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Australian Energy Market Commission
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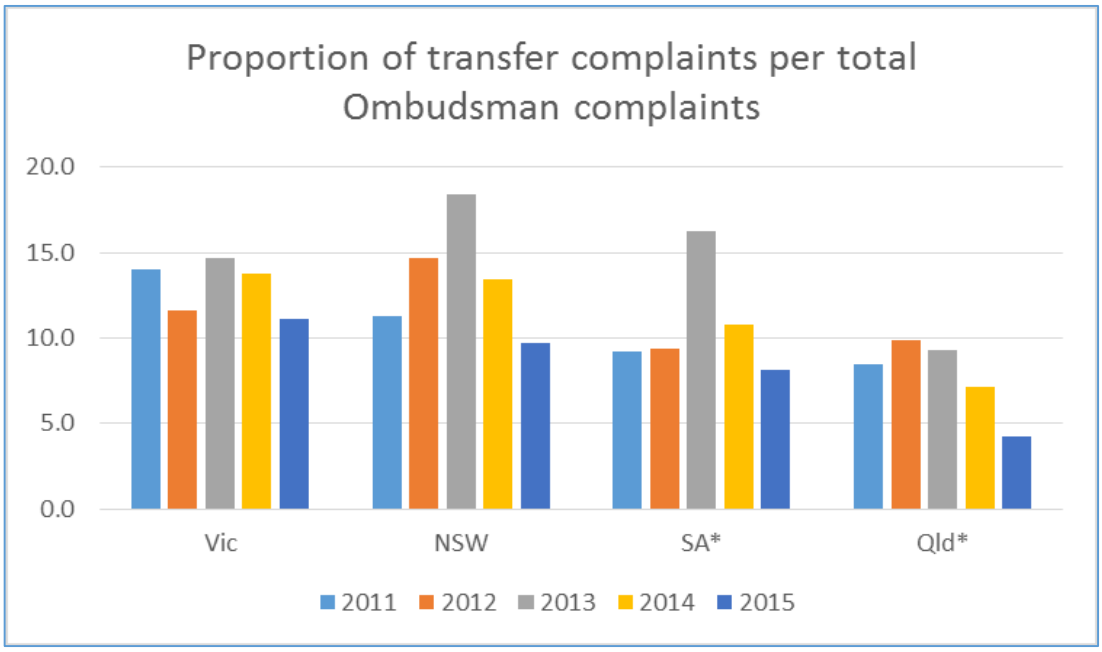
Discussion Papers on customer transfer rule changes (project numbers ERC0195 and ERC0196)

AGL Energy welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC)'s Consultation Papers in relation to improving the accuracy of customer transfers and using estimated reads for customer transfers.

AGL Energy (AGL) is Australia's largest integrated energy company, operating across the supply chain with investments in coal-fired, gas-fired, and renewable electricity generation and is a significant retailer of energy, providing energy solutions to over 3.7 million customer accounts in the NEM. AGL is Australia's largest ASX listed owner, operator and developer of renewable generation.

The diagram below shows total transfer complaints handled by state based Energy Ombudsman Schemes for the last five years. The diagram shows that transfer complaints range between 10 to 15 percent of total complaints with the peak being around 2013 and then generally transfer complaints declining as a proportion of total complaints.

AGL supports initiatives that aim to improve both the timing and accuracy of the customer transfer process. Responsive and accurate transfers underpin effective retail competition. An accurate transfer process that occurs in a timely manner means consumers will have confidence in the market, leading to a vibrant and competitive retail environment.

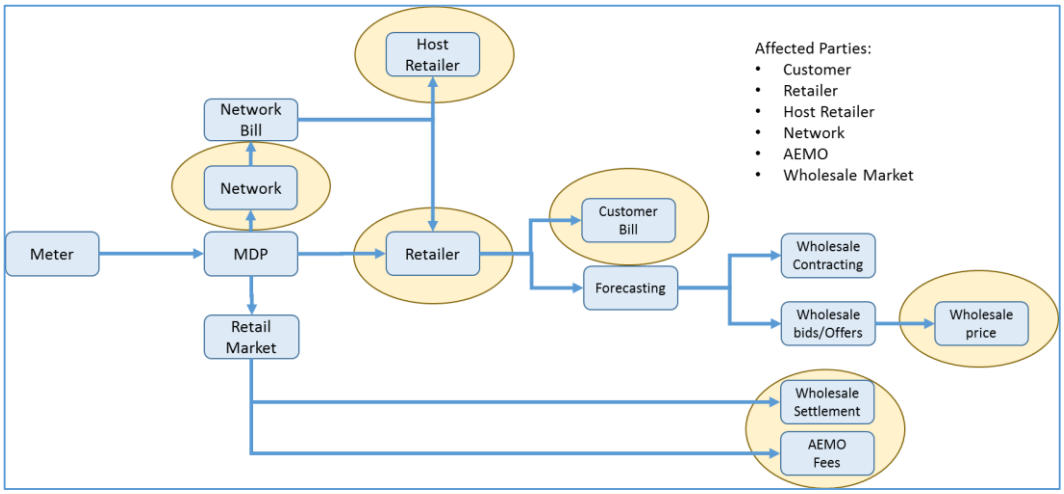


* Data refers to complaints closed rather than all issues.

Source: State based Energy Ombudsman Schemes, Victoria, NSW, Qld and SA - Annual Reports

Transfers on estimated reads

The AEMC is proposing a Rule change to allow small customers with manually-read meters to in-situ transfer to a new retailer based on an estimated meter read, rather than an actual meter read. AGL supports the principle of speeding up the transfer process for customers with manually-read meters. However, we have concerns about the implications of allowing the market to settle on an estimated read for in-situ transfers, AGL has mapped out the different parties that a meter read impacts in the transfer process.



Given the number of parties and transactions impacted by the proposed Rule change, AGL urges that the AEMC consider whether retail market competition, innovation or some other forces are already generating solutions to speeding up the transfer process. If the AEMC can identify other market based solutions, this should remove the need for regulatory oversight to give effect to quicker transfers.

For example, AGL contends that as the retail market matures and consumers play a more active role with their energy purchasing decisions, retailers are incentivised to improve their services, including improving the timeliness of transfers. This innovation has already led to the following market based solutions to improve the speed and accuracy of transfer:

- Retailers have been using special meter reads to speed up the transfer process. For example, AGL has used special meter reads for a number of years across NEM jurisdictions. Some retailers have also borne the cost associated with the special meter read request.
- More recently, AGL has piloted the use of customer own reads for customers with on-going no access issues.
- In 2015, AGL began rolling out digital meters to AGL customers across the NEM (other than in Victoria where customers already have digital meters installed). A key benefit of digital metering is the facilitation of faster and more accurate customer transfers.

The introduction of digital meters across the NEM will also undoubtedly improve the efficiency of the customer switching process as meter reads will occur more frequently and access will no longer be an issue (digital meters are communications enabled and thus read remotely). By way of example, in Victoria, where the vast majority of customers have already had digital meters with remote communications installed approximately two years ago, transfers generally occur on the requested date or the day after the cooling-off period expires – i.e. business day 11.

Data from the Energy Ombudsman of Victoria (EWOV) shows a dramatic decrease in complaints from transfer delays over the last three years. The 2013 Annual Report reported 2,057 delay of transfer complaints, in 2014 there were 2,209 delay of transfer complaints and the latest Annual Report (2015) shows 921 delay of transfer complaints. EWOV states that improvements in retailer billing and IT systems was the reason for the lower reduction in delay in transfer complaints. AGL would also contend that not only improvements in IT systems but digital meters with remote communication capabilities have been a key drivers of lower complaints for transfer delays. To reinforce this, AGL's requests to Victorian Electricity Distributors for special meter reads to enable quicker transfers have also fallen significantly over the last three years (now approximately 25 percent of the number in early 2014), coinciding with the introduction of digital meters.

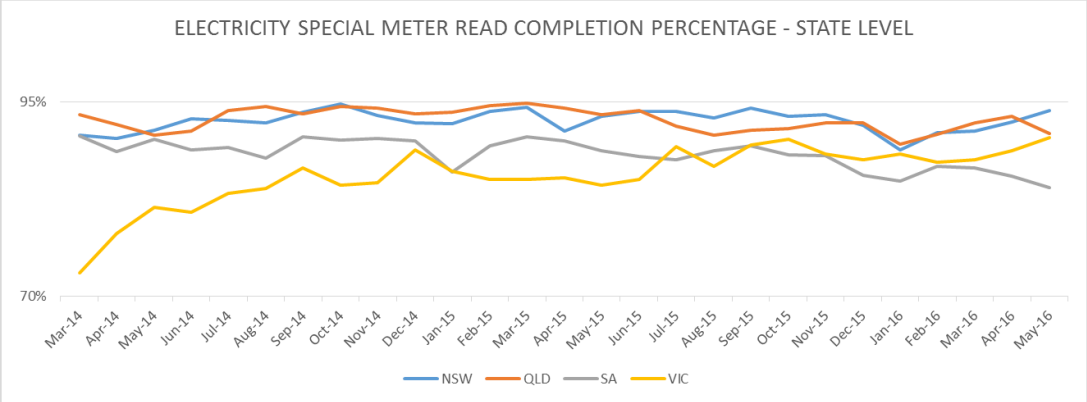
The key out-take is that market competition and innovation are providing positive incentives for retailers to improve the speed of transfers. The enhancements to competition in metering taking effect from December 2017 are expected to exponentially increase the penetration of digital meters with remote communication capability in other NEM jurisdictions. As such, AGL believes that the improvements in transfer speed and decline in complaints for transfer delays will be mirrored across the NEM.

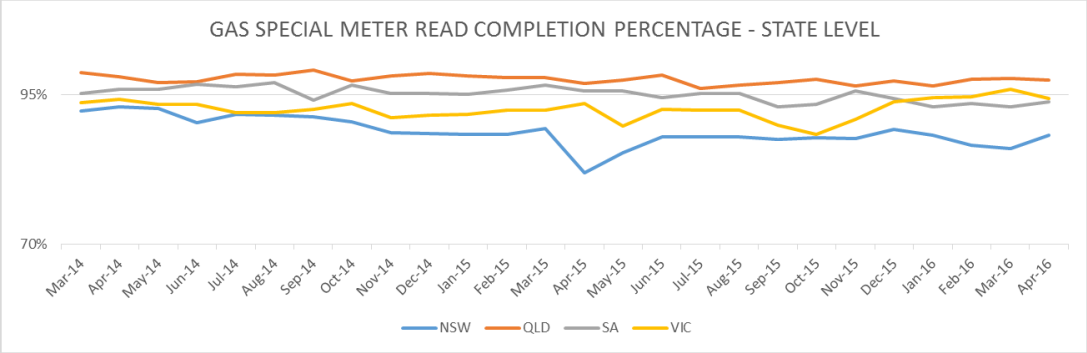
While market innovation is improving the speed of transfers for customers, AGL also contends that the transfer process can be further improved if regulated Meter Data Providers (MDPs) are held to account with respect to their meter read service levels agreed to with the AER in their price determinations.

In our submission to the AEMC Draft Determination - Meter Read and Billing Frequency (project number RRC0006), AGL outlined how MDPs are the root cause of many delayed bill outcomes through not issuing an actual read.

AGL has also observed that retailers' move to using Special Meter Read provisions to speed up the transfer process for a customer is being frustrated by regulated MDPs in non-completion of special meter read service requests.

For example, the diagrams below show the successful completion of AGL service requests for special meter reads over the last three years. By and large, networks operate at around 80 to 90 percent successful completion rate for electricity and in the low 90 percent for gas.





AGL would suggest that a completion rate of around 95 to 100 percent is a more appropriate standard in terms of networks fulfilling their special meter read obligations for which they receive a regulated revenue.

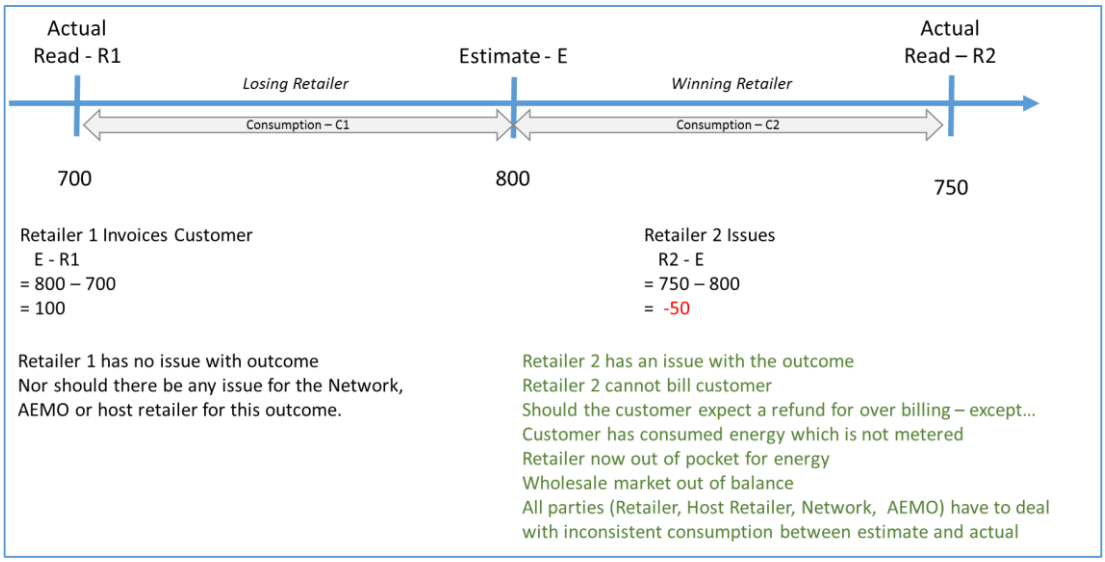
As such, AGL reiterates the proposals we put forward in the AEMC Draft Determination - Meter Read and Billing Frequency (project number RRC0006), which should provide better transparency and incentives for networks and therefore improve the speed of transfers, being:

1. The AER monitor, benchmark and publicly report on the performance of meter read service standards. As a starting point, the AER can report performance against network service providers' proposals (and other service standards) as per their submissions in support of Price Determination applications.

2. Currently under AEMO obligations network service providers have 90 'reason' options[1] when they are unable to provide an actual meter read. AGL recommends that the AEMO monitor and publicly report network service providers' performance on how often and the type of reason codes they use for not providing an actual read.

A general failure of special reads is often associated with customers who have an on-going access problem. AGL notes that in these circumstances, these customers are unlikely to meet the criteria for an actual meter read prior to the estimated transfer read being generated and so would not qualify for a transfer on estimate. Thus, while the overall number of customers who can access the estimated read transfer option would be diminished, they are the more highly selected customers for the installation of smart meters. Therefore, other innovations being pursed by the market – such as exploring the use of customer own reads and the installation of digital metering – will overcome this particular barrier to timely transfers. Therefore, AGL considers market based solutions should be favoured over the regulatory facilitation of transfers on estimates.

Another issue which arises from the proposed use of estimated consumption being used for transfers is the potential impact of the next actual read being lower than the estimated read used to transfer the customer. The diagram below outlines the scenario where R2 is lower than the estimate at the time of transfer. This scenario will cause participant systems (AEMO, Retailer and Distributor) to generate an exception. Generally these exceptions are managed by retailers through a manual process.



The AEMC is seeking feedback on whether it would be necessary to develop a methodology to calculate an estimated read to allow for in-situ transfers on estimated reads where the immediate previous read was an actual.

AGL contend that work will need to be undertaken to update and strengthen the estimation methodology to eliminate the scenario whereby the next actual read is lower than the estimated transfer read. Until the estimated methodology is known it is difficult to predict how often the scenario will occur and the associated costs with correcting the scenario.

However, in conducting an appropriate cost benefit analysis, AGL suggests that the cost of obtaining a special meter read, which is around $35 (in non-Victorian jurisdictions) should be higher than the manual exception industry costs associated with managing the scenario where the estimate is higher than the next actual read. Otherwise, it would be more cost effective for the industry to rely on special meter reads to speed up the transfer process for those customers that do not have a digital meter with remote communication capability.

In conclusion, AGL urges the AEMC to conduct a thorough cost benefit analysis of the proposed Rule to allow estimated reads for in-situ transfers were the immediate previous read was an actual. It is AGL's view that it is likely that on-going competition, innovation in new services, improvement in retailers' IT and metering capabilities and better reporting of regulated MDPs meter and special read performance is driving and can further

[1] Appendix E, AEMO Meter Data File and Format Specification NEM12 & NEM13.

drive significant improvements in the speed of transfers at lower cost than the proposed Rule change.

Inversely, if the AEMC proposed Rule is adopted, unnecessary costs may accrue on the industry to implement and offer estimated reads for in-situ transfers and apply to a diminishing customer category as digital meters with remote communication capability continue to penetrate the market. Further, the proposed Rule may inadvertently also delay the introduction of some of the market led reforms as retailers divert resources towards meeting the new Rule obligation.

Improving the accuracy of transfers

The AEMC proposes two Rules to improve the accuracy of transfers, being:

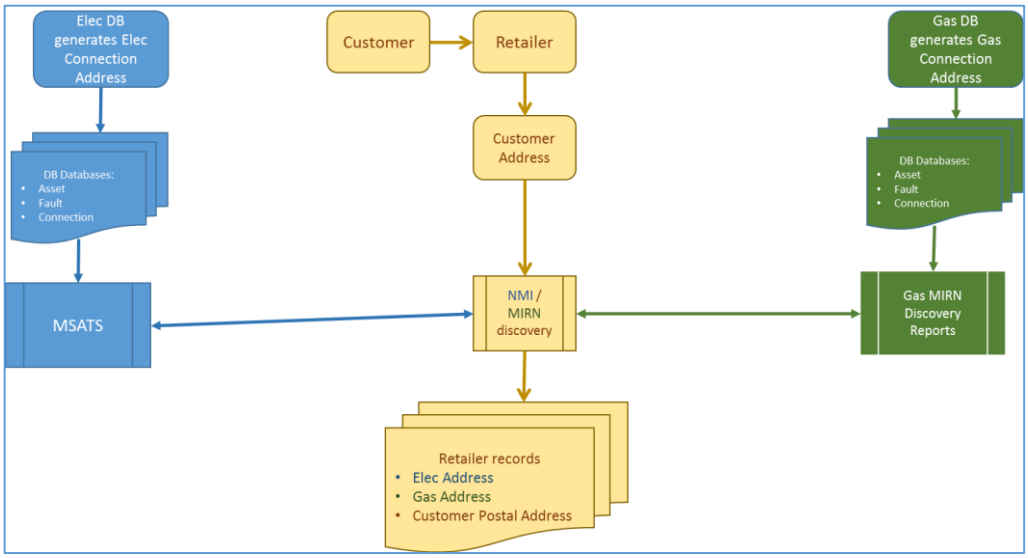
- The implementation of an address standard in order to reduce errors and delays in customer transfers; and
- Obligating retailers to promptly resolve erroneous customer transfers.

AGL supports the principle of both proposed Rule changes to improve the accuracy of the transfer process. However, AGL urges the AEMC to conduct a full benefit cost analysis of the proposed Rules and also carefully consider any likely unintended consequences.

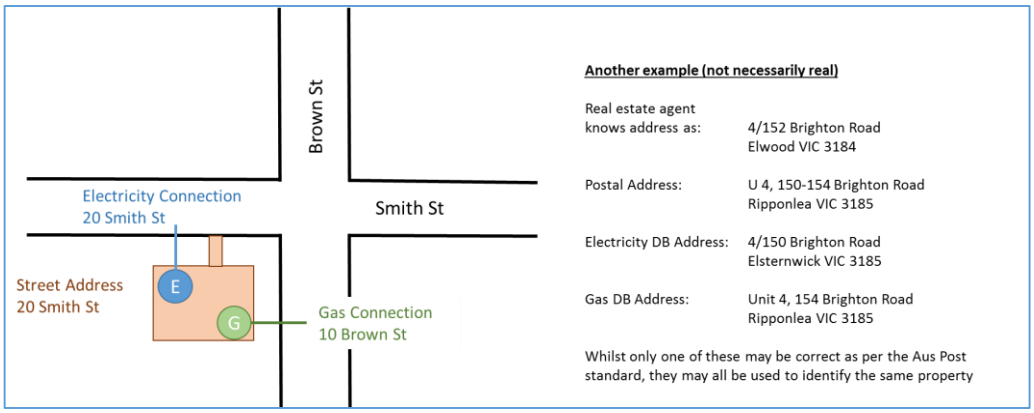
For example, in principle, address standards would appear to be a logical response to reduce address mismatch errors. However, as the Discussion Paper identified, this is not a simple implementation issue. The diagrams below illustrate:

- the various address types used by market participants to carry out their obligations in supplying and selling energy to consumers; and
- examples of how one site may result in multiple addresses.

Illustration of different addresses types collected by various market participants, electricity and gas



Examples of the complexity of identifying appropriate address standard



Therefore, the first step would be for the industry to agree on the most appropriate address standard. The AEMC Discussion Paper raises three possible address standards.

The Australian Post File (PAF) covers both site (geographic location) and mailing (non-geographic such as PO Box or RMB) addresses whereas the G-NAF (Geographic National Address File) only contains physical addresses. Therefore, retailers are likely to require two separate processes for validating site and mailing addresses if PAF was not the standard (for example, G-NAF for physical sites and PAF for non-geographic addresses).

A consideration with any chosen data source for validation purposes is the data 'lag' that can be experienced as new properties are built, lot numbers convert to street numbers and sub-divisions are created. Customers often chose a different retailer to the builder/electrician, which may make it difficult for a retailer to validate the address if a transfer request for a site is received when it is flagged as a greenfield site in MSATS and the PAF has yet to be updated.

The AEMC has sought feedback on whether the outgoing retailer's billing address for the customer should also be included in the address data collected process as a way of mitigating against address mismatch. A couple of issues with this concept that arise are:

- A billing address that is not the same as the supply address (see example in box above) will not assist with eliminating an address mismatch; and
- for a move in scenario, the billing address of the losing retailer will be for someone different to the winning retailer's customer, hence the losing retailer will need to ensure they do not breach any privacy provisions in providing the billing address as part of the transfer.

Erroneous Transfer Support

AGL supports the proposed Rule that requires the retailer the customer initially contacts about an erroneous transfer to resolve the complaint expeditiously and in accordance with their standard complaints and dispute resolution procedures and notify the customer when the transfer has been rectified.

In terms of rectifying erroneous transfers AGL believes there are two possible scenarios that may require different solutions. In the first scenario, Retailer A (the original retailer the customer has a contract with) may contact the customer post the cooling-off period but before the transfer occurs. In the second scenario, the customer may notify either Retailer A or B (retailer that erroneously transfers customer) about the erroneous transfer after they receive the Welcome Pack or first bill from Retailer B.

In the first scenario, Retailer A may contact the customer that has decided to cancel their market contract prior to the transfer and the customer may decide to enter into a new market contract with Retailer A prior to the transfer being completed.

Under the NERR, Retailer A remains the Financially Responsible entity for an electricity (FRMP) and gas (FRO) meter until a transfer of the customer to Retailer B is completed. Further, under r. 49(1)(d) of the NERR a market retail contract terminates when the provision of customer retail services to the premises commences under a different customer retail contract between the customer and the retailer or another retailer.

On this basis, it is AGL's view that the market retail contract between Retailer B and the customer terminates when the customer consents to a new market retail contract with Retailer A and informs Retailer B, and supply commences pursuant to the new contract.

If Retailer B proceeds with the transfer of the customer without obtaining renewed explicit informed consent, it is AGL's view that the market retail contract between Retailer B and the customer would be invalid. By proceeding with the transfer and representing to the customer that they are on a market contract with Retailer B, Retailer B risks misleading the customer as to the contractual relationship that governs their energy account prior to their transfer back to Retailer A.

In this scenario, AGL contends the error transfer can be easily rectified by Retailer B honouring customers' market contract cancellation requests prior to a transfer being completed as required under the NERR.

Scenario 2 deals with the customer identifying a transfer in error post the transfer date. In this scenario, and as identified in the AEMC Discussion Paper, each Retailer operates on the basis of Explicit Informed Consent (EIC) from the customer.

As such, there needs to be a clear industry process to ensure that the aggrieved customer is clearly identified as erroneously transferred and provides appropriate consent for the retailer to support their request.

If the AEMC intends to proceed with some variations of these proposed Rule changes, then AGL suggests that prior to the final determination that the AEMC work with industry to clearly identify the triggers and processes in procedures which would be necessary to support these proposed rule changes. To this end, AGL reiterates comments made in our submission to the AEMC Review of Electricity Customer Switching Options Paper, mainly, where a retailer agrees with a customer that they have erroneously won a site, the site cannot be returned to Retailer A unless Retailer A raises a transaction in MSATS to win the site back and obtains the customer's EIC for the transfer back. For example, the Guidelines should set out the expectations of Retailer A and Retailer B as the FRMP / FRO. For example, the guidelines should set out a timeline in which Retailer A must obtain EIC and raise a transfer in MSATS and what happens if this does not occur. The guidelines should also outline what is an acceptable reason for Retailer A to object to winning back a site.

Further, the Guidelines should outline that until Retailer A wins the customer back, will the customer be treated by Retailer B as a deemed customer on a deemed arrangement until the error is rectified.

The Guidelines should also outline a timeline for Retailer B to contact Retailer A regarding an erroneous transfer. If Retailer B does not meet this timeline, AGL would support creating an incentive by introducing a financial penalty that Retailer B must pay Retailer A to meet the timeline. AGL recommends the value of the financial penalty should be based on a daily value that Retailer B is benefiting from the erroneous transfer post the deadline for notifying Retailer A of the error.

Defining Erroneous transfers

The AEMC is seeking views on how "erroneous transfer" should be defined so as to clearly and accurately capture the types of "errors" described in the rule change request.

AGL would support a broader definition of "erroneous transfer" whereby incorrect EIC is considered. AGL believes from a customer perspective it does not matter whether the error has occurred due to incorrect information entered into the system by the retailer, the customer providing incorrect information or a retailer not appropriately capturing EIC.

If you have any questions in relation to this submission, please contact Con Hristodoulidis, Manager Regulatory Strategy on (03) 8633 6646 or christodoulidis@agl.com.au.

Yours sincerely,

Beth Griggs
Head of Regulatory Strategy