



14 February 2014

Ms Victoria Mollard
Advisor
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

By electronic lodgement

Dear Ms Mollard

EPR0038 Review of electricity customer switching - Options paper

Origin Energy welcomes this opportunity to respond to the Australian Energy Market Commission's (the Commission's) options paper relating to its review of electricity customer switching. In this submission, we respond to the options identified and their likely costs and benefits to consumers and industry.

Origin maintains the current switching process is remarkably timely and accurate given the vast number of successfully completed transfers annually in the National Electricity Market (NEM). While some minor improvements to the switching process can be made, the long term solution to materially improving both the timeliness and accuracy of customer transfer remains the deployment of smart meters.

We would also refer to comments previously made in our response to the issues paper, particularly with respect to the:

- Small number of complaints relating to transfers relative to the number of transfers completed;
- Lack of evidence that material numbers of customers are seeking changes in the area of transfers; and
- Absence of market failure warranting what may result in significant changes to existing IT systems and processes.¹

Origin recognises the Commission is guided by its terms of reference, however we believe the three issues listed above cannot be dismissed in the context of any review of customer switching arrangements.

Given work currently being undertaken by AEMO in relation to data accuracy within MSATS, we believe the Final Report should recognise this activity and that any options put forward be subject to review as related streams of work yield further information.

We note that some of the options present solutions that may be used on a voluntary basis and can be exercised today based on current market rules and architecture (for example, transferring customers based on estimated reads). In such cases, Origin does not believe further changes to market processes or rules are necessary.

¹ See: <http://www.aemc.gov.au/Media/docs/Origin-Energy---131224-420e426e-0bca-442a-9da3-92f3d19d70e9-0.pdf>, pages 1-4.

In terms of the three objective areas where the Commission has presented options, Origin would make the following comments.

Timing of customer transfers

Options A1 and A2 will impose significant costs on retailers and will require time to implement. Option A1 imposes risks on retailers that are difficult to manage and other parties are better placed to do this and should be incentivised to minimise these. Option A2 may require a review of metrology procedures and estimation approaches. Origin considers option A1 a longer term response, to be implemented after further information has been gathered, since quantifiable costs and benefits are not available to make a decision with confidence to implement it in the immediate future. There seem to be few barriers to the use of option A2 today, with exception of the Victorian jurisdiction of the NEM, however the presence of advanced metering generally nullifies the need for the use of estimated reads as the basis of an *in situ* transfer in any event.

Option A3 merits further consideration as it recognises the appropriate allocation of risk and the ability of relevant parties to manage these risks. Service levels have remained static since the introduction of full retail contestability, in the face of increasing transfer volumes. Origin acknowledges that the Commission will consider the MSATS B2B Service Order Process in its Final Report.²

Option A4 should also be considered further, as the information gathered over time will provide a basis to consider further policy changes (promulgated in options A1 and A2).

It is also worth emphasising that a considerable number of failed *scheduled* reads are due to access issues. While there are often legitimate reasons why access may not be possible, customers also have a responsibility to ensure that meter data providers (MDPs) are provided with safe and unhindered access to electricity meters. The provision of safe and unhindered access is an obligation on customers, which has received inadequate focus when examining the reasons for failed meter reads and transfers.

Accuracy of data

Option B1, with a carefully designed scope, could improve the accuracy of MSATS data by focussing on priority sources of error. Origin understands that related work is already underway through the Australian Energy Market Operator (AEMO), particular with respect to address data. Rather than create a further work stream or additional change, Origin would support alignment with this activity in the final report.

Option B2 seeks to publicise the output of data inaccuracy rather than focus on its input. We believe to the extent erroneous transfers are triggered by inaccurate data, the providers of such data should face scrutiny and if necessary regulatory sanction. We note however that customers also often provide incorrect address and meter number data, leading to errors and inconsistencies. Option B3 offers advantages if its use is discretionary. With respect to option B4, again, regulatory intervention should focus on the source of an erroneous transfer, and to the extent such transfers are due to data quality, focus should be upon those responsible for maintaining such data in MSATS.

² AEMC (2014), *Review of electricity customer switching - Options paper*, page 74.

Incremental improvements

A review of the objections framework is supported by Origin. Such initiatives do not require policy or rule changes. This could be managed through focus at the existing industry working groups and Customer and Standing Data is one of the key areas of focus this year for the B2B and MSATS Reference Group (BMRG)

Detailed responses to the options contained in the Commission's paper are set out below. Origin would welcome further discussion with the Commission on the matters raised in this response. Please contact me in the first instance should you have any questions or comments.

Regards

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1. Options to address timing of the customer transfer process (chapter 4)

The four options set out in chapter 4 of the paper could be introduced together, or in sequence, building on data gained from implementing each option over time. In this section of our response, we set out our views on the benefits and costs of these options and their ability to meet the criteria contained in the assessment framework.

Option A1: Reduce the maximum prospective timeframe for customer transfer requests

Origin does not support the reduction of the maximum prospective timeframe for customer transfer requests from 65 to 21 business days. As the Commission itself notes on page 28, the factors contributing to prolonged transfer times are “largely outside the control of retailers”. Origin would agree it would not be effective to introduce this option in isolation and doing so may impact on competition in the electricity market, since it will impose new and potentially unrecoverable transactions costs (for example special reads that customers are unwilling to pay).

Without an adequate understanding of the underlying reasons for delays in transfers and analysis of their causes, simply reducing the prospective timeframe for customer transfer requests is likely to create unknown costs and unforeseen impacts on customers and the efficient completion of transfers in the market.

Origin would make the following comments about the compatibility of this option with the assessment framework:

- *Transparency of arrangements*

While the reduction of the prospective timeframe will be transparent, a winning retailer may not be clear on which alternative read type (compared to a scheduled read) would be best to apply in each particular case. Certainty with respect to this may be acquired over time, but it would seem this option will create additional costs as each retailer has to investigate the availability and cost of alternate means of acquiring meter reads, for each relevant distribution network and associated MDP in which it markets electricity.

- *Clarity and simplicity*

Similar to the criterion of transparency, it is not clear if option A1 meets the need for clarity and simplicity, again because while the winning retailer may be incentivised to identify alternate reading methods due to the shortened timeframe, they will have to navigate the range of different methods available from MDPs across the NEM.

- *Promotion of efficient incentives under the arrangements*

While retailers may be incentivised to explore alternatives to scheduled reads in order to accelerate a transfer within the shortened timeframe, such incentives are not efficient if the impacted party (the winning retailer) is unable to manage or influence the risk of non-performance. The costs of alternatives again may be borne by the winning retailer, which may have consequences for competition in the retail electricity market.

- *Efficient allocation of risks and costs*

A theme with this option is the misallocation of risk, acknowledged by the Commission, to a party no ideally positioned to manage these risks. Since the cost, management and delivery of

conventional (scheduled) and alternate (estimated, special) reads are not determined by retailers, it would appear this option fails this criterion and does not support dynamic efficiency.

- *Predictability*

Given the alternative approaches to obtaining a non-scheduled read today, it is again difficult to see how option A1 satisfies the criterion of predictability, particularly for the winning retailer, who bears the burden of its costs and risks.

- *The level of regulatory and administrative burden*

It is clear that option A1 will increase the administrative burden on retailers and the associated regulatory burden should new and ongoing reporting be required with its implementation. Option A4, while also creating administrative burdens, would provide the information necessary to determine if the reduction of the timeframe to 21 business days has merit or if the existing 65 business days or other period is appropriate.

Option A2: Allow transfers to occur based on estimated meter reads

As stated in our response to the issues paper, Origin does not support the mandated use of estimated reads as the basis for transfer of customers between retailers.

The use of an estimate (whether provided by the MDP or by the customer) will require customer consent, adding to the regulatory burden on retailers and introducing a new process into the customer transfer requirements to the extent these are not incorporated in each retailer's systems and terms today.

The cost of disputes will increase, since there will likely to be far more estimated reads in use, which may paradoxically, delay a customer transfer unnecessarily if a scheduled read is taken in this time.

However, the Commission states on page 29 of the options paper that the winning retailer would be able to seek a transfer on the basis of an estimated read at its discretion. To the extent that Victoria is the only jurisdiction where a prohibition on transferring on the basis of estimate exists (and the wide-scale deployment of advanced meters makes estimated reads largely redundant), then it Origin would query what changes to existing processes would be required (if the use of a special read is at the retailer's discretion). While this option would confirm the ability of the winning retailer to use an estimated read in the transfer process, it is an option that is at a retailer's disposal today.

If no formal change to existing rules are required for this option to be implemented and it to be applied at the discretion of the winning retailer, there does not seem to be any restriction (other than in Victoria) to its use today.

Judged against the assessment framework:

- *Transparency of arrangements*

While retailers may have a clear understanding of how an estimate was derived (and how settlement in the wholesale market will take place), estimates are often a source of customer complaint and suspicion of the industry. Origin acknowledges that customer concern and level of trust in the accuracy of an estimate may be minimised for *in situ* customer transfers; the focus of the review.

- *Clarity and simplicity*

The process set out on pages 30-31 of the options paper demonstrate that transferring a customer on the basis of an estimate is unlikely to meet this criterion.

- *Promotion of efficient incentives under the arrangements*

This option may meet the objective of promoting efficient incentives, if the decision to use an estimated read is made by the winning retailer. The limited use of transfers on estimates today however is some indication that retailers operating in a highly competitive environment do not consider the availability of this option viable in many cases.

- *Efficient allocation of risks and costs*

To the extent that the use of estimated reads is not mandated, preference to use them as a means of transferring customers should reflect efficient risk management and cost allocation in the competitive retail electricity market.

- *Predictability*

Should the use of estimated reads become more widespread, retailers may experience some changes in their hedging position, however Origin would agree with the Commission that over time, the impact on individual retailer contractual positions will generally gravitate to neutral.

- *The level of regulatory and administrative burden*

To the extent that option A2 can currently be applied at a retailer's discretion (outside of Victoria), any additional costs will be incurred by choice, with the exception of industry and stakeholder working groups that may be required to review relevant metrology procedures.

Option A3: Introduce incentive arrangements on regulated metering data providers in relation to special meter reads

Origin supports this option, but notes that it may not be effective in accelerating the timing of *in situ* customer transfers ahead of the rule change considering distribution network pricing principles. While incentives to improve service levels are welcome, the chief barrier to the use of special reads is the customers' willingness to pay or the winning retailer's willingness to absorb the cost associated with this service order. We would agree with the Commission's view that the implementation of this option would increase retailer confidence that a special read will be successfully completed and thus the use of special reads may increase accordingly.

Again, when compared against the assessment framework:

- *Transparency of arrangements*

This option is transparent to participants involved in the transfer process.

- *Clarity and simplicity*

It would seem option A3 would be simple to implement (however it would be enhanced through the complimentary rule change described above).

- *Promotion of efficient incentives under the arrangements*

Relative to option A1, this option improves incentives for relevant parties, assuming the cost of special reads are set at efficient, cost reflective levels. MDPs are in the best position to execute special reads and provide these to the winning retailer.

- *Efficient allocation of risks and costs*

As the promotion of incentives, Origin believes that the allocation of risks and costs are appropriate and allocated to those participants best positioned to manage them, which is not the case under option 1.

- *Predictability*

This approach would be predictable, again on the proviso that special reads reflect cost reflective outcomes.

- *The level of regulatory and administrative burden*

Origin acknowledges that there will be some additional regulatory and administrative burden on MDPs to the extent additional reporting and recording of repeat site visits for special reads takes place. However, the alignment of incentives that option A3 promotes should minimise impacts in this regard.

Option A4: Monitoring by AEMO and AER of the timing of the customer transfer process

Origin believes there is merit in further investigating this option. As noted by the Commission, it is likely to impose minimal cost yet the data generated will be of value as a time series and may encourage improved performance by industry participants.

- *Transparency of arrangements*

As long as the metrics for monitoring are clear, this option will have the effect of adding to overall transparency in the realm of customer switching, and would be a basis to test the value of other options and the veracity of claims that the transfer process generally is either improving or not over time.

- *Clarity and simplicity*

This option may be clear when monitoring is specified, but is unlikely to promote simplicity for the reporting parties.

- *Promotion of efficient incentives under the arrangements*

The reporting that would result from monitoring may motivate participants to improve their performance.

- *Efficient allocation of risks and costs*

AEMO and the AER are in the best position to monitor the performance of market participants in relation to customer switching.

- *Predictability*

Assuming that relevant stakeholders are consulted, and those most impacted by the monitoring framework have their views considered, this option should meet the criterion of predictability.

- *The level of regulatory and administrative burden*

Clearly this option has the potential to increase the regulatory and administrative burden on AEMO, the AER and market participants, with the bulk of such burdens falling on the first two of these stakeholders.

2. Options to address accuracy of the customer transfer process.

Origin agrees that improvements can be made to the data quality relied upon for customer transfer among retailers. Options B1 to B3 have the potential to improve the accuracy of data in the Market Settlement and Transfer Solutions system administered by AEMO, in particular if options B1 and B3 are implemented through industry forums with voluntary participation for the former and at the discretion of a prospective retailer for the latter.

Option B1: Cleanse the MSATS data in order to achieve higher accuracy levels

Origin agrees with the view that a full cleanse of MSATS data would be a significant undertaking and is perhaps best considered as a separate initiative (including obligations on parties submitting data to MSATS). A focus on address data may be an appropriate first step as this is the source of address mismatches and erroneous transfers. A wholesale review of MSATS data will require further consideration and Origin would consider this a separate review of itself.

Address standardisation would be an appropriate part of any review of address data contained in MSATS. The principle costs of undertaking such a review will be determined by its scope. There are inevitably diminishing returns involved in data cleansing activity and optimising the process by focusing on sources of common and collective error will maximise the resultant benefits.

- *Transparency of arrangements*

The establishment of an AEMO/industry working group focussed on cleansing MSATS address data would result in clarity of objectives and outputs sought from any review.

- *Clarity and simplicity*

Any data cleanse will increase clarity and will contribute to simplicity by reducing exceptions in the transfer process. The task itself will likely be significantly complex depending on the scope of any review of MSATS data.

- *Promotion of efficient incentives under the arrangements*

It is generally in the interests of all participants to ensure data is accurate. MDPs and distributors may not be directly affected if a transfer fails because of incorrect data, and some consideration should be given to this matter where such participants are responsible for source data.

- *Efficient allocation of risks and costs*

As for the promotion of incentives, all market participants should have an interest in ensuring market data is accurate. Costs and risks should reduce following a successful data cleanse.

- *Predictability*

Market participants should have more confidence that MSATS is a reliable source of truth.

- *The level of regulatory and administrative burden*

Undertaking a cleansing of MSATS data requires substantial resources. Origin does not see any need for formal regulation or rule changes to initiate such activity and as such, believes that relevant stakeholders should be able to convene to meet the policy outcomes sought by SCER.

Option B2: Increased monitoring, and reporting by AEMO and AER of the accuracy of the customer transfer process

Accuracy of MSATS data should not be a focus of retail performance reporting, since the provision of standing data is not the primary function of retailers. On page 53 of the options paper the Commission seems to imply retailers will have a reputational interest in the publication of the results of monitoring. However the metric mentioned by the Commission on page 53 (the number of erroneous transfers and the number of technical objections) are the outcome of inaccurate data, which is the issue the option seeks to address. Origin would instead argue that the monitoring of data and its accuracy should focus on participants supplying incorrect data, not the users of the data who encounter costs because of it. In this sense, this option does not meet the criteria of promoting appropriate incentives (to the correct parties) and allocation risks and costs.

- *Transparency of arrangements*

This option would contribute to transparency; however the focus of reporting should be on those providing source data to MSATS, not its users.

- *Clarity and simplicity*

To the extent that monitoring and reporting improves MSATS data accuracy, these criteria will be served through reduced exceptions and erroneous transfers.

- *Promotion of efficient incentives under the arrangements*

Publishing metrics on erroneous transfers or objections made by retailers resulting from inaccurate data does not address the source of the problem; rather it demonstrates the result of incorrect data. If retailers have no control over the quality of MSATS data, there seems little benefit in pointing out who was responsible for errors created by such data. It would be more effective to identify which providers of MSATS data (which users should rightly regard as generally accurate) are not meeting the standards required. Reporting and enforcement should focus on these parties.

- *Efficient allocation of risks and costs*

As discussed above, should the implementation of this option simply report on the number of erroneous transfers by retailers (for example), it will not address the cause of the erroneous transfer.

- *Predictability*

This option will not improve predictability if it does not address the inaccuracy of source data (the input) and focuses on the its result (the output).

- *The level of regulatory and administrative burden*

There is the potential for increased regulatory burden and costs for all participants, but if incentives are correctly aligned (and the initiative described on page 53 suggests they may not be), then these costs should decline over time. Benchmarks for performance should be established at reasonable levels.

Option B3: Obligation to display NMI number on meter

Origin is supportive of this proposal, subject to the costs of its implementation being minimal. There remains the issue that customers are unable to access their meter(s) or are unwilling to take note of their NMI during the transfer process, or transpose the NMI incorrectly.

- *Transparency of arrangements*

This option has the potential to improve transparency and accuracy, however if mandated, would add a further (relatively intrusive) step to the consent process. Customers may not understand or want to understand why it is a required step.

- *Clarity and simplicity*

While on face value the proposal seems simple, having customers retrieve their NMI will add to the time it takes to contract a customer (whether initiated by the customer or the prospective retailer). Again, if the use of customers self-reporting their NMI is an *optional* step in the contracting process, this risk will be minimised- if the approach has value, it will be utilised.

- *Promotion of efficient incentives under the arrangements*

Retailers have an incentive to ensure that NMI discovery and verification is accurate. This should not be at the expense however, given the overwhelming majority of accurate transfers that take place, of customer engagement with the energy market.

- *Efficient allocation of risks and costs*

Again, if this measure is to be used voluntarily by retailers, then the use of NMI reporting via locally applied stickers result in risks and costs that are best managed by parties choosing to use such information and request it of customers.

- *Predictability*

For retailers, mandating the validation of customer reported NMIs may result in unpredictable responses and new issues to manage. Most customers have no understanding of what a NMI is and any requirement for them to transcribe it and report it will be seen as evidence that the market is difficult to engage with and cumbersome. Again, such a measure should not be mandated as a process for such reasons.

- *The level of regulatory and administrative burden*

There should be minimal administrative burden associated with the application of this option if not mandated for use. Origin believes there will be establishment costs as described by the Commission on page 56 of the options paper.

Option B4: NERR obligation on retailers to co-ordinate to resolve erroneous transfers in a timely manner

In general, there are likely to be benefits associated with the option, however, the additional regulatory burden and administration associated with compliance with a guideline requires further consideration before any commitment can be made to this option. If erroneous transfers are the result of MSATS data entered incorrectly by third parties and beyond retailer control, appropriate recognition of this and the costs it generates should be assigned to the causing party. Again, erroneous transfers are often the output of incorrect data in MSATS, which all retailers and market participants depend.

3. Other incremental improvements that could be made to the customer transfer process

Option C1: AEMO to improve the functioning of the objections framework that forms part of MSATS

Origin supports a review of the objections framework and codes and considers a project established by AEMO to address this is an appropriate way forward. The value of the codes and participants interpretation and use of them does require examination.

Incremental improvement to be independently progressed by retailers and metering data providers

A number of the initiatives described on pages 63-64 of the options paper have merit and present and opportunity for industry stakeholders to reach agreed improvements, with regulatory intervention.

Origin supports:

- Better appointment timing for MDPs to narrow the window of attendance. This can be a source of significant frustration and complaints from customers, who in turn often contact the retailer, who has limited influence over the timing of appointments.
- Electronic processes to deal with access issues at customer premises.
- Increased emphasis on access obligations for customers to allow safe access for MDPs to the meter.