6 June 2016

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

Dear Mr Owens

RE: Using estimated reads for customer transfers, Consultation Paper

ERM Business Energy welcomes the opportunity to respond to the Australian Energy Market Commission's (the Commission) consultation paper (the Paper) on using estimated reads for customer transfers.

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.

General comments

ERM Business Energy welcomes the Commission's review of the customer transfer process, with the aim of removing the barriers to timely and efficient transfers of in situ customers, improving customer service and confidence in the competitive market.

As a retailer of business customers, ERM Business Energy understands the loss of opportunity and frustration experienced by those customers subjected to long transfer times. Transfer delays penalise customers seeking to move retailers in the hope of cheaper energy costs. Delays are often beyond the control of retailers, who find themselves sandwiched between managing customers' expectations and liaising with the Metering Data Provider (typically the Local Network Service Provider or 'LNSP', responsible for reading Type 5 and Type 6 meters). We recognise that removing impediments for customers to change retailers will enhance competitiveness in the market.

We support the objective of reducing transfer times, however ERM Business Energy has identified possible complications surrounding the rule change proposal, and we urge the Commission to consider the resulting impacts in the cost benefit trade-off. Our view is that there should be no detriment to the customer or retailers (both incoming and outgoing) in the estimated read transaction. In the case of

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

where errors or mistakes occur, it is important to ensure that any resulting costs are not levied on innocent parties.

ERM Business Energy has sought to determine whether the proposal will alleviate the predominant causes of transfer delays. We have considered if the incidence of customer harm, often measured through complaints, is significant enough to warrant the change or will actually skew complaints to reflect other negative outcomes.

Whilst ERM Business Energy accepts the proposal will go some way to provide an option for potentially fast tracking a transfer for some customers, we anticipate that the rule change will not remove the impediments to customers who demonstrate a consistent pattern of access issues, often referred to as 'chronic access' customers. In our view, is it chronic access that drives much of the transfer delays and this highlights the shortcomings of manually acquired metering data. We expect that a roll out of smart meters will ensure such issues will no longer plague the market.

Reasons why estimated reads are not currently used on transfers

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. It is clear that the current processes and requirement of a subsequent adjustment to account for actual metering usage poses a risk to retailers and constrains the use of estimated reading-based transfer. 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 however 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.

Proposed restrictions on transferring on an estimate

The rule change considers possible customer eligibility conditions and protections to ensure customers are informed and acknowledge agreement, prior to any estimated read-based transfer. ERM Business Energy has considered the proposed prerequisites of customer eligibility including an in-situ transfer, consent, the meter type and previous meter read quality.

Consent

The workability of the proposal hinges on the customer's understanding and agreement to transferring on an estimate. ERM Business Energy believes that explicit informed consent to an estimated final reading should follow the existing procedure of current transfer consent, in that the incoming retailer has sole responsibility to explain to, obtain, and record consent of the customer.

Customers need to understand the repercussions of an estimation and acknowledge that it forms the basis of a final bill and settlement with the outgoing retailer. Further, customers must comprehend that any true-up of usage with the next actual read will be at the new retailer rates, including those that apply to feed in tariffs. Any confusion or non-agreement with this concept could put the outgoing retailer's ability to recover the final billed amount at risk. Given the potential harm posed by lack of consent or defective consent to the outgoing retailer, we acknowledge that the customer's explicit informed consent to the use of estimation should be a prerequisite to the transaction and recorded by the incoming retailer.

Rather than cumbrously transfer consent records between retailers which poses potential delays and administration, we believe any defective or missing explicit informed consent should result in a special meter reading, undertaken at the incoming retailer's cost. If the special meter reading is unobtainable or does not resolve the consent dispute, we see no other resolution than transferring the customer back to the previous retailer at the customer's request. We believe that customers and the outgoing retailer should not be penalised for lack of due process and adherence to the consent obligations by the incoming retailer.

Previous meter read quality

The Commission proposes the prerequisite of a previous actual reading, to ensure estimation quality is maximised and to reduce the possibility of customer disputes. ERM Business Energy questions the workability of this condition without costly technical system changes. The previous reading quality is not transparent to an incoming retailer and without customers having accurate information at hand, rejection of transfer requests and delays may ensue. Ineligibility discovered after the request is made may result in the need to contact the customer (increasing administration costs) to recalibrate the customer's expectations, all adding to the potential for customer dissatisfaction and complaints. In the absence of previous data quality information available to prospective retailers, we question whether this precondition may hinder the efficiency gain of the rule change proposal. We urge the Commission to consider the costs of system changes to enable transparency of previous reading quality which is critical to workability of this precondition.

ERM Business Energy has the view that transfer delays experienced in the industry predominantly surround the difficulties of chronic access customers. The precondition of a previous actual reading really eliminates the eligibility of chronic access customers to the benefits of the rule change proposal. Ultimately, only smart metering will obviate the issues surrounding transfer delays and data estimation inaccuracies to this group of customers. The Commission should evaluate the costs to the industry of implementing system changes to effect the identification of eligible customers at a time when there is an inevitable roll out of smart meters, which will produce a similar outcomes of reduced transfer times.

Use of estimates for settlement

ERM Business Energy 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. This means that the estimated read must form the basis of market settlement and NUOS costs to the outgoing retailer. Further, any subsequent actual read must account for the final bill estimation in the calculation of market settlement and NUOS charges to the incoming retailer.

The Paper suggests that customers will be able to recoup over- or under-estimation through the next bill from the incoming retailer. We have deliberated how procedures can be established to support a scenario of a subsequent actual read being less than the previous estimated final bill amount and achieve the result of participants being kept whole, while allowing the customer to recoup discrepancies of estimation though actual data. We suspect that the incoming retailer may be exposed to financial risk, with an impact to retail margin resulting from the application of a subsequent actual read adjustment to the customer. While minimal over a single customer, the risk is incremental over a large number of customers taking up the option to transfer with an estimate. This uncertainty may limit the willingness of retailers to offer the option to customers.

We believe that final bill estimated data should be treated similarly to final substituted data for the calculation of wholesale settlement and network costs. However we acknowledge that a change to the Metrology Procedures would be needed to allow for subsequent actual reads that are less than the final bill estimate. If the costs of procedure and system changes are prohibitive to the alignment of final bill estimated data to wholesale settlement and NUOS data, it is ERM Business Energy's view that that this rule change should not progress.

Customer billing

Although the Paper proposes customers will have minimal impact as the next actual will compensate customers for inaccurate estimations, any recovery will be at the customer's new rates. While this may benefit some customers who have an underestimate, those customers who effectively will be credited for overestimation may be disadvantaged by recouping a cheaper rate. This may also impact the recovery for feed- in customers. Additionally, if estimation occurs at subsequent billing under the incoming retailer, the customer may still be subject to the risk of bill shock when the meter is eventually read.

We see issues with transferring customer read evidence to metering data providers as a first source of estimation. Photo or image sharing may be cumbersome and customer readings may prove unreliable compared to existing basis of estimation and substitution in the Metrology Procedures. However, we acknowledge some merit in using customer reads and photographic images of meters as evidence to resolve disputes.

Disputes

ERM Business Energy agrees that the disputes process may need amendment with minimum thresholds to determine access to dispute mechanisms by participants, particularly the outgoing retailer. However, to insulate the retailer against financial loss over customer disputes, the requirement to adjust a customer's bill to account for subsequent actual must be based on the same minimum thresholds.

We agree that estimation quality is critical to the success of the process, and confidence in the accuracy will minimise the occurrence of disputes. 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.

Though supportive of reducing transfer times, ERM Business Energy questions whether the introduction of estimated read transfers will actually reduce transfer complaints and the number of Ombudsman cases. While we see delays can result in customer complaints, the incidence of transfer related complaints are proportionally small compared to other complaint categories.[2] Further, delayed

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[2] Based on analysis using latest retailer statistical data from the AER's website, *2015-16 Q2 Small business customer complaints - by retailer* and *2015-16 Q2 Residential customer complaints - by retailer*; comparing the averages of all retailers for each categories of complaints per 100 customers. The analysis shows in the highest to lowest ranking, transfer related complaints are ranked third of the four categories of complaints behind billing and other complaint categories, and are significantly lower than these two categories.

transfers may have even less significance as the measurement of transfer complaints includes other sources of issues surrounding the process, such as erroneous transfers.

System and process changes

We urge the Commission to carefully consider the costs to the industry to implement the proposed new rule. Potentially, there may be significant costs with technical system changes, including new change codes in market systems required to identify the data quality of the transfer raised. Further, retailers would potentially 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.

The proposed rule purports to improve transfer times to those customers with manually acquired data, particularly quarterly read cycles. However as noted earlier, we suspect that only a proportion of transfer delays will be resolved through the proposal. We believe the Commission should consider the rule change implementation costs the in the backdrop of the inevitable roll out of smart metering, which is likely to produce broader efficiency gains.

Please contact me if you would like to discuss this submission further.

Yours sincerely,

[signed]

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