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Australian Energy Market Commission
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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 Australian Energy Market Commission's (**AEMC**) *Review of Electricity Customer Switching, Options Paper* (**Options 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. In fact, an efficient *in situ* customer switching process seems just as important in the retail gas market where similar transfer issues can arise. To avoid too great a divergence, the analysis should consider whether any of the options proposed might appropriately be implemented across both of these markets.

The options that should be given most serious consideration in this review should be those that will make the most ground in overcoming the basic impediments to fast and accurate electricity customer transfers, namely meter read frequency, meter access and data quality. Options which impose new costs and risks on market participants who do not have mechanisms to directly control for those factors should be avoided. Further, as detailed in state-based ombudsman reports, a number of 'transfer related' complaints originate in issues which are ancillary to the MSATS transfer process as far as it coordinates the actions of losing retailer, winning retailer and meter data provider. Thus the AEMC's assessment should take a realistic view of the improvements that can be achieved in a review focussed primarily on MSATS.

We reiterate our view that smart meters will be the primary mechanism to deliver substantial improvements in the speed and accuracy of the customer transfer process. With key initiatives from the AEMC Power of Choice Review now advancing – in particular, the metering competition rule change and the open access review – the settings are drawing closer to a state in which industry will be able to deliver strongly on a market-led rollout of smart meters. In a contestable metering environment, it is competitive and commercial pressures, rather than regulatory invention, that are expected to deliver improvements in metering services. Thus some of the options canvassed in the Options Paper that may have some value in the regulated environment (e.g. those focussed on the performance of regulated meter data providers), will not be suitable in a contestable environment where contract terms govern performance levels. We hope that the AEMC will maintain its primary focus on removing the remaining barriers to an efficient delivery of smart meters in the National Electricity Market and limiting jurisdictional variation.

The benefits of some of the options proposed also become distinctly time-limited when considered in the context of an anticipated market-led rollout of smart meters. For example, although it may be possible for the Australian Energy Market Operator (**AEMO**) and market participants to undertake a series of system and process changes to enable customer switching on the basis of estimated meter reads, the perceived need for such a

mechanism is expected to gradually dissipate as we see an increase in the volume of transfers on actual remote reads enabled by smart meters. The benefits of a short-dated process to allow transfers on estimated reads, particularly if not utilised at great volume during that period, may not outweigh the costs of implementation. We consider that a decision on this potential reform should be informed by a formal cost benefit analysis.

In the appendix we comment in greater detail on the various options proposed. 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,

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APPENDIX

A: Options to address timing of the customer transfer process

Option A1: Reduce the maximum prospective timeframe for customer transfer requests, as set out in the MSATS Procedures, from 65 business days to 21 business days.

The 65 day maximum prospective timeframe set out in the MSATS procedures is linked to the common quarterly meter reading schedule for small market customers. Victoria's Electricity Customer Transfer Code also links to this timeframe in clause 4.2(d). Simply reducing the maximum prospective timeframe for customer transfers in MSATS would not address the underlying reality of a common quarterly read cycle.

Under the current framework, the only way[1] a retailer could always select a prospective transfer date in MSATS of less than 21 business days would be to raise special reads in approximately two thirds of cases, thereby imposing substantial new costs on industry. Retaining special reads as an option that can be chosen by either a customer or retailer if they *value* a faster transfer, seems preferable to imposing the cost across the board. If this effectively became a mandated cost then, like all operating costs, we would expect it to contribute upward pressure on electricity prices. However, should it remain an optional pathway, then retailers may choose to raise special reads and absorb the costs as a means of gaining a competitive advantage or customers may request a special read of their own accord.

The Options Paper also suggests that retailers could install smart meters as a means of meeting this obligation were it imposed. While accurate and timely provision of meter data is a clear benefit of smart meters, we are wary of a regulatory change which effectively mandates a rollout of smart meters. Following the Power of Choice Review, the consensus has clearly shifted in favour of a business-led, optional approach to the adoption of advanced metering.[2] In our view, the AEMC should prioritise the removal of residual barriers to an efficient market delivery of smart meters, following which the market should be permitted a period to evolve and demonstrate the consequent improvements in metering services (including timely transfers).

Option A2: Allow transfers to occur based on estimated meter reads (including potentially customer self-reads)

As noted in the Options Paper, Victoria's Electricity Customer Transfer Code is explicit in not permitting transfers on estimates. Previously clause 6.4 South Australia's Energy Customer Transfer and Consent Code also did not permit transfers on estimated meter readings. However, currently the situation in South Australia, New South Wales and Queensland is less clear. As the estimated read code is only available in MSATS 'if approved by Jurisdictional policy',[3] positive approval or authorisation in jurisdictional legislation or regulation seems necessary before transfers on estimated reads could be undertaken en masse. It would also be necessary to first establish the particular implementation model that would best facilitate transfers on estimated reads at large volumes and to make the supporting system and process changes.

Benefits:

The benefits of permitting *in situ* transfers on estimated meter reads will depend on how the mechanism is implemented. The Options Paper contemplates transfers on estimated reads only where consented to by the customer. The CATS Procedure Principles and

[1] Alternatively retailers could delay raising the churn transaction in MSATS until the next scheduled read date is sufficiently close, but this would not fulfil the intent of the change.
[2] Standing Council on Energy and Resources, Meeting Communiqué, Hobart / 14 December 2012
[3] 4.13(i) CATS Procedure Principles and Obligations - V3.8 – Final Determination

Obligations, and the Victorian Electricity Transfer Code, also anticipate that should transfers on estimated reads be permitted, they would require the customer's consent. However requiring customer consent might limit the frequency with which this mechanism is actually used, thereby depressing the benefits case. In order to increase the volume of customers transferring using this mechanism it might be preferable to treat *in situ* transfers on estimated reads in the same way as routine billing on network estimates where an actual read is not obtained – that is, customer consent is not required and charging is brought back into alignment at the next actual read.

It is also contemplated that transfers on estimated meter reads only be permitted where there is an actual read recorded for that customer at that premises during the most recent meter read cycle. Although the justification is obvious – namely, ensuring actual and estimated reads do not diverge unmanageably – this will further limit the set of customers that can and, if consent is a requirement, will choose to transfer on an estimated read. Significantly, it will not overcome the issues faced by customers experiencing chronic meter access issues.

For those customers that do transfer on an estimated read, there may be a benefit to them in moving more quickly to (potentially) lower rates charged to them by the winning retailer, as well as improved satisfaction with the switching experience. The question is whether these benefits, if experienced by only small volumes of customers, would overcome the various implementation costs and challenges (discussed below). Finally, as discussed in the introduction to this submission, we might expect transfers on estimates and the associated benefits to be short lived where a contestable metering environment increases smart meter penetration nationally. In this regard, time to implement transfers on estimates also becomes particularly relevant.

The Options Paper also references a benefit accruing to the winning retailer, which would be able to invoice the customer from an earlier date. But in reality this benefit is offset by the earlier loss of the customer by the losing retailer.

Costs:

The implementation method proposed would limit the use of estimated reads for transfers to those customers whose latest scheduled read at the premises was an actual read. As acknowledged above, this is to ensure actual and estimated reads do not diverge so much as to cause difficult settlement and billing issues or disputes. However there is currently no way for a winning retailer to know the quality of their new customer's most recent meter reading (that is, whether this was actual or estimated). Accordingly it would be necessary to develop a new field in a Type 2 NMI Discovery that the winning retailer could refer to before raising the switch transaction in MSATS. This would require a change in the systems of AEMO, meter data providers (**MDP**s) and retailers, the costs of which would need to be assessed.

Alternatively, a new objection code could be developed to allow an MDP to object to a transfer on an estimate where the previous read at the premises was not of a suitable quality. As well as the costs of the supporting system changes, this approach would be at odds with a move to limit the use of transfer objections and creates inefficiency where the retailer would be required to re-raise the market transfer transaction if objected to in these circumstances. Accordingly this approach is not supported.

Provided the next actual read is higher than the estimated transfer read, then we agree that settling in both the retail and wholesale markets on the basis of the same estimated transfer read (so that the read is treated essentially as a final substitution) should avoid difficult settlement and reconciliation issues. However, should the later actual read be *lower* than the earlier transfer estimate, then there may be difficult adjustment issues to overcome. For this reason we agree that transfers on estimates should not be permitted where the last meter read was also an estimate, and that some work would need to be undertaken to update and strengthen the approved estimation methodology.

As mentioned in the Options Paper, before transfers on estimate could be permitted, a dispute and escalation process would need to be developed. If this involved a new

objection code in MSATS which would prevent a transfer from completing until the estimation dispute is resolved, then the materiality threshold becomes quite important. If set too low, a large volume of objections might impede the efficiency of this mechanism. As with other preparatory aspects, there are obviously resourcing and potential system change costs associated with developing and implementing this dispute and escalation process, as well as costs associated with the ongoing management of such disputes.

We generally agree with the other costs identified in the Options Paper – namely training of customer service representatives regarding the new option to transfer on estimates, retailer system changes to accommodate the process and allow final bills on estimates, and pursing changes to the regulatory framework (including negotiating with state-based policy makers where necessary). In addition, we may need to anticipate the MDP imposing a new charge for providing the transfer estimate.

Customer self-read

The Options Paper contemplates transfers on estimates incorporating transfers on customer self-reads. This may be an innovation worth considering, but there is a risk that incorporating customer self-reads into the transfer process might involve an overly complicated communication chain (with the photographed self-read provided initially to the winning retailer, then on to the MDP to validate and then, if the validation fails, potentially back to the retailer and then the customer etc). Whereas transfers on the basis of an MDP-provided estimate could potentially become a fully automated process.

It might be better to focus customer self-reads on overcoming chronic access issues, rather than on improving a transfer estimate. In this view, a transfer on an estimate would be permitted if the customer has an immediately preceding actual *or validated self-read*. (So that the Type 2 NMI Discovery would also need to be updated to include 'validated self-read' in the field showing last read quality.) This would allow more customers access to transfers on estimates, but leave that transfer process itself reasonably straightforward. The validation of the customer self-read could itself proceed as a separate process coordinated by the retailer and managed as part of the regular read cycle where a customer has received an estimated bill. A framework – potentially part of the B2B Procedures – would need to be established setting out how the MDP would accept and validate photographed reads provided to retailers by customers.

Cost benefit analysis

Given the scope of system and process changes that would be required to support this option, the uncertainties surrounding the benefits case and the work still to be undertaken in determining the detail of how this mechanism would be implemented and operate, in our view a final recommendation on this potential reform must be informed by a formal cost benefit analysis. Certainly we do not yet feel that we are in a position to support or oppose this option.

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

We might cautiously support this proposal, but are conscious that it may not give sufficient recognition to the fact that it is customers who ultimately need to provide access and retailers who need to ensure customers understand this requirement. Although access issues can be a great frustration to customers, retailers and MDPs can only do so much without the customer's cooperation and assistance. Thus incentive arrangements might instead allow the collection of an *additional* cost-reflective regulated fee where the MDP commits to calling the customer to arrange a short (e.g. one hour) appointment window for reading the meter. This could operate as a 'premium' service, taken-up if valued sufficiently by the customer or retailer.

Obviously these incentive arrangements will not be required in the contestable metering environment where commercial contracts will govern service levels and performance rewards.

Option A4: Monitoring by AEMO and AER of the timing of the customer transfer process. This option would increase monitoring, and public reporting, of statistics associated with the timing of the customer transfer process.

It is unclear how additional reporting obligations will improve the timeliness of customer transfers as far as this relates to a particular retailer. The speed of customer transfers continues to depend on the scheduled read cycle, whether the customer or retailer agrees to a special read, whether access is an issue or (potentially) whether the customer agrees to transfer on an estimate. Other than a choice to raise and bear the cost of a special read, none of these factors is directly within the control of a retailer. Retailers already have commercial incentives to transfer customers as quickly as possible. Reporting will not improve these incentives and risks revealing commercially sensitive information on retailer transfer strategy and volumes.

There may be some value in reporting on the volume of estimated reads returned by regulated MDPs in each distribution zone. This might reveal the areas in which access is most problematic and which MDPs have the most success in overcome access issues. It is possible this would improve the incentive of regulated MDPs to obtain a read whenever reasonably practicable. Obviously such reporting would not be necessary or appropriate in the contestable metering environment where commercial contracts will govern service levels and performance rewards.

B: Options to address accuracy of the customer transfer process

Option B1: Cleanse the MSATS data that is used in the customer transfer process, and develop an industry-agreed standard for addresses in the MSATS database.

AGL agrees that undertaking a cleanse of all the data held in MSATS would be an extremely large project and that the most value is likely to come in a cleansing exercise focussed more narrowly on address information.

The first step would be for industry to agree on the addressing standard to be used by all participants in the context of customer transfers. The standard should govern both content and structure of the address fields. Then, rather than a cross-check between address details in MSATS and retailer billing system (which raises questions about which should take precedence), addresses in both these systems should be cross-checked and aligned to the standard. This would also ensure that obligations are only placed on participants to update the systems that are within their control, noting that retailers have no ability to unilaterally update the information held in MSATS.

Although MDPs may also maintain a separate locational address for the purpose of meter reading, and retailers may maintain other addresses for various purposes (such as mailing and billing), the standard address would be used in MSATS to associate a particular NMI and meter number to a site for the purpose of facilitating customer transfers.

There may be value in pursuing uniform addressing standards to apply across both the gas and electricity retail markets.

Option B2: Increased monitoring, and public reporting by AEMO and AER of statistics associated with the accuracy on the customer transfer process

When effecting a transfer, retailers rely on information held in MSATS and information provided by the customer. This reliance means that reporting on the number of transfer errors made by *retailers* would be focussed, and may unfairly expose, the wrong party.

We consider this option to be of questionable value as it would not address any of the underlying impediments to an accurate transfer process, and thus seems unlikely to drive change.

Option B3: Obligation on MDPs to display NMI number on all meters

The meter number is already displayed on all metering installations and this is linked to the NMI and address in MSATS. Given that a customer can already go to their metering

installation and read the meter number (also a unique identifier) to a winning retailer ahead of a transfer, it is not clear that also displaying the NMI on the metering installation will add a great deal of value. Further, displaying the NMI on the meter will not assist customers (for example, those in apartment buildings) who do not have direct access to their meter, or sites where meter access is an ongoing issue.

In a contestable metering environment, meters may also be recycled between premises so that requiring the NMI to be displayed on the meter and then updated when that meter is displaced and reused would add an unnecessary additional cost.

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

Guidelines are needed in this area to address the following issues:

- Where a retailer agrees with a customer that they have erroneously won a site, the site cannot be returned to the original retailer unless that original retailer raises a transaction in MSATS to win the site back. Although the retailer who won the site in error will ask the original retailer to win the site back, occasionally they will not do so. Guidelines should set out the expectations of the original retailer and the FRMP in these circumstances – for example, making it clear that the original retailer must win the customer back, and clarifying whether the customer can be treated by the FRMP as a deemed customer on a deemed arrangement until the error is rectified.

- The National Energy Retail Law contemplates the reversal of erroneous customer transfers as far as 12 months after the transfer has taken place. MSATS currently only permits a retrospective transfer of up to 130 business days. Guidelines should clarify what is expected in these circumstances.

- The guidelines should recognise that it may not be possible to exclude customers from this process entirely. It seems valid for the original retailer to require confirmation directly from the customer that they do want to be transferred back so that the original retailer does not itself perpetuate the problem of transfers in error or without consent.

We note that the electricity NSW B2B Procedures, dated July 2013, go some way to tackling these issues.

This is a reform that could be pursued across both the gas and electricity retail markets.

C: Other incremental improvements that could be made to the customer transfer process

Option C1: undertake a project to improve the functioning of the objections framework that forms part of the customer transfer process, with the objective of promoting the efficiency of this particular element.

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 reiterate our opposition to shortening the timeframe for raising 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. It can also provide an opportunity for the losing retailer to confirm with the customer that they have agreed to switch, thereby minimising transfers in error or without consent.

We generally consider that the current objection codes serve a valid purpose, although there could be greater clarity about the circumstances in when each should be used. Should transfers on estimates be pursued, then it is likely that new objection codes would be required.

Other / miscellaneous

We would support initiatives to improve meter access and overcome chronic access issues, including greater use of electronic and mobile communication by regulated MDPs to notify a customer when a read is going to take place (this can change without notification from the NSRD displayed on the customer's bill) and to overcome access issues as they arise.

This is a reform that could be pursued across both the gas and electricity retail markets.