



ERM Power Retail Pty Ltd
Level 3, 90 Collins Street
Melbourne VIC 3000
ABN 87 126 175 460

13 23 76
ermpower.com.au

Wednesday, 31 July 2019

Ms Lisa Shrimpton
Australian Energy Market Commission
PO Box A2449
Sydney South Nsw 1235

Dear Ms Shrimpton

RE: AEMC, Reducing customers' switching times, Consultation paper, 4 July 2019, RRC0031 / ERC0276

ERM Power Retail Pty Ltd (ERM Power) welcomes the opportunity to respond to the consultation paper on reducing customers' switching times (the paper).

About ERM Power Retail

ERM Power Retail Pty Ltd, which trades as ERM Power, is a subsidiary of ERM Power Limited, an Australian energy company operating electricity sales, generation and energy solutions businesses. Since launching in 2007, ERM Power has grown to become the second largest electricity provider to commercial businesses and industrials in Australia by load¹, with operations in every state and the Australian Capital Territory. ERM Power has increasing success in the small business market. www.ermpower.com.au

General Comments

ERM Power notes that this rule change proposal raised by AEMO is in response to the ACCC Retail Pricing Inquiry Final Report recommendations 8 and 9, seeking to address 'save' activity by reducing the time available for losing retailers to win back customers; a practice that limits smaller retailers' opportunity to gain market share and leads to wasted acquisition costs. The rule also comes from joint advice provided by the AEMC and AEMO to the COAG Energy Council, suggesting that changes to transfer processes must extend beyond the proposed recommendations of the ACCC, to further reduce the occurrence of save activity and because the transfer process is 'outdated'². In our view, the proposed changes will not 'modernise' the transfer process but rather add additional transaction costs. Further any modernisation is more likely to be achieved with the support of a greater uptake in advance metering, likely to reduce the occurrence of transfer delays.

To be clear, ERM Power fully supports the intent of eliminating save activity and agrees that this activity has been damaging to the competitive market and has eroded customers confidence in retailers, particularly where customers are lured by offers only to find they are short lived. However, we note that recent MSATS procedure changes that introduced a reduction of the Objection Logging Period to one business day would have served to curtail this behaviour as much as if objections were removed altogether.

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

² AEMC, Reducing customers' switching times, Consultation paper, 4 July 2019, page 4



Notwithstanding our views on the damaging effects of 'save' behaviour, we suggest that the proposed rules will do little to make further improvements to curtail 'save' behaviour but rather will introduce complexity and costs that will undoubtedly lead to customer detriment. Our recommendation is that a prohibition on 'save' activity coupled with a timed prohibition on 'win back' activity would be a better approach to directly curtail this behaviour. This approach would achieve the outcome of eliminating such activities without costly system changes and with lower operational costs. Further, compliance could be managed through regulatory oversight.

ERM Power is further concerned that the proposed changes cast aside and ignore steps to resolve the root cause of transfer delays and inefficiently push these problems to be dealt with after the transfer. At this stage, rectification of issues becomes complicated, costly and leads to a situation where innocent parties are unjustly bearing transaction costs. In reaching a decision on this rule proposal, we urge the AEMC to revert to its findings in its decision in 2017, whereby the 'Transfer on Estimates' rule change was not made. It is our view that the basis for the AEMC's findings remain, and that transferring customers on inferior data is not in the long-term interests of customers.

We have considered if the incidence of customer harm from a delay in transfer, often measured through complaints, is significant enough to warrant the proposal or will actually skew complaints to reflect other negative outcomes. Our experience is that current transfer timeframes do not create substantial complaints and we suspect that the changes will have a perverse outcome of undermining confidence in the retail market due to additional risks, complexity and costs from the use of estimated reads to transfer.

We also appeal to the Commission to carefully consider the costs to the industry to implement the proposed changes. Potentially, there may be significant costs with technical system changes, including changes to market systems required to identify the data quality and transfer data between parties. Retailers would be required to make costly systems changes, including quoting tools for recording online consent to transfer on estimated meter reads, billing systems and systems that interface to the market. In the current environment, where rising electricity costs have put pressure on many households and businesses, it is essential that the AEMC undertake a cautious and robust approach, analysing costs and benefits to test whether these extensive changes actually stack up to be in the long-term interests of consumers. Moreover, we believe 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 in reducing switching times.

The submission below details our views on various aspects of the proposal. I would welcome the opportunity to discuss this submission in detail.

Yours sincerely,

[signed]

Libby Hawker

Senior Manager, Regulatory Affairs

03 9214 93224- lhawker@ermpower.com.au



Proposal to remove the Next Scheduled Meter Read, and clarifying the meter reads options that are available for use for a customer transfer.

Forms of estimates (estimations provided by the distributor and customer own reads).

The Paper proposes to alleviate the obstacles to retailers of using estimated metering data as an alternative to actual metering data with the aim to shortcut the usual wait period for the transfer to occur at the next scheduled reading date. Whilst we recognise that long transfer times result in the loss of opportunity and frustration experienced by customers, we caution the AEMC in making a decision to remove the use of the 'next scheduled read' as the basis for transfer.

We see two main issues of the use of estimates over the utilisation of an actual read. Firstly, the use of estimates will require eventual true up to actual usage at some point in time. We see this as critical for participants being kept whole, and to ensure customers are fairly apportioned the true cost in relation to their use. The Paper suggests that customers will be able to recoup over-estimation but that retailers would not be able to recoup under-estimation (undercharging). Worryingly, this approach entrenches an incentive for customers to knowingly transfer on under-estimates with the assumption they will remain unaccountable for their true use. Even if the outgoing retailer was permitted to rebill undercharged adjustments stemming from a customer access issue, the inability to recover outstanding debt from a previous customer is complex, costly and places unacceptable risk on the retailer.

Further, the Paper ignores the additional complications of inaccurate reads and adjustments required by the incoming retailer and outgoing retailer, given actual reads will impact the start read for the incoming retailer and previous billed amounts for the outgoing retailer. It is unacceptable and unsustainable to expose either retailer to this financial risk. While minimal over a single customer, the risk is incremental over many customers transferring with an estimate.

This also exposes the second issue, of billing and settlement mismatch. ERM Power strongly supports the concept that parties to market settlement and other wholesale costs should not be subjected to negative financial impacts from the use of an estimated final read transaction. We believe that the estimated usage amount must apply for calculation across wholesale settlement, Network Use of System (NUOS) charges, and green certificate liability calculations. To mitigate this risk, the estimated read must form the basis of market settlement and NUOS costs to the outgoing retailer and the incoming retailer. Further, any subsequent actual read must account for the final bill estimation in the calculation of market settlement and NUOS charges to the outgoing retailer and to the incoming retailer. Again, while minimal over a single customer, the risk is incremental over a large number of customers or those with more significant load transferring with an estimate. ERM Power strongly believes that there should be no detriment to the customer or retailers (both incoming and outgoing) in the estimated read transaction. In the case of where errors or mistakes occur, it is important to ensure that any resulting costs are not levied on innocent parties. If the costs of procedure and system changes are prohibitive to accommodate the alignment of final bill estimated data to wholesale settlement and NUOS data, it is ERM Power's view that that this rule change should not progress.

From our experience, customers generally do not like bills based on estimates. It undermines customers' confidence by raising questions around bill accuracy. Our own experience with business customers has found estimation to be problematic, particularly with the irregularity inherent in some business customer load patterns. In this case we suspect the introduction of rules to support estimation-based transfers, will simply move customers' delayed transfer complaints to high estimated bill complaints.

ERM Power is concerned that removing the need for next schedule read based transfers, forces an estimate approach and assumes customers' understanding and agreement to transferring on an estimate. Issues surrounding explicit informed consent to estimation was considered in the proposed rule to facilitate transfer of customers on estimates, and further complications were highlighted with the responsibility of capturing that consent by the incoming retailer, and the risks of defective consent. Customers views on estimates and the complications of consent needs to be carefully considered by the AEMC when assessing this rule proposal.



Special Reads

One of the proposed alternatives to the next scheduled read is the use of special reads. We have no objection to basing transfers on special reads. Often special meter readings are a feasible option to an anticipated transfer delay and will be considered by the customer in a trade-off between the special read cost and the benefits of moving quickly to a new retailer with potentially cheaper rates.

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 without the requirement for estimation. We recognise 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.

In our view the use of special reads could be enhanced, and changes to this process would considerably increase the utilisation of this service to accelerate switching. LNSPs could be more flexible in appointment setting time and should look to reducing the costliness of the special read process which has climbed in recent times. We urge the AEMC to explore how special reads could be more greatly utilised to reduce switching times.

Understanding the root cause of transfer delays

From ERM Power's experience transfer delays in the industry predominantly emanate from the difficulties of lack of access provided by customers. Facilitating transfers based on estimated data because customers have not provided access just pushes the problem to a later timeframe when costs of rectification climb due to complications in attempting to readjust billing amongst parties once an actual read is eventually taken. Rather than removing uncertainty, as purported by AEMO, allowing customers that fail to provide access to transfer to another retailer inefficiently creates further issues surrounding true-ups once an actual read is eventually obtained.

Whilst ERM Power accepts the proposal will potentially fast track a transfer for some customers, we anticipate that the rule change will not remove the uncertainty for customers who demonstrate a consistent pattern of access issues, often referred to as 'chronic access' customers. In our view, chronic access is one of the main drivers of transfer delays and this highlights the shortcomings of manually acquired metering data. We expect that a roll out of smart meters will gradually ensure such issues will no longer plague the market. The Commission should evaluate the costs to the industry of implementing system changes to affect adjustments and revised read processing at a time when there is an inevitable roll out of smart meters, which will produce a similar outcomes of reduced transfer times.

The proposal to remove the existing role nomination in MSATS of an MC, MP and MDP as part of the customer transfer process to eliminate the delay from objections places unreasonably high costs on parties in rectifying the source of the objection, including the subsequent data issues post-transfer. From our experience, some of the objections raised by these parties are in relation to MFN (meter failure notifications). These notifications may cover circumstances of a failure of the meter to record consumption correctly or purely highlighting family failure whereby consumption recording is unaffected. If meters are not properly recording consumption, then rectification would be better placed to occur prior to a transfer, rather than after the transfer where parties involved have proliferated, adding to rectification costs. We suggest that prohibiting parties to raise objections to transfer based on the MFN types that do not impact on consumption recording would be a better approach to reducing transfer delays and would involve a smaller system change than what has been proposed. This is because the changes would be limited to small processes of the network rather than broader transfer process changes that would impact multiple parties. The AEMC and AEMO should not ignore the system change costs from the proposal to move role allocation to procedures and be processed under a separate request.



Will reducing transfer times result in less save activity?

AEMO cites the experience in the New Zealand market of a reduction in switching times due to the introduction of reforms to the customer transfer process in 2008 and 2011³. ERM Power observes that interestingly, despite these reforms, the New Zealand Electricity Authority (Authority) has grappled with the persistent barrier to new entrant retailers due to saves and early win backs, suggesting a reduction in transfer times had little impact on this issue. In fact, the Authority sought to address 'save' behaviour through the 'save protection scheme' which came into force in January 2015. This scheme allowed a retailer to opt in for save protection, prohibiting a losing retailer from initiating contact until the switch completed. What is clear from the New Zealand experience is that the reduction in switching time did not eliminate save activity.

Will changing switching notification rules have an impact?

More recent analysis has been conducted on the impact of New Zealand's save protection scheme. The Authority found that whilst the number of saves fell, the number of win-backs increased as a result of the scheme⁴. This finding, that incumbent retailers moved from save activity pre-transfer to win back activity post-transfer brings into question whether regulation around pre-transfer notification, including removing the information advantage of a pending transfer notification to the losing retailer, would have any effect in creating a more even playing field. We suggest that an outright ban on save activity itself, coupled with a time restriction on the commencement of win back activity may have more of an effect.

³ AEMO, Electricity Rule Change Proposal, May 2019, page 17

⁴ Electricity Authority Final report on Post Implementation review of saves and winbacks, 29 August 2017, page ii