



23 December 2013

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By electronic lodgement

### **EPR0038 - Review of Electricity Customer Switching**

Origin Energy welcomes this opportunity to respond to the Australian Energy Market Commission's (the Commission's) issues paper relating to its review of electricity customer switching. As the largest retailer of electricity in the National Electricity Market (the NEM), Origin has significant interest in any reforms to the customer switching process and has had long experience with the customer transfer process since retail contestability commenced in each of the NEM jurisdictions.

We understand the Standing Committee on Energy and Resources (SCER) has asked the Commission to review existing customer switching arrangements, however Origin does not believe there has been any identifiable market failure that would warrant material changes to the current switching process. Furthermore, while Origin certainly supports any improvements that can be made to the in situ customer switching process, this support is qualified by the extent to which the benefits of making material changes exceed the costs (including those costs associated with unforeseen and new challenges) they may create. Should the Commission consider merit in furthering options to improve the switching process, Origin would support a cost-benefit analysis of these, undertaken with the assistance of industry, stakeholders and the Australian Energy Market Operator (AEMO).

Origin further understands the SCER is concerned about the length of time it takes for customers to activate their relationship with a new retailer. A significant proportion of delay and error experienced at present is due to the nature of existing electricity metering technology, procedures and associated costs. While there may be interim solutions that could address some existing problems, the clear long-term solution is the introduction of smart meters. Alternative measures such as customer self-reads and transfers based on estimates have real potential to increase complexity and cost, and may add to customer confusion in relation to the switching process. If changes to the existing switching framework are deemed necessary, the option chosen to implement these changes may result in significant investment in information technology systems (for AEMO, and industry stakeholders). This is discussed further below in specific responses to the issues paper.

We would express some concern with the review timeline. The Commission is proposing to release an options paper in mid-January 2014; a short time after responses to the issues paper have been made by stakeholders. Origin would ask if the Commission is confident it can consider and where necessary, incorporate, views put forward in response to the issues paper into the options document. We would encourage the Commission to consider a delay in the release of the options paper until at least February 2014 to allow time to thoroughly assess submissions on the issues paper.

Finally, Origin would emphasise the benefits that smart meters can provide in reducing costs associated with customer transfers (of all kinds, not just in situ transfers). While we acknowledge the wide spread deployment of smart meters outside of Victoria will not realistically occur in the

short term, the costs of interim approaches are unlikely to justify any benefits that may be captured through the making of changes to existing transfer processes. Special reads are available as an alternative mechanism to accelerate the speed of customer transfer. The cost associated with special reads (to the extent this inhibits their use), is a separate matter to the issues considered in the issues paper.

Responses to specific matters and questions contained in the issues paper are set out below and Origin would welcome further discussion with the Commission prior to the release of the options paper. Please contact Malcolm Hempel on (03) 9652 5984 or David Calder on (03) 8665 7712 in the first instance should you have any queries in relation to this response.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'K. Robertson'.

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## General comments

In addition to responding to the questions set out in the Commission's issues paper, Origin would make the following additional comments on the review of switching electricity customers in the NEM.

### International comparisons

The Commission notes the limitations associated with comparing outcomes for customer transfer in overseas jurisdictions with the experience in the NEM (maximum versus average switching times, legislative obligations etc.). As the Commission is aware, New Zealand historically read small customer meters on a monthly basis. While this leads to more timely transfers, it has also been one of the factors motivating a move to smart metering, to reduce operating costs. The presence of basic meters and their reading on a quarterly basis is the key driver of higher average switching times in the NEM relative to other (comparable) jurisdictions.

### Alternative reading approaches

#### *Special reads*

Origin supports the use of special reads to expedite a transfer for in situ customers. The use of special reads for a transfer is a generally available option however this does attract additional cost. Assuming the alternative control service costs associated with special reads are set at an economically efficient level (when approved by the AER), then to the extent the market values the benefits associated with its new arrangement with the winning retailer, there exists the option to accelerate a transfer by lodging a special read.

#### *Transfer on estimates*

Transferring customers on estimates may appear to be one solution to accelerating the transfer process; however the complexity involved increases the likelihood of higher costs in the longer term with limited benefits in terms of more timely transfers. Furthermore, the objective of maintaining accuracy and data integrity in the transfer process is more likely to be compromised under this and the option for customer self-reads.

We are not supportive of allowing transfers on estimates for a number of reasons:

- If challenged in the future, the settlement of differences among parties will lead to additional costs that will be ultimately be reflected in higher prices;
- Generally, the party responsible for providing the estimate (the distribution business as MDP), has limited exposure to the risk of an estimate being incorrect and will unlikely be involved in resolving the error with the customer; and
- There would be significant changes required to the NER and participant information technology systems to support routine transfers on estimates.

Given these reasons, we do not believe any incremental benefit gained (ahead of the installation of smart meters) would exceed the cost of allowing routine transfer on the basis of an estimated read. It would require significant changes to existing processes and systems that are likely to be costly for industry and AEMO.

#### *Customer self reads*

Self reads are used very occasionally and would cause similar issues to transferring customers on the basis of an estimate if used routinely to improve average time to change retailers. The use of

digital photographs of meters may eliminate a number of the issues associated with self reads, but again would require significant investment on the part of industry to integrate new processes and procedures to manage self reads, if they became more commonly used.

Origin would not support any options that would recommend the increased use of self reads or transfer on the basis of an estimate. Both alternatives would add to administrative costs and will contribute to an increase in disputes. As we state elsewhere in this response, the use of special reads and in the longer term, smart meters will result in the highest net benefit to consumers as a means of addressing average (and maximum) switching times.

#### Increase in complaints relating to transfers

The Commission notes that transfer-related complaints have increased in recent years.<sup>1</sup> Origin supports comments made by the Energy Retailer Association's response to the issues paper on this particular issue. While there are a number of reasons for increases in complaints relating to the transfer process, both the reasons themselves (increased levels of customer switching) and the number of complaints relative to the total number of successfully completed transfers are not material enough to require significant changes to current industry processes and regulation.

We also note that based on the data the Commission has sourced from EWON, less than 10% of the 10,000 complaints reported in the Electricity and Water Ombudsman's (NSW) 2012/13 Annual Report relate to delays in the transfer process (972).<sup>2</sup>

#### **Matters raised in the issues paper**

##### **Question 1- Criteria for the review**

Are the proposed criteria for assessing the efficiency of the switching process appropriate in guiding the development of the AEMC's recommendations under this review?

The criteria set down by the AEMC should provide direction for the development of the AEMC's recommendations, acknowledging the limitation of the review to small customer in situ transfers only together with the exclusion of metering and customer protection aspects of the transfer process, which have a direct impact on the efficiency and timing of customer transfers.

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<sup>1</sup> AEMC (2013), *Review of Electricity Customer Switching - Issues Paper*, pages 49-50.

<sup>2</sup> *Ibid.* page 50.

## **Question 2- Regulatory frameworks for the customer transfer process**

- (a) Are there any other regulatory instruments that the AEMC should consider as being part of the regulatory framework that applies for small customer transfers in the NEM?
- (b) Do the regulatory frameworks governing the customer transfer process allow for efficient outcomes in accordance with our assessment framework? What evidence, if any, is there to demonstrate that this is or is not the case?
- (c) Are there any specific factors, specified in jurisdictional codes, that the AEMC should consider as allowing for efficient outcomes in accordance with our assessment framework?
- (d) Are appropriate incentives currently placed on parties under the regulatory framework for the customer transfer process to allow for efficient outcomes in accordance with our assessment framework?
- (e) Do the current compliance and enforcement provisions governing the customer transfer process allow for efficient outcomes in accordance with our assessment framework (e.g. in relation to the timeliness and accuracy of the customer transfer process)?

Origin responds to each of these questions in turn:

- (a) Consideration could also be given to the MSATS B2B procedures Service Order Process as it relates to special reads associated with transfers.
- (b) The review relates to transfers of in situ transfers of electricity customers. In this regard the regulations and procedures are clear, satisfying the Commission's criteria of clarity and transparency. There is transparency of the transfer process through the AEMO Market Settlement and Transfer Solution (MSATS) so that participants can track the progress of the transfer. Jurisdictions are clear on the requirement for transfers to occur on actual reads. Transfers are managed with regard to the customers reading schedule and the current rules allow flexibility as to when and what types of reads can be used for customer transfers.

In terms of evidence, while the Commission notes increases in complaints associated with the switching process in recent times, we would contend the regulatory framework in place has coped with millions of transfers that have taken place since full retail competition commenced more than a decade ago. In the context of the review (including the existing regulatory framework), weight should be placed on this outcome.

- (c) Origin is not aware of any specific factors contained in jurisdictional codes that might contribute or be relevant to the assessment framework.
- (d) Lack of access to meters accounts for a significant proportion of cases that result in failure to take a final read. Customers should have sufficient incentive to allow access in order to facilitate the transfer to their preferred retailer. Again, smart metering eliminates issues associated with access to manually read meters.
- (e) Issues with the delay in transfers relate to access issues for actual meter reads and address issues which may see the wrong customer transferred. These outcomes are a function of individual premises, external providers of data (such as local governments) and the physical meter fleet technology and processes. The regulatory framework itself is not the source of these exceptions.

### **Question 3- MSATS customer transfer process**

- (a) Does the current MSATS customer transfer process promote timely and accurate customer transfers in accordance with our assessment framework?
- (b) What potential enhancements could be made to the customer transfer process, both in terms of timeliness and accuracy that could facilitate a more effective customer transfer process?
- (c) Are there any different ways of structuring charges for the provision of metering data, in order to incentivise metering data providers to supply more timely and accurate meter reads, for the purpose of facilitating an effective customer transfer process?

- (a) The MSATS process allows visibility to the transfer process such that participants can monitor the progress and address any objections as they arise.
- (b) There is no visibility to the MSATS request to the MDP to obtain the actual meter read and when this is provided to MSATS. Changing this would provide greater transparency of the request being sent to the MDP, however once again, the greatest enhancement to create an effective transfer process would be the deployment of smart metering.
- (c) The meter reading charges for both scheduled and special reads are determined by the distributor and approved by the Australian Energy Regulator (AER). In terms of incentivising the meter readers to provide more timely and accurate reads (assuming they are currently inaccurate and untimely) is a matter for the distributor and regulator where this service is regulated. Accuracy of meter reads for transfers relates to the ability to access the meter. With the introduction of smart meters in Victoria the need for transfers to occur on special reads has diminished and the remote collection of data allows customers to transfer in a shortened timeframe. In the remaining jurisdictions, for type 6 meters and type 5 (manually read interval meters), access issues where special reads may be required as a result of no access or the timing of scheduled reads, no access and quarterly billing will continue to have an impact on the timeliness of transfers. Providing incentives to MDPs will not necessarily affect transfer timing issues.

### **Question 4- Jurisdictional customer transfer processes**

Does the current jurisdictional customer transfer processes promote timely and accurate customer transfers in accordance with our assessment framework?

Retailer objections, which apply in Queensland and Victoria, can result in the transfer being delayed while the objection is being resolved and in some cases can result in the transfer being cancelled and re-issued. The cooling off period, as it applies to transfers, will not allow transfers to complete until at least ten business days from the receipt of the customer's Explicit Informed Consent (EIC). Overall, Origin regards the current transfer process to be accurate and timely, given the limitations of manually read meters, the typical quarterly reading schedule of these meters and access issues.

### **Question 5- Objections to the MSATS process**

- (a) Does the current objections framework allow for efficient outcomes in accordance with our assessment framework? What evidence, if any, is there to demonstrate that this is, or is not, the case?
- (b) Are there any particular aspects of the objections framework that could be further refined in order to improve the efficiency of the objections MSATS process? (E.g. particular objections codes that are redundant?)
- (c) What underlying factors create these objections? How could these be resolved under the current customer transfer framework?

(a) Refer to our response to question 4.

(b) Analysis could be done on the rules associated with the following objections to small customer transfers to determine if these can be removed:

- a. BADMETER;
- b. BADPARTY;
- c. DATEBAD; and
- d. DECLINED

Objections for debt are only explicitly permitted in Victorian and Queensland; the National Energy Consumer Framework (NECF) is silent on allowing objections for debt.

Therefore the objection logging period could potentially be eliminated as there may be no grounds for logging objections and transfers could occur sooner on average.

(c) See our response to 5(b) above.

### **Question 6- Continuation of MSATS processes**

Does the current continuation of the MSATS process beyond 65 business days allow for efficient outcomes in accordance with our assessment framework?

The number of days an in situ transfer can be issued into the future is immaterial as the decision to transfer the customer is based on how far into the future the next meter read is scheduled (the NSRD). Customers want to transfer as soon as possible to take advantage of the new retailer's offer. Where customers wish to transfer prior to the NSRD the retailer's only option (outside of Victoria where smart meters are installed and active) is to arrange a special read. Whether the process is efficient or not, it is a limitation imposed by the nature of metering technology and read frequency, generally beyond the influence of electricity retailers.

### **Question 7- Billing and market settlement**

Do the current arrangements for billing and market settlement allow for efficient outcomes in accordance with our assessment framework?

In Origin's view, transfers taking place on actual reads prevent any billing or settlements issues which may arise as a result of under/overcharging should transfers occur on less reliable estimates or customer own reads.

#### **Question 8- Customer experiences with the customer transfer process**

What are typical customer experiences where the customer transfer process has broken down?

In our experience, customers are often disappointed and do not always understand why the transfer did not proceed. The technical details of the transfer process should not be of concern to customers, what matters most to customers when the transfer will be effective. For the very small number of transfers that actually do fail, they are often a function of the physical technology (manually read meters).

#### **Question 9 Customer transfer process for large customers**

Are there any aspects of the customer transfer process for large customers that could be applied for the purpose of effecting timely and efficient small customer transfers?

Large customers in the main have remotely read interval meters, therefore transfers can be expedited as issues relating to access are avoided.

#### **Question 10 Customer experiences with the customer switching process**

- (a) Do small customer experiences with the customer transfer process demonstrate efficient outcomes in accordance with our assessment framework? What evidence, if any, is there to demonstrate that this is, or is not, the case?
- (b) What is the reason for the rising trend in evidenced customer complaints submitted to jurisdictional ombudsmen relating to customer transfers? Does this specifically relate to the MSATS transfer process?
- (c) Are the current compliance and enforcement arrangements associated with the customer transfer process sufficient to respond to the various customer transfer issues that are being raised with jurisdictional ombudsmen?
- (d) To what extent have the current compliance and enforcement arrangements applying to the customer transfer process been utilised to date?

- (a) The vast majority of customer transfers do complete successfully (greater than 98% across all NEM jurisdictions). Origin believes this is sufficient evidence that the transfer process is operating efficiently.
- (b) Clearly, the rate of churn has increased in New South Wales substantially, adding to the number of exceptions through customer transfers. The MSATS process itself is not necessarily to blame; the increase in activity will inevitably result in a larger number of errors and associated complaints. The ongoing issue of incorrect sites being transferred is an address related issue and the cause of this is inaccurate information provided by the customer or address attributes provided by the networks as standing data in MSATS.
- (c) Origin believes current arrangements for compliance and enforcement of customer transfers are sufficient- the processes are known and transparent.

### **Question 11 Small customer transfer timeframes**

- (a) Is up to 30 calendar days for the completion of a small customer transfer considered to be a reasonably acceptable timeframe in which to complete a switch?
- (b) For customers that experience switch times in excess of 30 calendar days, what are the main reasons for (and obstacles to faster) switching times?
- (c) Does the AEMO MSATS data on small customer transfer timeframes suggest that the existing customer transfer process allow for efficient outcomes in accordance with our assessment framework?

- (a) Yes, given that in all jurisdictions the meter reading scheduled is based on a quarterly cycle and changes to that cycle requires agreement from the customer and potential increased charges from the MDP as a result of the increased frequency in visits to the site to obtain meter readings for billing.
- (b) The principal obstacle for switching times to exceed 30 calendar days is a function of the timing of when the customer has received their bill and subsequently approaches a retailer and agrees to transfer. If the customer approaches the retailer soon after having received their quarterly bill, then the transfer on the next scheduled read could be greater than 30 calendar days in to the future. Special reads are often used to transfer customers where the NSRD is far into the future. However there are costs associated with the special read.
- (c) The current decrease in the number of days can be directly attributed to the introduction of smart meters in Victoria; indicating smart meters have a positive impact on reducing transfer timeframes.

### **Question 12 Large customer transfer timeframe**

- (a) Does this AEMO MSATS data on large customer transfer timeframes suggest that the existing customer transfer process allows for efficient outcomes in accordance with our assessment framework?
- (b) In terms of possible improvements, what lessons from the large customer transfer experience could be applied to the small customer transfer experiences?

- (a) The requirement for large customer to have interval meters installed has a direct impact on lessening transfer timeframes.
- (b) Refer to (a) above.

### **Question 13 Objections to the customer transfer process**

Does this AEMO MSATS data on objections to the customer transfer process suggest that the existing customer transfer process allow for efficient outcomes in accordance with our assessment framework?

The objections which relate to no access are the most numerous. These numbers would be greatly reduced with the installation of smart meters where meter data is accessed remotely. Special reads to accelerate the transfer process will not necessarily solve any problems caused by access issues.

#### **Question 14 Evidence on the customer transfer process**

Are there any other aspects of the customer transfer process that could be improved to allow for more efficient outcomes in accordance with our assessment framework (e.g. issues with erroneous transfers)? What evidence, if any, is there to demonstrate that these aspects are, or are not, a problem?

It would appear from the statistics provided the issues of no access and mismatched addresses create the majority of issues with customer transfers. These are not in themselves issues with the MSATS process as MSATS allows the management of the transfer. Addresses, as they apply to the transfer, are established in MSATS by the networks for discovery by retailers when engaging with customer at the outset of the transfer process. Delays in transfers as a result of no access for actual reads are a matter for the customer and meter data provider. The evidence in Victoria indicates the installation of smart meters has a direct impact of lessening the incidence of no access.