



24 December 2013

**Australian Energy Market Commission
GPO Box A2449
Sydney South NSW 1235
aemc@aemc.gov.au**

Reference: EPR0038

Dear Sir/Madam,

Re: AEMC 2013, Review of Electricity Customer Switching, Issues Paper

AGL Energy Limited (**AGL**) welcomes the opportunity to respond to the *AEMC 2013, Review of Customer Switching, Issues Paper (Issues Paper)*. AGL is a significant retailer of energy with around 3.8 million electricity and gas customers. AGL agrees that an efficient *in situ* electricity customer switching process is important in supporting customer choice and promoting customer satisfaction with the industry more generally.

The introduction of smart meters across the country will undoubtedly improve the efficiency of the customer switching process as meter reads will occur more frequently and access will no longer be an issue. We are already seeing evidence of this in Victoria, where approximately 94% of households have had a smart meter installed. As such, AGL supports a market-led rollout of smart meters as the primary mechanism for improving the efficiency of the electricity customer switching process. The question is whether interim enhancements should be made to the transfer framework in order to improve customer experiences until there is a greater penetration of smart meters nationally.

On the whole we consider that the transfer process supported by MSATS has served customers and the industry well, and that wholesale changes are not required. However, an efficient customer switching process is clearly in the interests of customers and retailers alike. In the Appendix to this submission we raise potential interim measures for addressing transfer issues associated with meter read frequency, meter access and data quality. Naturally the time and costs required to implement these measures would need to be weighed against the benefits likely to be achieved in terms of faster and more accurate electricity customer switching.

Should you have any questions in relation to this submission please contact Eleanor McCracken-Hewson, Senior Regulatory Advisor, on (03) 8633 7252 or at EHewson@agl.com.au.

Yours sincerely,

A handwritten signature in blue ink that reads 'N Wallis'.

Nicole Wallis
Manager Retail Markets Regulation



APPENDIX

1. Regulatory framework for the review

In our view, the Issues Paper identifies the regulatory instruments of relevance to this review. Once contestability is introduced to the market for small customer metering services (as per the recommendations of the AEMC's Power of Choice review), then the Meter Churn Procedure may also become relevant. We do not consider the minor jurisdictional differences in applicable codes as material with regard to the current assessment. Finally, although there is not a significant difference between them, the National Energy Retail Objective could join the National Electricity Objective in guiding the review.

2. Efficiencies in the current customer switching framework

The current customer switching framework allows for efficient outcomes in a number of respects:

- The objections framework allows issues with a proposed transfer to be identified and resolved, rather than the transfer automatically completing or being rejected out of hand. This process can reduce instances of NMIs being transferred in error. We would advise against shortening the timeframe for resolving objections. Where a genuine issue with a transfer has been identified, it is in the long term interests of customers for that issue to be addressed before a transfer completes or is automatically withdrawn.
- Transfers and settlement on the basis of actual reads promotes efficient outcomes as neither retailer is carrying settlement risk. Further, this avoids disputes about the transfer read, or market or billing adjustment issues.
- If a customer or retailer considers it too long to wait for a transfer on the next scheduled read date, either one can elect to pay for a special read to bring the transfer forward. This requires the customer or retailer to weigh up the cost of the special meter read against the value to them of the faster transfer. In this regard, it is important that special read fees are genuinely reflective of costs.
- Although it is not ideal when any transfer remains pending beyond the 65 business days, the continuation of the MSATS process does mean that if a transfer does not occur on the requested date, it should complete on the next actual read. This seems more efficient than the retailer being required to re-raise the transfer request (although the retailer retains the option of withdrawing and re-raising the transfer if it deems that the best way forward).

The fact that Victorian transfers now occur in less than 20 calendar days in the vast majority of cases,¹ demonstrates that a major contributing factor to drawn-out customer switching times is the supporting analogue technology requiring physical meter reading – rather than the MSATS process itself acting as an inhibitor. The Victorian experience shows that the rollout of advanced metering will have a positive impact on transfer efficiency.

3. Areas of potential improvement

In our view, the electricity customer switching framework supported by MSATS has in general served the industry and customers well. Although transfer-related complaints have increased, so too have absolute numbers of transfers. To further contextualise, even on the most recent year's data, transfer-related complaints as a portion of total transfers ranged from only 0.4% in Queensland to 1.4% in New South Wales.² Yet the fact that

¹ Per Victorian transfer data for January 2013 to July 2013, Issues Paper page 55

² Per the AEMO Retail Transfer Statistical Data

transfer-related complaints persist and are on the increase warrants some attention. At least part of the focus should be on how to facilitate a more structured exception management process for those customers who have had a poor transfer experience.

Billing and marketing

Of the 'transfer related' issues reported by ombudsmen, only a few sub-categories link directly to the MSATS transfer process as far as it coordinates the actions of losing retailer, winning retailer and MDP. Contract issues, consent issues and billing problems are ancillary to the MSATS process, but these issues constitute a major portion of transfer related complaints. As retailers address these ancillary issues (with billing systems, marketing practices etc), and now that many have withdrawn from door-to-door selling, we may see a downward trend in transfer related complaints. The evidence may come from ombudsman reports published over the coming 12 months.

There is also a role for industry participants in managing customer expectations regarding the length of the transfer process and keeping the customer informed of any delays or issues.

Data quality issues

More directly linked to the MSATS process, issues with the quality of standing data and meter data held in MSATS can be a cause of erroneous transfers. Whether the correct NMI is transferred depends to some extent upon alignment of the address descriptors used by customers and retailers, as compared with the connection point descriptor held in MSATS. As such there may be some benefit in developing a common industry addressing standard. The processes and required timeframes for updating data held in MSATS could also be examined. Given the volume of data held in MSATS, the costs and benefits of any programme for review would need to be assessed.

Resolving erroneous transfers

Once it has been identified that a customer has been transferred in error or without consent, it is almost impossible for the winning retailer and the affected customer to resolve (that is, reverse) the erroneous transfer without the assistance of the original retailer. This can be a frustrating experience for a customer, and the retailer who has won the site in error can be left unsure how best to respond. Thus guidelines could be established to clarify how and when a retailer is required to raise a transaction in MSATS to win a customer back.

Access issues

As noted in the Issues Paper, access issues are the most common cause of transfer delay.³ Although retailers have strong incentives (regulatory and competitive) to resolve access issues, they are not actually in control of meter reading and data provision. These services are performed by entities that are not customer-facing or subject to the same competitive and regulatory pressures as retailers, and thus without the same incentives to enhance the end-customer experience or strive for accuracy and efficiency.

Retailers clearly play a key role in educating customers about access, but once access has become an issue distributors could assist in the resolution by accommodating scheduled visits to the premises with a reasonably narrow appointment window. Although some distributors have very good appointment systems, we understand that in some regions a customer may be required to wait at home for up to 4-5 hours for a scheduled visit or scheduled appointments are not offered at all.

There might be other mechanisms to improve the performance incentives of providers of meter data services. One option might be to make more transparent what proportion of 'completed' service orders (specifically, special read service orders) returned by a meter data provider have actually been 'successfully completed' in the sense that the result

³ Issues Paper, page 61

sought has been achieved. The structure of charges for these services could also be revised so that service orders completed with a successful result are better rewarded than those requiring a repeat attempt.

The ultimate means of overcoming access issues is a wide-spread rollout of advanced metering infrastructure. AGL supports the final recommendation from the AEMC's Power of Choice review regarding the establishment of a framework for increased competition in metering and related services. Enabling retailers to more directly manage meter data services will better align performance incentives with the party that has the most interest in their accurate and efficient provision.

Transfers on estimates or customer own reads

Another option that could be explored to improve the timeliness of the *in situ* customer transfer process for customers with basic meters would be to permit a transfer on an estimated read or customer own read. Although each of these read type codes is already contemplated in the MSATS Procedures, they are only available for use in a transfer if approved by jurisdictional policy and if consented to by a customer. To date no jurisdiction has permitted electricity customer transfers using these read types, presumably because of the range of issues that would need to be overcome in order to ensure this approach is practically workable and avoids disputes – and so does in actual fact enhance the efficiency of the customer transfer process.

Some of the key issues that would need to be worked through before a jurisdiction could endorse transfers on estimates or customer own reads include:

- establishing clear guidelines for when a transfer on an estimate or on a customer own read would be permitted – for example, that this be permitted only: on an *in situ* transfer; where consented to by the customer; where the customer's account at the premises shows at least two previous actual reads; where the last actual read was less than, say, 60 calendar days prior to the transfer date; and never when the last read was also an estimate or own read. The aim would be to promote the accuracy of the estimate and thereby avoid difficult reconciliation issues and limit the scope for dispute;
- with estimations, confirming an endorsed estimation methodology and that this will be provided by the meter data provider; with customer own reads, determining in what format the customer would provide the read, to whom, when in the transfer process, and how the read is validated;
- establishing a mechanism for retailers to challenge an estimated read or customer own read and guidelines for doing so (such as a materiality threshold and permitted timeframe), and associated procedures for managing disputes;
- setting clear market rules around the finality of reads for settlements and billing adjustments; and
- making any changes to the B2B Procedures and other supporting processes that would be required to support the above.

If transfers on estimates or customer own reads were introduced without thoroughly addressing these issues then, although transfer delays may be resolved, we may confront a large volume of difficult billing, settlements and reconciliation issues and disputes. That said, we do not see these issues as insurmountable (and note they have been addressed in the British and New Zealand markets), but the costs and timeframes for making the necessary changes would need to be carefully considered against the ultimate goal of a wide-spread smart meter rollout. We note that in the case of Sweden *prohibiting* the use of estimates actually contributed to an expedited smart meter rollout.⁴

⁴ Issues Paper, p88

Smart metering

It is telling that, in the period January 2013 to July 2013, 86% of Victorian transfers occurred in less than 20 calendar days.⁵ It is during this period that smart meter penetration really reached a critical mass. The data demonstrates that with advanced metering the MSATS system is capable of supporting a very efficient transfer process. As recommended in the AEMC's Power of Choice review, AGL supports the development of a competitive framework for small customer metering in order to facilitate a market-driven smart meter rollout, and to thereby improve the timeliness and efficiency of customer transfers.

4. Should a shorter maximum transfer time be introduced?

Customers are entitled to 10 business days (at least 14 calendar days) to cool-off from a new retail energy contract. The market transfer cannot complete during this period. Once a transfer is raised at the end of the cooling off period, then there is a further period to raise (5 business days) and resolve (20 business days) objections. As discussed earlier in this submission, the objections process can actually promote transfer efficiency where a genuine issue is identified – for instance, where it means the correct NMI is identified and transferred.

Presumably a customer would like the transfer to occur as quickly and efficiently as possible after the cooling-off and objections processes have run their course. It is also clearly in the commercial interests of the winning retailer for the transfer to occur as quickly and smoothly as practicable, and retailers will continually balance the costs and benefits of available means to achieve this (such as raising special meter reads).

However, until there is a greater penetration of smart meters nationally, the inhibitors to more efficient transfers will continue to be meter read frequency, access issues and data quality issues, as well as jurisdictional requirements for transfers on actual reads. The benefits of a shorter mandatory maximum customer switch time would need to be weighed against the costs of the measures (outlined in section 3 above) which could be pursued to achieve this.

⁵ Issues Paper, p55