Ausgrid

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Office of the Chief
Executive Officer

Level 22, 570 George Street
Sydney NSW 2000
All mail to GPO Box 4009
Sydney NSW 2001
T +61 2 9269 2115
www.ausgrid.com.au

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Mr ~~Pierce~~ John,

RE: AEMC Consultation Paper – National Energy Retail Rule Amendment (Meter Read and Billing Frequency) Rule 2016 (Reference: RRC0006)

Ausgrid is pleased to provide comments in response to the AEMC's Consultation Paper on the National Energy Retail Rules (NERR) Amendment proposed by Ergon Energy Queensland (EEQ).

It is our understanding that this Rule change request is aimed at resolving a compliance issue that arises as a result of the Australian Energy Regulator's (AER) strict interpretation of billing frequency timeframes under Rule 24 of the NERR. EEQ has requested that the NERR be amended to address this issue given the potential for it to result in adverse impacts to retailers and customers. Whilst this Rule change request primarily relates to retailers, we note the potential for changes to meter data providers (MDPs) obligations should the AEMC form the view that increasing the frequency of meter data reads is an appropriate solution to the issue that EEQ has raised.

Ausgrid does not support the alternative solution considered by the AEMC to recommend that the Australian Energy Market Operator (AEMO) amend its Service Level Procedure: Metering Data Provider Services (Service Level Procedure) to address the issue raised by this Rule change request. Ausgrid does not consider this to be a proportionate response to the problem as it would result in cost increases that would need to be borne by *all* customers in order to improve the billing experience of a relative few. We note that a similar conclusion was also reached by EEQ in deciding to discount this option as a possible solution in its Rule change request.

Our submission has not sought to provide feedback on the specific questions outlined in the AEMC's Consultation Paper. Rather, our attached submission is focussed on providing analysis on:

- the issue that is seeking to be addressed by this Rule change request;
- the proposed solutions canvassed in the Consultation Paper; and
- outlining alternative solutions, which may provide a more proportionate and targeted response to the issue, which better contribute to the achievement of the National Electricity Objective (NEO) than the solutions outlined in the Consultation Paper.

If you have any queries or wish to discuss this matter in further detail please contact Murray Chandler on (02) 9269 7210 or via email murray.chandler@ausgrid.com.au.

Yours sincerely

TREVOR ARMSTRONG
Acting Chief Executive Officer

ATTACHMENT 1 – Ausgrid's detailed response

1. Analysis of the problem

It is our understanding that the compliance issue EEQ is seeking to address by its Rule change request, arises as a result of the AER's strict interpretation of the timeframe under Rule 24 as amounting to 92 days. We note that Rule 24 is a civil penalty provision and non-compliance of which would result in a penalty to EEQ.

EEQ's Rule change request seeks to address the issue of a retailer not being able to meet its obligation under Rule 20(1)(a)(i) of the NERR to issue customer bills based on actual metering data due to the need to meet the strict compliance obligations imposed by Rule 24. EEQ notes the potential for misalignment between meter data providers (MDPs) scheduled meter reads and the retailer's billing schedule to occur, which can cause a delay in the retailer receiving metering data – therefore affecting the retailer's ability to issue a customer's bill on actual meter read data within the required 92 day timeframe under Rule 24.

Whilst retailers have an obligation under the NERR to use their best endeavours to ensure that they receive meter reads as frequently as required to prepare bills[1], a retailer may experience a delay in receiving metering data due to:

- customer access issues - which may prevent the MDP from carrying out the scheduled meter read and having to reschedule;
- the Australian Energy Market Operator's (AEMO's) Service Level Procedure: Metering Data Provider Services (Service Level Procedure) - which provides that MDPs are to use reasonable endeavours to ensure that metering data is collected within two business days either side of the scheduled meter read date;[2]
- AEMO's B2B Procedure: Meter Data Processes (B2B Procedure) - which provides that for type 5 and 6 meters a participant may not issue a request for metering data relating to a scheduled read date until the sixth day following the published scheduled read date;[3] and
- MDP not providing metering data in accordance with its obligations under AEMO's Service Level Procedure.[4]

The NERR seeks to address the issue of metering data not being received in time for the retailer to prepare its bills through the inclusion of Rule 21. This provision allows a retailer to base a customer's bill on an estimate of the customer's energy consumption rather than actual meter data. However, a retailer's ability to utilise this provision is limited to: [5]

- the customer consenting to the use of estimation by the retailer;
- the retailer not being reasonably or reliably able to base the customer's bill on an actual meter read; or
- where metering data is not provided to the retailer by the responsible person.

Whilst EEQ acknowledges that Rule 21 broadly provides a process for a retailer to meet its billing frequency obligations, it notes that there is potential for conflict between the two provisions where the retailer expects to receive metering data close to, or closely after 91 days. It further notes that relying on estimates to base customers' bills rather than having flexibility to delay issuing bills to enable them

[1] National Energy Retail Rules (NERR), rule 20(2).
[2] AEMO, Service Level Procedures: Metering Data Provider Services, cl 6.4.1(e).
[3] AEMO, B2B Procedures: Meter Data Process, cl 3.2.3(2).
[4] AEMO, Service Level Procedures: Metering Data Provider Services, cl 6.4.1(c).
[5] See Rule 21 of the NERR.

to be based on actual meter reads, gives rise to suboptimal outcomes for both retailers and customers.

The following section of our submission discusses these concerns in more detail and also explores the significance of this issue is in light of amendments under the expanding competition in metering and related services (competition in metering) Rule change.

1.1 Potential conflict between NERR provisions

In its Rule change request EEQ notes that generally a retailer needs to receive metering data by day 91 in order to comply with the 92 day timeframe imposed by Rule 24. Therefore, when meter read data is not received by day 91, a retailer would need to issue a customer bill based on an estimate of the customer's energy consumption to comply with its billing frequency obligations under the NERR.

EEQ's Rule change request notes that there is ambiguity in the NERR as to whether a retailer is able to issue a customer's bill on an estimate where it reasonably expects to receive metering data on day 92 day or closely there after given that:

- Rule 20(1)(a)(i) places an obligations on retailers to base a customer's bill on actual metering data; and
- Rule 21(1) limits the circumstances which retailers can issue customer bills based on estimates, specifically Rule 21(1)(b) provides that a retailer may issue a customer bill on an estimate where the retailer is not able to reasonably or reliably base the bill on an actual meter read.

EEQ argues that it is questionable whether a retailer would be permitted to issue a customer bill on an estimate under these circumstances, given that it is not unreasonable for the retailer to be able to base the customer's bill on an actual meter read. However, if a retailer delays issuing a customer's bill so that the bill can be based on an actual read, the retailer will be in breach of Rule 24 and subject to civil penalties.

EEQ's Rule change request therefore highlights the potential for conflict to arise between the Rule 21(b) and Rule 24, resulting in perverse outcomes for customers and retailers. If it is not permissible for a retailer to issue a bill based on estimate in circumstances where the retailer expects to receive metering data on day 92 or shortly thereafter, the retailer will be in breach of Rule 24. Conversely, if the retailer issues a bill based on an estimate purely to meet its compliance obligations under Rule 24 results in sub-optimal outcomes for customers, often resulting in an increase in customer complaints and subsequent requests for billing adjustments based on actual meter data.[6]

1.2 Billing based on estimates to comply with Rule 24 can give rise to sub-optimal outcomes

EEQ notes that even if retailers are permitted to issue bills based on estimates under Rule 21, (in the aforementioned circumstances) the strict interpretation of the timeframe applied by the AER can result in suboptimal outcomes for both retailers and consumers. This is particularly the case for EEQ, whose analysis of the number of days between bills issued showed that approximately 95 per cent of its bills were issued on day 95 or before, with 98.8 per cent being issued by day 100 and 99.92 per cent issued by day 120.[7]

EEQ contends that issuing a significant number of retailer-generated estimated bills has the potential to expose a retailer to increased cash flow and volume risks because of differences between the consumption volumes billed to customers which may vary to that settled through the National

[6] Ergon Energy Queensland Rule change request, 15 September 2015, p 7.
[7] Ibid, p 8.

Electricity Market (NEM).[8] This is particularly the case where there are a significant volume of customers for whom the meter reading period is greater than 92 days. EEQ argues that short delay to allow for receipt of an actual read would allow retailers to better manage cash flow and ensure accurate settlement of energy consumption in the NEM.[9]

Similarly EEQ notes from its own experience, issuing customer bills based on estimates generally does not result in optimal outcomes for customers. It notes that where it has had to do so in order to meet the strict 92 day timeframe under Rule 24 (whereas previously under jurisdictional requirements under the Electricity Industry Code it was able to delay issuing a customer's bill until a meter read was available) it has experienced an increase in customer complaints and requests for subsequent billing adjustments. It further notes, that issuing bills based on estimates can cause negative customer billing experiences and confusion where issuing a large number of bills based on estimates results in customer 'bill shock' or the need to make subsequent adjustments to the customer's next bill to account for differences between the estimate and actual meter read data for the previous bill.[10]

1.3 Significance of the issues raised by EEQ's Rule change request

It is important when having regard to the issues identified by EEQ that consideration is given to how significant and/or prevalent the issue is, as well as whether other mechanisms or market developments are likely to address the issue. This analysis is necessary in order to determine whether the solutions canvassed in the AEMC's Consultation Paper represent a proportionate and well targeted response to the issue.

Ausgrid notes that the issue identified by EEQ only arises in the context of customers who are on standard retail contracts, as the strict timeframes imposed under Rule 24 do not apply to market retail contracts.[11] Further we note that Table 2.1 of the AEMC's Consultation Paper (which has been replicated below) shows the differing proportions of customers by jurisdiction on a market retail contract.[12] It is evident from the below table that for most jurisdictions the issues raised by EEQ's Rule change request affects a relative small proportion of customers. However, in Tasmania and the Australian Capital Territory (ACT), which have larger proportions of customers on standard retail contracts, the issues raised by this Rule change request may be more prevalent, and hence require further consideration on how they could be best addressed.

Table 2.1- Proportion of small customers on a market retail contract.

Jurisdiction	Electricity	Gas
New South Wales	67 per cent	75 per cent
Victoria	89 per cent	87 per cent
South East Queensland	70 per cent	75 per cent
South Australia	84 per cent	82 per cent
Tasmania	12 per cent	-
Australian Capital Territory	22 per cent	21 per cent

[8] Ibid, p 15.
[9] Ibid.
[10] Ibid.
[11] Rule 24(4) of the NERR.
[12] AEMC 2015, Meter Read and Billing Frequency, Consultation Paper, 17 December 2015, Sydney, p 4.

Whilst the issues identified by EEQ might currently be an issue, Ausgrid notes that the commencement of the competition in metering Rule change may largely resolve retailer issues with meeting their obligations under Rule 24, as they would have the ability to obtain metering data via remote meter reads. However, we acknowledge that this solution is less likely to apply to retailers who have customers located in rural areas, as is the case with EEQ. [13] Therefore, changes to the NERR may still be required to improve billing outcomes for customers who do not have meters capable of remote meter reads. Although we note that this is likely to only affect a small proportion of customers.

2. Assessment of proposed solutions

The AEMC's Consultation Paper considers three possible solutions for addressing the problem identified by EEQ's. These include:

1. allow retailers to delay issuing a bill to a small customer until a meter read has been provided by a Metering Data Provider, subject to a maximum time limit (EEQ's proposed solution);
2. recommend to AEMO that it amend its Service Level Procedure to require Metering Data Providers to read meters more frequently, so that bills are more likely to be issued on the basis of actual consumption at least once every three months; or
3. maintain the current arrangements in which some small customers may receive estimated bills.[14]

We discuss each of these solutions in further detail below.

2.1 Ergon's proposed solution

EEQ Rule change request seeks to amend the NERR to enable retailers to delay issuing a bill to a small customer until it receives meter data from the MDP, and seeks to align the drafting of Rule 24 to reflect the obligations of the MDP under AEMO's Service Level Procedures. Specifically, EEQ proposes that the drafting of Rule 24 be amended to reflect the following:

> *"a retailer must use its best endeavours to issue bills to a small customer at least once every three months using metering data for the relevant meter class at the customer's premises provided by the responsible person and determined in accordance with the National Metrology Procedures and rule 21."*[15]

Whilst Ausgrid is sympathetic to the issues identified with the operation of Rule 24, and broadly supports the intent of this Rule change request, we do not support the amendments proposed by EEQ as they undermine the strong consumer protections in the NERR regarding billing frequency.

Changing the language of the drafting from a 'a retailer must' to 'a retailer must use its best endeavours' fundamentally changes the nature of the obligation imposed under Rule 24, and reduces the level of certainty afforded to customers surrounding the frequency of their bills.

While we note that EEQ has sought to address customer protection concerns by suggesting that a maximum timeframe could be imposed, its suggested maximum timeframe of 120 days (or four months) is inappropriate. Ausgrid considers that introducing a maximum timeframe of 120 days in the NERR for issuing customer bills exposes customers to an increased risk of bill shock,[16] and is also inconsistent with the policy intent of Rule 24 for customers to receive bills on a three monthly basis.

[13] Ibid, p 7. Where there is no existing telecommunications network available, the Metering Coordinator may be exempted by AEMO from installing a meter that meets the remote reading requirements of the minimum services specification.
[14] AEMC 2015, Meter Read and Billing Frequency, Consultation Paper, 17 December 2015, Sydney, p 17.
[15] Ergon Energy Queensland Rule change request, 15 September 2015, p 8.
[16] Ausgrid considers that customers would face an increased risk of bill shock due to the potential for longer periods to occur between bills.

2.2 AEMC's proposed solution

The AEMC notes in its Consultation Paper that an alternative solution to the issue raised by EEQ's request is for it to recommend that AEMO amend its Service Level Procedure to shorten the meter read cycle.[17]

The AEMC notes that requiring a MDP to provide a retailer with a meter read in time for the retailer to meet its billing obligations under the NERR could significantly reduce the issue identified by EEQ's Rule change request. The AEMC considers that this would enable retailers to receive a meter read in time to issue a bill to a small customer based on actual consumption in most instances, therefore limiting the circumstances in which the retailer would need to generate an estimate.

Ausgrid does not support this solution and considers it is inappropriate for the following reasons:

- **This solution is not practical from an operational perspective**- Ausgrid notes that with regards to type 5-6 meters an MDP would be unable to achieve this requirement without having to increase the frequency in which meters are read. As noted by EEQ in its Rule change request, MDPs do not generally have visibility of retailer's billing schedule. Further, it would be impractical and inefficient for an MDP to try and schedule meter reads around a retailer's billing schedule, given the potential for upwards of 20 different retailer schedules that would need to be accommodated. The current practise is for retailers to base their billing schedule around the next schedule read date that is maintained and published by the MDA. The meter read schedule is assembled in such a way to meet the prescribed read frequency, either quarterly or monthly, while minimising the cost of reading by the creation of the most efficient read routes. Whilst we note that retailers in general would tend to have a preference to have meter reads occur on the last day of the month to allow them to bill neat quarterly or monthly bills. However, for a network such as Ausgrid's with approximately 1.65 million manually read sites this is not feasible.

- **Increasing the frequency of meter data reads is a disproportionate response -** Ausgrid considers that increasing the frequency of meter data reads is disproportionate to the issue that this Rule change is seeking to address, as the costs associated with this would need to be borne by *all* customers, to benefit a relative few. A high level calculation indicates that the costs to Ausgrid of changing the reading frequency of all meters currently on quarterly reads to monthly reads is approximately $20 million per annum, tripling the costs of meter reading and processing. This estimate of increased costs is yet to include other related costs of increasing the reading frequency such as costs relating to system capacity increases to accommodate the increase in data resulting from monthly reads of meters. The significant increase in costs resulting from increasing the frequency of meter reads illustrates the disproportionate nature of the AEMC's proposed solution – one that would be contrary to achieving the NEO.

- **It does not accommodate the potential for customer access issues** – a key reasons why meter data is sometimes not provided to the retailer in time to meet its billing schedule is due to customer access issues.

- **It is not appropriately targeted at addressing the underlying cause for the problem –** Ausgrid considers that the underlying problem that this Rule change is seeking to address is the lack of flexibility under Rule 24, which is caused by the AER's strict interpretation of the timeframes required by this provision.

This solution should not be adopted for the reasons noted above, as it is likely to give rise to outcomes contrary to the NEO.

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[17] AEMC 2015, Meter Read and Billing Frequency, Consultation Paper, 17 December 2015, Sydney, p 19.

2.3 *Maintain current arrangements*

Ausgrid notes that a third solution considered in the AEMC's Consultation Paper, is to maintain current arrangements, or adopt a "do nothing" approach. Whilst we note that the issue raised by EEQ is relatively small, affecting approximately 15 per cent of customers on standard retail contracts, we consider that there is merit in addressing this issue through a minor amendment to the NERR.

In the section below we have proposed an alternative solution for addressing the issues raised by EEQ's Rule change request. We consider that adopting this alternative solution is more preferable than a "do nothing" approach as it is likely to improve customer billing outcomes for rural customers on standard retail contracts and also on standard retail contracts in jurisdictions that experience a slow roll out of advanced meters.

3. Alternative solution

Ausgrid considers that perhaps a better solution to the issue raised by this Rule change request would be to include a definition of the term 'three months' in the Part 1, Division 1, Rule 3 of the NERR. In our view the underlying cause for the problem identified by EEQ, is the lack of flexibility under Rule 24 arising from the AER's interpretation of this requirement as requiring retailers to issue customer bills at least every 92 days.

Defining the term 'three months' in the NERR, as a period not exceeding a maximum of 100 days would provide retailers with additional flexibility to meet their obligations under Rule 24 without eroding the strong protections that this provision is intended to provide customers. We note that imposing a maximum timeframe of 100 days may expose customers to a maximum delay of 8 days from the AER's current interpretation of this requirement. However, we consider that this slight delay represents a relatively minor change to current arrangements, which would be offset by the benefits to customers and retailers from having this additional flexibility under Rule 24.

Specifically, we note the following benefits that may accrue from this proposed solution include:

- **Improved customer billing experiences** – Ausgrid notes that introducing a maximum timeframe of 100 days to issue customer bills would allow for a greater portion of customers' bills to be based on actual meter reads than estimates. In EEQ's case this change would enable it to issue 98.8 per cent of its customer's bills based on actual metering data, subsequently reducing the number of customer bills based on estimates to 1.2 per cent.[18] The reduction in customer bills based on estimates is likely to improve customer's billing experience and reduce the number of customer complaints and requests for billing adjustments.
- **Mitigates the retailer's exposure to cash flow and volume risks** - Ausgrid notes that this solution addresses EEQ's concerns that issuing a large volume of customer bills based on estimates to meet strict compliance with billing frequency obligations exposes retailers to cash flow and volume risks. As noted above, our proposed solution significantly reduces the number of bills that would need to be issued based on estimates. In EEQ's case this would only be 1.2 per cent of its residential customers on standard retail contracts.

Ausgrid considers that only minor changes to the drafting in the NERR would be required to give effect to our alternative solution. Specifically, we propose that the drafting of Rule 24(1) be amended to reflect the following:

> "A retailer must issue bills to a small customer at least once every *3 months*"

[18] Ergon Energy Queensland Rule change request, 15 September 2015, p 8.

This largely leaves the current drafting unchanged, aside from italicising "*3 months*" to indicate that this period is now defined under the NERR. We suggest that the following definition of the three months could be added to the definitions in the NERR:

> "***3 months*** means a maximum period not exceeding 100 days."

Ausgrid does not anticipate that there will be any significant cost impacts in implementing this solution, as it is a relatively minor change to current arrangements. We consider that this is a more proportionate response to the issue identified by EEQ as it maintains consumer protections, does not impose any significant costs to participants or customers, and is likely to lead to improved billing outcomes customers - particularly rural customers who are unlikely to have the benefit of meters capable of being remotely read.

Consequently, Ausgrid considers that this alternative solution is likely to be better contribute to the achievement of the NEO than the options canvassed in the AEMC's Consultation Paper, discussed in section 2 of our submission.