



3 June 2016

Richard Owens
Senior Director
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Mr Owens

RE: Improving the accuracy of customer transfers – Consultation Paper

ERM Business Energy welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) Consultation Paper on improving the accuracy of customer transfers (the Consultation Paper) proposed by the COAG Energy Council (the Proponent).

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.

As ERM Business Energy does not retail to small gas customers our submission focusses on the implications for electricity customers.

General comments

ERM Business Energy supports the objectives to reduce the number of address-related erroneous transfers, and to enable more efficient resolution of errors that do occur. ERM Business Energy prides itself on its industry-leading customer satisfaction record, which is achieved in part by our commitment to data accuracy and fast and effective issues resolution. Nonetheless, maintaining our performance in both of these areas is dependent to some extent on the actions and diligence of other parties. Managing and resolving erroneous transfers represents a significant operational cost, and can compromise our customers' experience of ERM Business Energy's usual service standards.

We strongly support the Commission's proposal to introduce an industry address standard, which we believe could mitigate the majority of small customer erroneous transfers. However, we are concerned that the proposed incremental implementation approach would unnecessarily postpone achievement of acceptable data accuracy standards, compromising the benefits achievable by this rule change. The benefits of full implementation and cleansing of all existing data would be significant, both in terms of reduced operational costs to industry, and improved customer experience. ERM Business Energy

¹ Based on ERM Business Energy analysis of latest published financial information.

believes these benefits would outweigh implementation costs, based on our experience undertaking similar projects within our business.

The Proponent rightly identifies the opportunity to improve upon the existing mechanisms for resolving erroneous transfers. While we do not object to the new obligations proposed, we do not believe they are sufficiently targeted to address the key barriers to issue resolution. In the submission that follows, ERM Business Energy recommends an alternative approach to make the most of this opportunity to reduce the cost and inconvenience incurred in resolving erroneous transfers.

ERM Business Energy believes the implementation of an industry address standard should be prioritised, as the opportunity to address a key cause of erroneous transfers. This would then reduce the need for the resolution of erroneous transfers, and the industry resources currently dedicated to these processes.

Please contact Libby Hawker, on 03 9214 9324 or at lhawker@ermpower.com.au if you would like to discuss this submission further.

Yours sincerely,

[signed]

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1. ERRONEOUS TRANSFERS AND ADDRESS DATA ISSUES

Erroneous transfers lead to significant inconvenience, confusion and frustration for customers, often also impacting a customer that never sought to switch retailers (residing at an incorrectly quoted address). Managing such situations also comes at a material operational cost to retailers. Errors can result in numerous communications between two retailers and two impacted customers, repeatedly rejected market transactions, unnecessary bills being issued, potential delays in payment towards the correct retail bill, and exposure to compliance and legal risks. The costs of these inefficiencies are ultimately borne by customers.

The Paper presents data from the Australian Energy Market Operator (AEMO) stating approximately 2.2% of all in-situ small customer transfers are erroneous. Based on ERM Business Energy's experience, we expect that the vast majority of those erroneous transfers are due to address data errors, inconsistencies or ambiguities.

ERM Business Energy therefore believes that improving the accuracy of the address data that leads to erroneous transfers would materially reduce industry costs and improve the transfer experience for customers.

To clarify terms, cases of address data errors, inconsistencies and ambiguities within the Market Settlement and Transfers Solution (MSATS) can be described as one of the following:

- (i) Data is unstructured; that is, it contains the correct content, but in the incorrect field within MSATS;
- (ii) Data is appropriately structured, but the data content is incorrect or outdated;
- (iii) Data is insufficiently specific, especially where there are multiple supplies at the same address (for example, in shopping centres, and units with common power); or
- (iv) Combinations of unstructured data, incorrect and ambiguous data.

As noted by the Commission, distribution businesses are the only parties with the right to update the physical address of the premises (or the metering installation). Other address types, such as billing addresses, are agreed between the retailer and its customer, and are often unrelated to the process of retail transfer between participants. Therefore, where we refer to addresses in this submission, this should be interpreted as the physical address unless otherwise stated.

2. ADDRESS STANDARD

2.1. The key driver for address-related erroneous transfers

The Commission's proposed definition of erroneous transfers focusses on human error by either the customer or the retailer, in quoting or recording a National Metering Identifier (NMI) during the transfer process. While human error can undoubtedly have a role to play in erroneous transfers, ERM Business Energy believes it is the existing errors, ambiguity and inconsistencies in MSATS standing data that drives the majority of address-related erroneous transfers. This is also the factor that cannot be improved upon by retailer diligence alone.

When a retailer considers an address for a prospective customer, they search the MSATS database by NMI or address. One or more potential options will be returned by the system based on the existing standing data that best matches the search criteria. When a quoted NMI or address returns multiple potential MSATS entries, ERM Business Energy staff will undertake additional checks and validations to

ensure the most accurate of the available address options is selected. However, we must choose one of those options to progress the transaction, even if none appear correct when compared to our external validation sources. This may be the case, for example, where address options in MSATS refer to lot numbers, but street numbers have subsequently been assigned.

2.2. Historical context for standing data errors and inconsistencies

When industry was preparing to implement MSATS 18 years ago, the question of address data standards was contemplated. MSATS was designed to support addresses entered in a structured manner, based on an Australian standard.² Distribution businesses had each established varying approaches to maintaining their own internal address databases, which were ultimately required to be migrated to the common MSATS database. Due to implementation time pressures, a decision was made to allow distribution businesses to add their address data to MSATS as they see fit, rather than according to the agreed structure and standard. This meant that address data structure inconsistencies and errors were common in MSATS from its commencement.

Existing address errors in MSATS essentially guarantee future erroneous transfers. This is because, without rectification of existing data, the same errors repeatedly cause problems for retailers and customers each time an affected premises is transferred to a new retailer: a highly inefficient reality.

ERM Business Energy considers that the costs of address-related erroneous transfers incurred since that time are largely a result of the decision to not impose an industry standard at MSATS' commencement. We note this offers an important lesson to consider when assessing how and when to finally resolve this situation under this rule change process.

2.3. Expected trend for address inconsistencies and erroneous transfers

Unfortunately, this inconsistent approach to address data entry is not just a legacy problem; some distribution businesses continue to enter new address data into MSATS in an unstructured manner today. With little impetus for distribution businesses to correct address inconsistencies in MSATS, the number of customers impacted continues to increase. This is consistent with data presented in the Paper showing an upward trend in complaints made to the Energy and Water Ombudsman of New South Wales relating to retail transfers.³

We also note that AEMO are currently consulting on a proposed change to the *MSATS Procedures: CATS Procedure Principles and Obligations* (CATS Procedures) which, among other things, would reduce the objection logging period for retail transfer transactions from five business days to one business day. By reducing the opportunity for the incumbent parties to object to the transfer, this change is expected to result in a further increase in the level of erroneous errors.

2.4. Nature and scope of data standard

ERM Business Energy strongly supports the implementation of an industry address standard, aiming to ensure consistency and accuracy of address data in MSATS. We would support the implementation of one of the existing address standards included as examples in the Paper, as determined through industry consultation.

² It is not clear which specific Australian standard was used. See AEMO, *Operating Procedure: MSATS – NMI Discovery Questions and Answers*, January 2008, p. 6.

³ AEMC, *Improving the accuracy of customer transfers*, Consultation Paper, April 2016, p.15

We do not believe it would be constructive to add to these standards by requiring retailers to also transfer customer information, such as the billing address. As noted above, the billing address is a matter to be agreed between the retailer and its customer, and may have no correlation to the physical address of the premises. Further, the most robust approach to data management is to maintain a single source of truth for address data. In our view, this should continue to be the distribution business, as they are responsible for establishing each new address in MSATS and assigning the NMI. Transfer of additional data that may conflict with this standing data is unlikely to be helpful. We do not expect the benefits of requiring this data sharing to outweigh the operational costs of performing and managing the additional transactions.

2.5. Implementation

The Commission notes concerns raised by some stakeholders that full implementation of an industry address standard, including cleansing existing MSATS standing data, would be costly. ERM Business Energy acknowledges that such an exercise comes at a cost, even where a free, publically-available address standard is utilised. However, we do not believe there is an opportunity for costs to be reduced by prolonging or postponing the activity. On the contrary, with every additional day that problematic address data remains in MSATS, industry and customers will incur the cost and inconvenience of managing associated erroneous transfers.

ERM Business Energy therefore rejects the incremental implementation approach suggested by AEMO. Applying the address standard only to new connections in the first instance is unlikely to improve the rate of erroneous transfers in the short term, as it generally takes some time for new addresses to be reflected in retail transfers.

As noted above, we do not believe retailers should have a role in directly updating addresses in MSATS, as maintaining a single source of truth allows robust data management and increases accountability. Additionally, it would be highly inefficient to introduce a retailer requirement to enter validated address data into separate fields (leaving the distributor's address data undisturbed). Rather than correcting the existing data errors, this approach introduces additional fields that would presumably need to be cleansed and consolidated at a later date. We maintain that this would simply postpone (and increase) the costs of data cleansing, rather than reduce them.

2.6. ERM Business Energy's recommendation – Address standard

ERM Business Energy recommends that an industry address standard is introduced in full. This would require existing MSATS address standing data to be cleansed, and an obligation on distribution businesses to enter and maintain MSATS address data according to the industry standard. If the Commission remains hesitant about this option, we strongly recommend a cost-benefit analysis is performed. We are confident that the cost of full implementation would prove well-justified when compared to the costs incurred by industry and customers in managing ongoing address-related erroneous transfers under an incremental implementation approach.

3. RESOLVING ERRONEOUS TRANSFERS

ERM Business Energy agrees that, despite existing provisions outlining some rights and responsibilities during erroneous transfers, resolution remains problematic. While overall customer experience can often be managed where a retailer has a strong commitment to high quality customer service, the

resolution of erroneous transfers also relies on the cooperation of another retailer, potentially degrading customer outcomes.

3.1. Key drivers for problematic resolutions

The Commission has sought feedback on whether the existing provisions for the resolution of erroneous transfers do not function as intended, or whether there is poor awareness of these provisions amongst retailers and customers. While ERM Business Energy expects that awareness of these provisions could be improved (providing the opportunity to improve their functions), we do not believe that this would materially improve the process of resolving erroneous transfers. This is because the provisions assume the retailer that has erroneously lost the customer (Retailer A in the Paper) is sufficiently motivated to transfer the customer back from Retailer B (who erroneously won the customer).

In ERM Business Energy's experience, the erroneous transfers that take the most time and resources to resolve are those where Retailer A is *not* motivated to transfer the customer back. This may be due to a customer's poor payment history, where there is an unknown consumer at the premises, or where the retailer simply denies responsibility for the customer (perhaps to avoid the hassle of resolution). It may be true that Retailer A did not have an active contract with the affected customer, for example where the wrong customer was transferred, or where the site was previously vacant. However, while it remains the Financially Responsible Market Participant for the premises according to MSATS, Retailer A nonetheless should have a responsibility to cooperate with Retailer B to resolve the erroneous transfer as quickly as possible (it would have been managing its vacant premises/unknown consumer risks during that time anyway). This is particularly important as only Retailer A, and not Retailer B, currently has the right to initiate the transfer back.

Where Retailer A refuses, or otherwise does not initiate the return-transfer, the rights and responsibilities of Retailer B are unclear. This represents a significant liability to Retailer B, which may go beyond credit risk (though credit risk may be significant). Consider where the customer is in financial hardship, on life support, or of a customer class that the retailer is not authorised to service; in these situations, Retailer B may also face serious compliance, reputational and legal risks. Retailer B therefore has a strong incentive to resolve the error expeditiously, but is limited in its rights to do so.

We believe that it is these cases where a rule change presents the opportunity to achieve a step-change in the resolution of erroneous transfers.

3.2. The Proponent's draft rule

ERM Business Energy agrees with the concept of retailers taking greater accountability for error resolution on behalf of the customer. However, we do not believe the Proponent's draft rule would be effective in materially increasing accountability in a manner that would enable improved resolution processes.

The draft rule takes a simplistic view of erroneous transfer resolution, focussing on situations where a customer complaint is made, and imposing an obligation for the contacted retailer to "resolve the complaint". Firstly, it does not contemplate situations where a customer may not have made a complaint to a retailer. The error, for example, may be identified by Retailer B prior to the customer becoming aware of the error. In such cases, the absence of a customer complaint does not reduce Retailer B's exposure and need for resolution.

Secondly, the proposed rule change also does not address the potential for asymmetric retailer motivations and rights, as discussed above. It assumes that, by placing an obligation on one retailer to “resolve the complaint”, both retailers will be sufficiently motivated to achieve an outcome in the customer’s best interests.

We also find that the proposed rule effectively duplicates clause 82 of the National Energy Retail Law, which already requires a retailer to manage complaints in accordance with its standard complaints and dispute resolution procedures, and inform the customer of the outcome.

On that basis, we question the ability for the Proponent’s rule change to improve the resolution of erroneous transfers.

3.3. ERM Business Energy’s recommendation – Resolving erroneous transfers

In order to achieve a material reduction in costs and inconvenience associated with resolving erroneous transfers, we believe it is important to establish a framework that ensures both retailers are sufficiently motivated and capable of returning the customer to Retailer A (where this is the customer’s preference). ERM Business Energy therefore recommends the Commission places an obligation on Retailer A to accept the return-transfer of a customer that was erroneously transferred to Retailer B, where the customer seeks to be returned. We do not believe Retailer A should have grounds to object, given they otherwise would not have had this opportunity, and this would unfairly expose Retailer B. The customer should have the right to resume its previous contract with Retailer A (consistent with NERL clause 41(4)) on a deemed basis, until explicit informed consent is obtained. This would avoid the common chain of communications between retailers, debating the responsibility to receive the customer (generally the key cause of delays and costs).

We urge the Commission to consider this recommendation as a more preferable rule, to enable material improvement in the resolution of erroneous transfers.