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12 August 2019

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submitted electronically

Dear Mr Pierce,

Re: National Electricity Amendment (Reducing Customer's Switching Time) Rule - Consultation Paper (ERC0276/RRC0031)

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to provide feedback to the Australian Energy Market Commission (the Commission) on the Consultation Paper for the National Electricity Amendment (Reducing Customer Switching Times) Rule.

Red and Lumo strongly support the goal of the proposal to speedup the time it takes energy consumers to transfer between retailers. We, however, only support part of the solution proposed by the Australian Energy Market Operator (AEMO) to facilitate this speedier transfer. Consistent with the view of the Commission in 2016, we do not support the use of estimated reads for transfers between retailers. The main benefits of utilising special reads, customer self reads and retrospective reads is the ability to leverage existing systems and processes.

However, using estimated reads has a broader impact of which there has been very limited assessment. We firmly believe that all changes to the transfer process should only occur where the benefits of doing so clearly outweigh the costs and there are no unintended consequences. We encourage the Commission to further undertake further assessment of estimated reads and the removal of the notification period.

This submission is broken into four parts. Firstly, we review the use of read types to enact a customer transfer, then review the notification and other associated timeframes. Thirdly, we discuss the need for a cost benefit analysis to be completed, and the Commission (and AEMOs) assessment criteria against the National Electricity Objective (NEO) and National Energy Retail Objective (NERO). Finally, attached to this submission are our responses to the questions posed in the consultation paper.

Read Types for Transfers

Estimated final reads for consumers

The Australian Competition and Consumer Commission (ACCC) specifically stated in its Retail Electricity Pricing Inquiry (REPI) that the Commission "should explore ways to enable the use of self-reads to facilitate faster transfer times (and as a less costly process than

arranging for a special read) when a person is remaining at the same property"¹. However, it did not recommend the use of estimated reads to facilitate faster transfers. This extension of scope by AEMO will generate inefficiencies and create significant risks, with limited benefit for either consumers and retailers. In our view, the Commission can achieve the broader policy objective without extending this proposal to allow for transfers on estimated reads.

We note the Commission's earlier rejection of a similar proposal to use estimated reads, in which it stated that "considered that implementation of the measures would be unavoidably complex and that consumer uptake of the estimated read option may be low as customers are likely to choose the certainty of a special read."² This is still a valid position.

Actual reads have been the cornerstone of retail transfers as the transfer of financial responsibility from one retailer to another is completed by an independent party. This was partly the Commission's rationale for establishing the independent metering coordinator role, which maintains this separation.

Wholesale settlement, network settlement and retailer billing must continue to align even within the context of faster transfers; this is a key element of the National Electricity Market and reflects retailers' role. It ensures retailers are billing their customers for their actual consumption, and are then billed for the same in the network and wholesale settlements. The proposed change to estimated reads as the basis for a final transfer coupled with the requirements for retailers to adjust bills and absorb the associated risk place would fundamentally alter this arrangement and therefore warrants further analysis.

AEMO data indicates that a very small percentage of transfers have occurred on estimates (approximately 6%)³. However, there are a wide range of factors that undermine the case for wider uptake on estimated transfers from a consumer and industry perspective, which have not been addressed. Furthermore, we note that there has been limited to no work done on the potential impact on market settlements and retail bills based on the proposed change to clause 21(4) of the National Energy Retail Rules (NERR). AEMO claims there are customer benefits and efficiencies without clearly articulating the implementation and ongoing costs borne by retailers to adopt this change. In short, there is no basis for assuming there will be a net benefit.

AEMO has also proposed "the losing retailer should be required to adjust a customer's bill when a material inaccuracy in estimate has resulted in a materially higher final bill to the customer" and "propose that the losing retailer would not be entitled to re-bill a customer following a transfer if it is subsequently identified by the losing retailer that the customer was under-charged."⁴ This proposal creates an unreasonable risk for retailers. Consumers will be able to request an estimated read transfer knowing they will be refunded if it is incorrect but will not have to pay back any underestimate. While consumers bear no risk in this process, retailers will face a financial risk with no mitigation opportunity. Under these changes both the losing and winning retailer will be forced to absorb a potential risk involved with every consumer transfer on an estimated read. Added to this risk there is also an operational cost on retail businesses who will need to rebill and refund large numbers of final bill customers, which AEMO has not accounted for.

¹ Australian Competition and Consumer Commission, Retail Electricity Pricing Inquiry - Final Report, June 2018, p153

² Ibid, p153

³ Australian Energy Market Commission, National Energy Retail Amendment (Reducing Customers Switching Times) Rule, 4 July 2019, p10.

⁴ Ibid, p12

When the Commission looked at this issue of transfers on estimates in 2016 it concluded that when “complexity in implementation are taken into account, the Commission now considers the introduction of an additional transfer option using estimated reads is not likely to be in the long term interest of consumers and will not contribute to the achievement of the national electricity objective.”⁵ We do not believe that AEMO has put forward any strong evidence as part of its proposal which address any of the aforementioned issues and that these problems will remain in place.

Actual reads through smart meters

Red and Lumo agree that consumers could benefit from some of the proposed changes but our concern is the absence of any rigorous assessment of the broader impact. Furthermore, many of the issues the proposal is seeking to address are addressed through the ongoing roll out of smart metering (metering contestability) and the notice period changes.

We note the website of the Victorian Department of Environment, Land, Water and Planning (DELWP), which makes this specific point in its promotion of smart meters. It states that “as your meter is read daily, you no longer need to wait for weeks or months to switch retailers. Connecting, disconnecting or switching to a new electricity retailer is cheaper and easier because you can get onto a better plan and start saving more quickly.”⁶

Many of the issues that AEMO raises to support the proposal have already been addressed in Victoria and retailers have referred to the benefits of smart meters to promote the introduction of metering contestability in other states. The introduction of these changes not only imposes additional costs on industry but remove one of the key benefits of the continued roll out of smart meters and potentially impact consumer update. This could undermine the broader benefits they offer, such as more efficient energy usage, and products and services that cater to different consumption profiles.

Data from the Energy and Water Ombudsman schemes in Victoria and NSW suggest that the speed of transfers is declining as a source of complaints by consumers. This could be a function of increased smart meters in these states or through the increased focus by retailers on customer experience and therefore opting for increased use of special reads. In the latest annual report from the Energy and Water Ombudsman Victoria (EWOV) complaints from customers related to transfers have gone down from 11,705 in 2013-14 to 4077 in 2017-18⁷ while the Energy and Water Ombudsman New South Wales (EWON) has reported a drop from 8178 in 2013-14⁸ to 2339 in 2017-18⁹. Ongoing solutions continue to be rolled out across the market without the need for these extensive and costly changes.

Special read transfers

Red and Lumo support the retention of the special read transfer option for consumers. As noted earlier, this transfer option is likely to remain as one of the most popular for consumers as it provides certainty of the accuracy of the final bill for both the consumer and the retailer.

⁵ <https://www.aemc.gov.au/sites/default/files/content/cac7f16c-46d9-41f6-9a3b-82bd790398e5/ERC0196-Estimated-Reads-Final-Determination-for-publication-020217.pdf>

⁶ <https://www.victorianenergysaver.vic.gov.au/get-help-with-your-bills/smart-meters-and-how-they-work>

⁷ Energy and Water Ombudsman Victoria, 2018 Annual Report, p37.

⁸ Energy and Water Ombudsman New South Wales, Annual Report 2013-14, p9

⁹ Energy and Water Ombudsman New South Wales, Annual Report 2017-18, p25.

Special reads also continue to foster further competition between retailers while maintaining this certainty for consumers.

Despite this however the cost of special reads continue to provide a barrier for customers and smaller retailers (who are unable to absorb the cost). As was noted in the high level design “costs for providing special reads have increased substantially in many NEM regions over recent years. For example, the direct cost to a consumer in the Endeavour Energy network was around \$10 in 2013 and around \$40 in 2018.”¹⁰

Red and Lumo believe there is a case to revisit how networks recover the cost of special reads in light of this rule change. All consumers benefit from more efficient transfer processes - and more effective competition - so it seems reasonable for these costs to be classified as standard control services for the purpose of cost recovery, rather than through a specific service fee. Retaining a specific fee could provide a disincentive to switching, especially if the use of retrospective reads and customer own reads become available. This means the prevalence of special read requests through the distributor will reduce to a level that the work can be recovered through other mechanisms.

Transfer Timeframes

Notice periods in the current market

AEMO reduced the notification period from 5 business days to 1 business day on 1 December 2017 at the request of the COAG Energy Council. Since this time, we have noticed there are fewer customer saves and retailers are increasingly focussed on win-back activity, where a retailer re-signs up the customer after they have transferred to another retailer. While the goals of the proposal are understandable in light of the REPI recommendations it is crucially important to consider what has changed in the market since this report was carried out.

In its high level design, AEMO has proposed that the removal of the upcoming loss notification to the current retailer limits ‘save’ activity’, which will “reduce overall customer acquisition and retention cost and wasted acquisition costs”¹¹. It is unclear how AEMO can quantify these costs and we question this assumption. Furthermore, we do not agree that retention activity is wasteful or that it imposes a net cost on consumers. When consumers engage with the market, they are likely to benefit and get a better deal or one that suits their needs. This can be both through their current retailer and through a transfer in the market to a new retailer. AEMO’s data only shows customers that switch between retailers and do not know how many customers switch products with their current retailer. Therefore, there is little basis for assuming there are significant incremental cost savings from implementing this change.

Notice periods as more than “save” activity

Notification periods for transfer can also play a much wider and more important role for consumers than just a “save” activity. During the Victorian Essential Services Commission's work on amendments to the Energy Retail Code to introduce protections for customers experiencing family violence, it was revealed that perpetrators of family violence can manipulate systems and transfer processes of utility accounts against victims. This can be

¹⁰ Australian Energy Market Operator, Electricity Rule Change Proposal, Customer Transfer in the NEM, May 2019, p7

¹¹ Australian Energy Market Operator, Electricity Rule Change Proposal, Customer Transfer in the NEM, May 2019, p16

done in a number of ways including forcing accounts into the victim's names without contributing to the debt or transferring the account out of an affected customer's name without their knowledge.

In one instance, a perpetrator attempted multiple times to transfer an electricity account to another retailer with the alleged aim of disconnecting the power at the property. Without the notification periods and the existing notices on the account, the losing retailer would not be able to contact the customer or organise to notify the winning retailer that the customer did not wish to transfer the account to them. The notice period also allows customers the opportunity to have a conversation with the losing retailer to make sure that indicators such as family violence, concessions, payment plans or hardship are maintained on the account.

As noted the one business day notice period has essentially eliminated the ability of companies to carry out "save" activity but it does allow for important discussions on sensitive accounts. Therefore, we consider that the removal of the notice period altogether requires further analysis to fully understand its broader impact.

Cooling off period

While the rule change did not specifically request the Commission to review other alternatives to speeding up the customer transfer process, a change to the cooling off timeframe is another mechanism available to the Commission. In the REPI, the ACCC noted "that transfer times must be improved in order to promote more vibrant competition and enable customers to obtain the benefits of switching more quickly."¹²

The AEMO high level design has proposed that the changes should "enable a process that allows a customer to transfer between retailers within two days after the end of the cooling off period."¹³ While Red and Lumo support the stated goal to reduce a consumer's transfer time to two business days, changes to the 10 business day cooling off period is another option that warrants investigation.

We can consider the cooling off period for electricity transfers in the broader context. Currently in Victoria, for example, the purchase of new cars and motorbikes "have three business days (excluding weekends and public holidays) after you sign a contract to change your mind."¹⁴ Whereas the purchase of a new home at auction has no cooling off period at all. Each of these purchases carry a financial risk which is substantially higher than an electricity contract. The reduction of this cooling off period to align it with other cooling off periods would dramatically speed up the transfer process.

Considering the increasing penetration across the market of smart meters through the metering contestability rule change, the reduction of the cooling off period is likely to have a more material impact on customers transfer times than the proposed estimated meter reading procedural rule change and would not generate the same risks. This is also likely to have a greater benefit for consumers at a lower cost than the removal of the notification period to the losing retailer. We urge the Commission to consider the scope of the change, and the likely benefits.

¹² Australian Competition and Consumer Commission, Retail Electricity Pricing Inquiry - Final Report, June 2018, p153

¹³ Australian Energy Market Commission, National Energy Retail Amendment (Reducing Customers Switching Times) Rule, 4 July 2019, p3

¹⁴ <https://www.consumer.vic.gov.au/cars/buying-a-new-car/cooling-off-period>

Assessment Framework

Assessment against the NEO and NERO

The consultation paper rightly notes that the Commission must satisfy itself that the changes are consistent with both the NEO and NERO and with the 'consumer protections test'. Both the NEO and the NERO focus on 'efficient investment' and 'efficient operation' of the market, both electricity markets and retail markets.

In addition to AEMO's proposed changes, it has requested that the change in retailer role is delinked from the retailer's appointment of a metering coordinator. This change alone will add significant implementation costs to retailers, as there are potentially new transactions or modifications to existing transactions in order to appoint themselves as a retailer at the customer's request. Further, this change will generate inefficiencies as retailers will need to raise a separate transaction to effect this same transfer so they meet their obligations in the NER through the appointment of a metering coordinator. What was previously completed in one transaction, with one single point of failure, now has two transactions and the risks of mismatch will increase.

Need for a proper cost benefit assessment

The Commission must undertake a proper cost benefit assessment of this rule, as it must assess the potential costs, benefits and any unintended consequences of implementing any change. This is especially pertinent given industry's recent experiences. The implementation costs of changes such as 5 minute settlement were unknown until the design was finalised, and the second tier impact for global settlements will not be known until the change is actually implemented.

While AEMO have suggested that their costs are limited, the costs of participants have not been taken into account and they remain uncertain. For example, the likely IT implementation costs will differ depending on whether the Commission decides to proceed with the use of estimated (or substituted) reads for transfers. Another dependency is whether the Commission decides that the removal of clause 7.8.9 of the NER will add or reduce the operational efficiency of the market.

While the use of special reads, customer self reads and retrospective reads are capable of mostly leveraging existing systems and processes already in place, the use of estimated reads has widespread impact with limited assessment or benefit. There are currently a range of measures that are already taking place which will resolve the issues the proposed changes are seeking to address, none of which have been fully considered.

Proceeding with changes without proper assessment of cost and impact have the potential to create major inefficiencies in the market and further hamper not only consumer experience and trust but also increase overall costs. As already noted there is a strong likelihood that consumers will still choose the certainty of a special read over an estimate meaning that system and process changes will incur a cost for very limited consumer benefit that will only become redundant due to the increased prevalence of smart meters. Red and Lumo would be happy to provide a cost and benefit assessment to the Commission, should it wish to undertake further analysis on the proposed changes.



About Red and Lumo

Red and Lumo are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria, South Australia, New South Wales and Queensland, and electricity in the ACT to over 1 million customers.

Should the Commission wish to discuss or have any enquiries regarding this submission, please contact Stephen White, Regulatory Manager on 0404 819 143.

Yours sincerely

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the end.

Ramy Soussou

General Manager Regulatory Affairs & Stakeholder Relations

Red Energy Pty Ltd

Lumo Energy (Australia) Pty Ltd

Att

Attachment 1 - Consultation Questions

Question 1 - Do you agree that clause 7.8.9(e)(1) of the NER restricts the delivery of the proposed changes to the customer transfer procedures and process?

No. Red and Lumo consider that clause 7.8.9(e)(1) and the mechanism in the Market Settlement and Transfer Solution Procedures that provides for a retailer nominating to be financially responsible for their customer's premises and the proposed metering coordinator at the same time, is efficient and effective. The Commission's consultation paper infers that through the appointment of the metering roles in conjunction with the financially responsible retailer are "contributing to a range of non compliant objections, delays and cancellations"¹⁵. This is not entirely accurate. In our experience, the concurrent appointment of roles very infrequently experience delays and non compliant objections. However, there are cancellations that occur, because customers exercise their choice not only to change retailers but also to cool off and remain with their existing retailer.

Red and Lumo do not agree that the removal or amendment of clause 7.8.9(e)(1) of the NER will increase efficiency in the operation of the retail market. We consider that creating an additional process to appoint the metering roles, as required under the civil penalty clause 7.2.1(a) will be onerous and subject retailers to additional costs, inefficiencies and risk.

Question 2 - Are there any impacts from removing clause 7.8.9(e)(1) from the NER and allowing the MC, MP or MDP roles for metering installations to be nominated in the Procedures but as a separate request or in parallel to a retail customer transfer?

Currently, once a retailer obtains a customer's consent, it undertakes a very efficient process to appoint themselves into the role of financially responsible market participant and to appoint the metering coordinator as required in the NER. As noted in the consultation paper, there is currently a limited ability (i.e. a single day) for a participant to object to the transfer. Our submission contends that the objection period allows for more than just save activity.

Question 3 - Are there any unintended impacts from removing or clarifying clause 7.8.9(e)(2) of the NER and including the requirement in AEMO's Meter Churn Procedures?

Clause 7.8.9(e)(2) of the NER provides the optionality for retailers, in conjunction with their customer, to enable a transfer to occur concurrently with a meter installation. We understand the use of this is limited at present - we consider that once there is an increase in the rate of meter installations, this clause will have benefit to retailers and their customers. We envisage that this clause, alongside the incoming metering coordinator rule that the Commission is currently considering, will allow for a future dated transfer and meter replacement at a time that is convenient for the customer. Removing this clause will remove the options and choice that retailers can offer to customers.

Question 4 - are the existing provisions in the NERR related to customer billing impacting consumers utilising alternative meter read options and switching electricity retailers in a timely manner?

It should be noted that customer own read transfers are already in use in NSW gas. This transfer option is facilitated within the existing NERR. Furthermore we believe that retailers'

¹⁵ Australian Energy Market Commission, National Energy Retail Amendment (Reducing Customers Switching Times) Rule, 4 July 2019, p8.

systems are already capable of accepting customer own reads following changes from 1 February 2019. Therefore, we believe that the existing provisions in the NERR are capable of facilitating a wide variety of customer switching types - apart from estimated reads - and no further changes are required.

Question 5 - is there any evidence to suggest that customers with manually read metering installations would not take up alternative meter read options to transfer retailers in a timely and seamless manner?

Red and Lumo believe that consumers should have choice in their transfer option and should have confidence in the method they choose.

AEMO's High Level Design (HLD) proposes that in relation to customer transfers on a substitute read that "the identification of a material over-estimation could only occur by either the customer querying the billed energy on receipt of the bill itself, or a subsequent manual reading being lower than the substitute meter reading."¹⁶ Consumers who are forced to self identify a material over estimation are likely to lose trust in the market (noting the consumer would have to discuss this with a retailer they had chosen to cease interaction with) which would not only erode consumer confidence but impact the likely uptake of this transfer option.

Red and Lumo also do not believe that any impediments should be put in place to slow down further roll out of smart meters. As has been noted, retailers have mentioned many of the issues raised when promoting the benefits of smart meters. The introduction of these changes not only imposes additional costs on industry but remove one of the key benefits of the continued roll out of smart meters. This could undermine consumers' willingness to accept a smart meter and erode the broader benefits they offer, including more efficient energy usage, products and services that cater to different consumption profiles.

Question 6 - based on AEMO's proposed high level design and changes to the existing procedures, are clarifications required to clause 21(1) of the NERR to remove ambiguity about issuing final bills on estimate metering data?

Red and Lumo do not agree that there should be any changes to the NERR to facilitate the use of estimated reads for a customer transfer. There are already occurrences of transfers on estimates however this is not being widely used due to the range of issues that have been raised, none of which have been addressed by the proposal put forward. We believe that the introduction of further transfers on estimates reads would likely lead to increased cost with limited benefit for the market or consumers.

Question 7 - are additional provisions required in the NERR to address overcharging and dispute resolution arrangements in situations when a retail electricity customer has transferred using an estimate read?

Red and Lumo do not support the consumers being able to transfer between retailers on an estimated read. As this question clearly articulates the introduction of transfers on estimates not only creates a range of issues for retailers but would necessitate further changes to protect customers who choose this transfer option. We believe that there should be no transfers on estimates, and therefore customers being overcharged or undercharged should not be an issue.

¹⁶ Australian Energy Market Operator, Electricity Rule Change Proposal, Customer Transfer in the NEM, May 2019, p15

However, if the commission does decide to permit them, then they should in no way be allowed to be used to facilitate transfers for move in and move out customers. This is where the incentive to misread the meter lies most. Also the commission should proceed with caution noting that amending this section of the NERR will mean that there is a need for AEMO's gas procedures to be consistent with the higher instrument. Those costs and benefits have not been considered as part of the consultation paper.

Question 8 - is there any additional information requirements needed for a customer to transfer retailers using different forms of meter reads, including self, last billable or estimate meter read?

Red and Lumo support consumer choice in transfers between retailers however we do not believe there is any justification for the introduction of transfers on an estimate and believe that as evidenced the likely outcome of this process will only worsen consumer experience and market outcomes.