitive retail market. The ACCC did consider however that some changes could be made to the existing customer transfer process.
5. The ACCC recommended that improvements could be made to the current advance notification timeframe to a losing retailer under AEMO's Market Transfer and Settlement Procedures (MSATS) and the customer transfer process should be accelerated generally. It was considered that these changes would facilitate a faster, more efficient switching process and reduce the prevalence of current save strategies.
6. The AEMC and AEMO are of the view that changes should be made to the customer transfer process and the changes must extend beyond just simply changing the point of notifications in MSATS. This is because there are a range of issues with the customer transfer process that may be allowing for, or contributing to, opportunities for parties to delay a customer transfer to conduct a save activity. The AEMC and AEMO are also of the view that the existing customer transfer process is outdated and is in need of review if customer expectations and competition in the retail market are to be improved.
7. The core requirements for retailers and other parties to undertake and complete a customer transfer are located within AEMO's Market Customer Administration and Transfer Solution (CATS) procedure.⁴ These procedures are required by Chapter 7 of the

³ Australian Energy Market Commission, *Retail Energy Competition Review*, June 2018 and Australian Energy Market Commission, *Retail Energy Competition Review*, July 2017.

⁴ These procedures are required by Chapter 7 of the NER and are subject to civil penalty provisions. There are also other provisions related to customer protections which are located in the National Electricity Retail Law and Rules.

National Electricity Rules (NER) and are subject to certain civil penalty provisions.⁵ There are other customer protection related requirements within the National Energy Retail Rules (NERR) which relate to consumer contracts, billing and information.

8. This advice focuses on the issues and changes needed to the customer transfer process. Some changes to customer protections may be required as a result of improvements to the customer transfer process.
9. The remainder of this advice is structured as follows:
 - a. Issues with the existing customer transfer processes and procedures.
 - b. Detail of the proposed reform actions to address ACCC recommendations 8 and 9 and improve the existing customer transfer process.
 - c. AEMO/AEMC work program to implement proposed reform actions and informal stakeholder consultation undertaken to date.

10. This advice takes into account related retail market reforms, including interactions with the rollout of competitive metering and work being undertaken under the Consumer Data Right. This advice also considers the previous AEMC reviews and rule changes related to reducing switching times (Attachment A).

Existing issues - customer transfer process

11. The main elements of the CATS procedures include:

- ***Request and notification framework.*** Among other things, a winning retailer is required to lodge a change request no later than two business days after the end of the cooling off period. The losing retailer and other parties are notified at this time of the pending transfer.
- ***Objection framework.*** Parties have one business day to submit an objection in line with objection codes which define the types of acceptable objections. Parties have 20 business days to resolve an objection and if the objection is not resolved the transfer is cancelled.
- ***Meter read processes.*** At the time of a transfer request, the winning retailer must choose a transfer date. This generally corresponds with the date for the customer's next scheduled meter read. For all transfers, meter reads must be based on an actual meter read. The Meter Data Provider undertakes the meter read and provides information into the MSATS system.

⁵ NER 7.16.2

- ***Billing and settlement processes for transfers.*** Meter data must be validated and reconciled by the losing retailer to issue a customer's bill. The losing retailer also generates the network bill.
- ***Enforcement and reporting*** of the customer transfer procedures. The MSATS procedures are subject to civil penalties and there is a set process for AEMO and the AER to follow up on breaches of the procedures.

12. As noted, the AEMC and AEMO consider that there are a range of issues with the existing processes and procedures for customer transfers. Some of these issues are due to retailer behavior and non-compliance; others are due to the outdated and complex processes in place.

13. The key issues with the existing processes and procedures include:

- The existing procedures were based on jurisdictional arrangements prior to introduction of the National Energy Customer Framework. Incremental changes have been made over time but no holistic update for the competitive retail energy market has been made. For example, whether the current maximum completion timeframes are reasonably keeping up with consumer expectations and if an actual meter read is required to complete a retail customer transfer or rather whether a suite of options should be available.
- There are non-compliant objections to customer transfers being raised by participants. For example, in 2017 a number of debt objections were raised in New South Wales (1549)⁶ and Queensland (2324)⁷ by the losing retailer. Debt objections are only relevant, and permitted, in the Victorian jurisdiction and relate to the very specific concept of an aged debt. Any objections made create delays for the transfer due to the resolution process. The objections framework has had some changes in recent years in line with the AEMC Power of Choice review and more recently due to the competitive metering changes but the system is still allowing for the submission of objections that are not in accordance with procedures.
- There is circumstantial evidence to suggest that in order to limit the opportunity for save activity, winning retailers are submitting change requests into the MSATS system a short period prior to the incoming customer's next scheduled meter read date, ignoring the two-day submission requirement. Therefore,

⁶ Source: AEMO MSATS data

⁷ Ibid

despite data indicating a reduction in time to complete a transfer, actual customer transfer times remain greater than 30 days for consumers with accumulation or manually read interval meters. This timeframe is exclusive of relevant jurisdictional cooling off periods.

- The volume of transfers completed on special meter reads has not changed significantly since 2013. Over the same period direct costs to the consumer for a special read have increased significantly. For example, the direct cost to the consumer through Endeavour energy network was around \$10 in 2013 and is now around \$40⁸ in 2018. Advanced metering will alleviate some issues for transfer times, as evidenced by transfer times in Victoria but accumulation meters will be in place for some time (representing 62 per cent of the installed meter market in June 2018). In Victoria, transfer times are considerably shorter than other jurisdictions, due to meter reads being less costly and more efficiently obtained.
- Outside Victoria, annual smart meter installations were averaging approximately 3.8 per cent to November 2018.⁹ This is because installations have focused on new and replacement as opposed to a broad scale retailer rollout. Transfer times for customers with the appropriate communications to undertake a fast meter read is still about 10 days after the cooling-off period expires.
- As a result of the above and other errors with transfers, there are a large number of cancellations occurring. For example, in 2017 around 300,000 or 35 per cent of customer transfers were cancelled in those NEM jurisdictions where consumers are able to switch retailers.¹⁰ Currently, there is a lack of transparency on exactly what is driving these cancellations.

Proposed reform actions to address ACCC recommendations 8 and 9

14. The AEMC and AEMO propose that a number of actions are taken to address the ACCC recommendations and improve the existing customer transfer process. An efficient and seamless customer transfer process supports consumer choice, engagement and confidence in the retail market. It is also likely to reduce costs for retailers and other parties by removing delays (and hence costs associated with saves) and the need to rectify failed or objected to transfer requests on an ongoing basis.

⁸ See: <http://www.endeavourenenergy.com.au/wps/wcm/connect/35bbd295-bfc8-4e9a-9c63-dc9b1d9e6d4e/2018+19+Ancillary+Network+Services+Price+List.pdf?MOD=AJPERES>

⁹ Source: AEMO MSATS data

¹⁰ Source: AEMO MSATS data

15. The AEMC and AEMO recommend that:

- a. AEMO continue to take action to monitor and enforce the existing procedures in light of non-compliant behavior or activity of retailers.
- b. AEMO produce a high level design and the required associated rule changes for an improved customer transfer process which streamlines existing processes and improves competition in the retail market.
- c. The AEMC action any rule changes submitted by AEMO as a priority.

16. AEMO's design for a customer transfer process will be guided by the overarching objective of putting in place a customer transfer process that enables customers to transfer within a two day time period after the end of the cooling off period, irrespective of metering type.

17. The design will also be guided by a number of key principles including that:

- there is a simple, easy and timely customer transfer process for consumers
- the supporting procedures are streamlined, transparent and provide certainty for participants
- the obligations are clear, enforceable and can be reported on, and
- the changes have regard to the implementation and ongoing costs.

18. AEMO, in developing its high level design will consider the relevant notification requirements as recommended by the ACCC. AEMO will also consider the responsibilities of parties and potential suite of options for customers to switch on different types of meter reads. For example, customer self-reads, last billable reads, forecasted reads and smart meter reads.

19. The expected changes to the responsibilities of parties and options for meter reads are likely to necessitate changes to the NER and NERR. Where a rule change request is required to support an improved and updated customer transfer process, the following issues need to be canvassed:

- customer protections, including information requirements, contracts and disputes
- energy billing and settlements, and
- enforcement arrangements, including reporting of breeches to the Australian Energy Regulator (AER).

AEMO/AEMC proposed work program

20. The AEMC and AEMO propose that changes to the existing customer transfer process are undertaken in accordance with Table A. The AEMC and AEMO will work collaboratively to determine which rule changes and procedure changes can be worked on in parallel and in a timely manner. This will assist to reduce the time for changes to come into effect.

Table A: Proposed work program

Proposed action	Responsible market body	Timing
1. AEMO review the existing framework and develop the high level design for customer transfer process	AEMO	January 2019
2. AEMO submit associated rule change requests: a) Customer transfer process b) Meter read options	AEMO	February 2019
3. AEMC progress rule changes	AEMC	February/March 2019
4. Procedure changes and system updates	AEMO	mid to late 2019 <small>*subject to AEMC rule processes</small>

Stakeholder consultation

21. In preparing this advice we have undertaken some initial informal consultations. The stakeholders we have consulted with include:

- Australian Energy Regulator
- Energy Consumers Australia
- Commonwealth
- NSW
- SA
- QLD
- VIC
- Australian Energy Council

- St Vincent De Paul
- NSW Energy and Water Ombudsman office
- Consumer Research Policy Centre

Generally all stakeholders considered that the proposed approach and actions is the right direction for improving the existing customer transfer process and competition in the retail energy market.

[Attachment A: Related reforms, reviews and rule changes](#)

There are a number of related rule changes, reviews and changes to AEMO procedures that interact or have been taken into account in preparation of this advice. These are outlined below.

Metering installation timeframes rule change 2018

On 13 September 2018, the AEMC published a more preferable draft rule that imposes obligations on retailers to provide customers with new electricity meters within a defined timeframe. The draft rule also places new obligations on Distribution Network Service Providers (DNSPs) to notify retailers as soon as work has been completed. The draft rule proposed that retailers and DNSPs would be required to meet the new timeframes from January 2019.¹¹ The final rule is expected to be published on 6 December 2018.

For this rule change, AEMO will need to do a procedure and system change to MSATS for the metering installation timeframes.

Estimated meter reads – self reads rule change 2018

On 25 October 2018, the AEMC made a retail final rule to make it easier for small customers to fix inaccurate estimated bills by providing their own meter reading.¹²

The rule commences on 1 February 2019 and applies to customers with accumulation meters or gas meters. The final determination recommended new civil penalty provisions if retailers fail to comply with new rules.

Using estimated meter reads for customer transfers rule change 2017

In 2017, the AEMC determined not to make a rule to allow for small customers with manually-read meters to transfer to a new retailer based on an estimated meter read, retaining the requirement for an actual meter read.¹³ This was based on a number of factors including:

- Customers would be likely to be charged an amount for estimated reads. These charges were likely to be the same or similar fees for special reads imposed by the Distribution Network Service Provider (DNSP) at the time.
- Complexity and costs in implementation – system and procedure changes to accommodate estimated reads, billing and corrections requirements and consumer information/ protections.

¹¹ <https://www.aemc.gov.au/rule-changes/metering-installation-timeframes>

¹² <https://www.aemc.gov.au/rule-changes/estimated-meter-reads>

¹³ <https://www.aemc.gov.au/rule-changes/using-estimated-reads-for-customer-transfers>

- The rollout of smart meters and assumed reduction in transfer times due to more advanced metering technology.

The Commission did note in its final determination that if it considered that transfer times were not continuing to improve it would consider further action.

Improving the accuracy of customer transfers

On 2 February 2017, the AEMC made a final rule under the National Energy Retail Law in response to a rule change request from the Council of Australian Governments Energy Council. The rule change request was based on recommendations in the Commission's 2014 Review of Electricity Customer Switching.¹⁴

The final rule placed specific obligations on retailers to promptly resolve customer transfers that occurred without customer consent, including erroneous transfers. The final rule covered both electricity and gas customers.

Review of Electricity Customer Switching 2014

On 10 April 2014, the AEMC published the final Report for the Review of Electricity Customer Switching.¹⁵ This review was initiated following a recommendation from 2012 AEMC Power of Choice review.

The AEMC found that, at the time, customer transfers in the NEM occur in an efficient manner. However, some customers are experiencing lengthy or inaccurate transfers and the negative experiences have the potential to grow and broadly undermine the confidence in the retail market over time.

The AEMC made a number of recommendations on how the transfer process can be made more timely and accurate. The final report also set out an implementation plan.

The recommendations from the review included:

- Allowing estimated meter reads in situations where a consenting customer is not changing address and their meter is manually read.
- Improvements in the accuracy of data provided into MSATS.
- Periodic review of application of customer transfer process and MSATS system that supports transfers.
- Greater transparency and public reporting for customers on the timing and accuracy of customer transfers, by the AER.
- Process for customers to have their erroneous transfer rectified.

¹⁴ <https://www.aemc.gov.au/rule-changes/metering-installation-timeframes>

¹⁵ <https://www.aemc.gov.au/markets-reviews-advice/review-of-electricity-customer-switching>