Australian Energy Market Commission

RULE CHANGE

CONSULTATION PAPER

National Energy Retail Amendment (Meter Read and Billing Frequency) Rule 2016

Rule Proponent
Ergon Energy Queensland

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About the AEMC

The AEMC reports to the Council of Australian Governments (COAG) through the COAG Energy Council. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the COAG Energy Council.

Contents

1 Introduction

On 15 September 2015, Ergon Energy Queensland (Ergon) submitted a rule change request to the Australian Energy Market Commission (AEMC or Commission).[1] The rule change request seeks to amend the National Energy Retail Rules (NERR) to enable retailers to delay issuing a bill to a small customer until a meter read is provided by the Metering Data Provider.

This consultation paper has been prepared to facilitate public consultation on the rule change proposal, and to seek stakeholder submissions on the rule change request.

This remainder of this consultation paper:

- sets out the background to, and summary of, the rule change request;
- sets out the proposed assessment framework to be used by the AEMC in assessing the rule change request;
- identifies a number of questions and issues to facilitate the consultation on this rule change request; and
- outlines the process for making submissions.

The indicative timeframe for the remainder of this rule change process is set out below in Table 1.1.

Table 1.1 Indicative rule change request timeframe

Milestone	Date
Submissions to the consultation paper due	28 January 2016
Publication of the draft rule determination	7 April 2016
Submissions to the draft rule determination due	19 May 2016
Publication of the final rule determination	30 June 2016

1 Ergon Energy Queensland, *Aligning the retailer requirement to issue a bill to a small customer every three months with National Metrology Procedures*, Rule Change Request proposed by Ergon Energy Queensland, 15 September 2015. The rule change request is available on the AEMC's web site: http://www.aemc.gov.au

2 Background

Ergon's rule change request touches on a number of different requirements on retailers and Metering Data Providers under the NERR, National Electricity Rules (NER), and a number of the Australian Energy Market Operator's (AEMO) procedures. This chapter outlines the context for the rule change request, including:

- obligations on retailers in relation to retail energy contracts in general and, specifically small customers supplied under a standing offer;
- the roles and responsibilities of a Metering Data Provider; and
- the Expanding Competition in Metering and Related Services rule change.

2.1 Retail energy contracts

Under the National Energy Retail Law (NERL) and the NERR,[2] retailers can supply gas and electricity to small customers under either a standing offer or a market offer.[3]

A standing offer acts as a default offer in situations where a consumer has never accepted a market offer, or switched retailer, or where a consumer has moved into a new premises without accepting a retail offer. A consumer can also choose to be supplied by a retailer under a standing offer. Where a small customer is supplied under a retailer's standing offer, that retailer's standing retail contract takes effect as a contract between the small customer and the retailer.

The terms and conditions of a standard retail contract are prescribed under the NERL and the NERR. Of particular relevance to this rule change request are obligations the NERR places on retailers with respect to issuing a bill to a small customer. These obligations are described in more detail in section 2.1.1.

A market offer may be offered by any retailer to any small customer. Where a small customer accepts a retailer's market offer, they enter into a market retail contract with the retailer. The minimum terms and conditions of a market retail contract are prescribed by the NERL and NERR. These include some obligations on retailers with respect to the basis and contents of bills for small customers supplied under a market retail contract.[4] However, there are no obligations on retailers with respect to the frequency with which they issue a bill to a small customer supplied under a market

2 The NERL and the NERR have been applied in all jurisdictions in the NEM except in Victoria. In Victoria jurisdictional requirements regulate the arrangements for retail contracts.

3 Under NERL sections 5 and 6; and NERR clause 7, small customers are typically defined as any residential customer or any business customer consuming less than 100 megawatt hour (MWh) a year. In some jurisdictions, the upper consumption threshold for small business customers has been varied. In South Australia, the upper consumption threshold is 160 MWh (SA NERL regulations clause 5); while in Tasmania, it is 150 MWh (Tas NERL regulations clause 7).

4 Rule 20, 21, 22 and 25 and of the NERR.

retail contract. Retailers provide this information to small customers in the terms and conditions attached to their market offers.

2.1.1 Billing obligations for standard retail contracts

The NERR sets out a number of obligations on retailers with respect to issuing bills to small customers on a standard retail contract. The relevant rules for this rule change request relate to the frequency of bills, the basis for bills and estimation as basis for bills.[5]

Under Rule 24(1) of the NERR, a retailer must issue a bill to a small customer at least once every three months. This timeframe can be amended by agreement between a retailer and a small customer, where the small customer gives explicit informed consent to an alternative regular recurrent period.[6]

Rule 20 of the NERR requires a retailer to base a small customer's bill for the consumption of electricity on the metering data for that customer's premises provided by the Responsible Person[7] and determined in accordance with the metering rules and rule 21 of the NERR.[8] A retailer can also base a small customer's bill on any other method agreed by the retailer and the small customer.[9]

For gas, in addition to the above, a retailer can also base a small customer's bill on the actual reading of the meter at the customer's premises.[10]

In either case, the retailer is required to "use its best endeavours to ensure that actual readings of the meter are carried out as frequently as is required to prepare its bills consistently with the metering rules and in any event at least once every 12 months."[11]

The NERR also sets out obligations on retailers with respect to the use of estimation as the basis for small customer bills. Under rule 21, a retailer may base a small customer's bill on an estimation of the customer's consumption of energy where:[12]

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5 Rule 24, Rule 20 and Rule 21 of the NERR.

6 Rule 24(2) of the NERR.

7 Under clause 7.1.2 of the National Electricity Rules, there must be a Responsible Person for each connection point who is responsible for arranging the installation, provision and maintenance of the metering installation, and the collection, processing and delivery of metering data. For Type 5 and 6 metering installations, the role of the Responsible Person is exclusively performed by the Local Network Service Provider. Under changes made to the NER and the NERR as a result of the Expanding Competition in Metering and Related Services rule change, the roles and responsibilities of the Responsible Person will be performed by the Metering Coordinator, from 1 December 2017. See section 2.3 for further explanation of the Expanding Competition in Metering and Related Services rule change.

8 Rule 21 of the NERR relates to the use of estimation as basis for bills.

9 Rule 21(1)(a)(ii) of the NERR.

10 Rule 20(1)(b)(i) of the NERR.

11 Rule 20(2) of the NERR.

12 Rule 21 of the NERR.

- the customer consents to the use of estimation by the retailer;
- the retailer is not able to reasonably or reliably base the bill on a meter reading; or
- metering data is not provided to the retailer by the Responsible Person.

In these instances, the NERR allows for the estimation to be based on:

- the customer's reading of the meter;
- historical metering data for the customer reasonably available to the retailer; or
- the average usage of energy by a comparable customer over the corresponding period, if there is no historical metering data for that customer.

2.1.2 Proportion of small customers on market and standard retail contracts

The proportion of small customers supplied under a standard retail contract varies between the different jurisdictions. In jurisdictions where retail market competition has been slower to develop, a larger proportion of customers are supplied under standard retail contracts. In contrast, in jurisdictions where competition in the retail market is stronger, more small customers are supplied under a market retail contract than under a standard retail contract. This is illustrated in Table 2.1.

Table 2.1 Proportion of small customers on a market retail contract[13]

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

Table 2.1 does not include information in relation to the proportion of small customers in regional Queensland supplied on a market retail contract. Ergon Energy Retail is the only retailer that operates in regional Queensland, supplying most small customers.[14] Under the National Energy Retail Law (Queensland) Act 2014, Ergon Energy Retail is

13 AEMC, *2015 Retail Competition Review, Final Report*, 30 June 2015, pp.242-258.

14 According to the Queensland Competition Authority, less than one per cent of small customers in regional Queensland are supplied by a retailer other than Ergon. See Queensland Competition Authority, *Uniform Tariff Policy & Regional Retail Electricity Price Regulation*, April 2014, p.10.

prevented from offering market retail contracts to small customers.[15] This means that most small customers in regional Queensland are supplied under a standard retail contract.

2.2 Roles and responsibilities of a Metering Data Provider

Under the NER, Metering Data Providers have responsibilities to collect, process, store and deliver metering data.[16] Metering Data Providers must also provide and maintain the security controls associated with metering data services in accordance with the NER.[17]

Under the NER, Metering Data Providers are appointed by the Responsible Person[18] for each connection point. For type 5 and 6 meters,[19] the Responsible Person is the Local Network Service Provider (LNSP).[20]

Once the Expanding Competition in Metering and Related Services rule[21] is fully implemented, by 1 December 2017, the roles and responsibilities of the Responsible Person will be performed by a Metering Coordinator. Under transitional arrangements, the LNSP acting as the Responsible Person before the commencement of the rule will become the Metering Coordinator at that connection point. It will continue in this role until there is an appointment of a new Metering Coordinator at that connection point, or the services cease to be classified by the Australian Energy Regulator (AER) as direct control services.[22]

15 Clause 19C(4)(a) of the National Energy Retail Law (Queensland) Act 2014.

16 Clause 7.4.1A(a) of the existing NER.

17 Clause 7.4.1A(b) of the existing NER.

18 Under clause 7.1.2 of the existing NER, there must be a Responsible Person for each such connection point who is responsible for arranging the installation, provision and maintenance of the metering installation, and the collection, processing and delivery of metering data.

19 Type 5 metering installations are generally manually read interval metering installations that are used at connection points with loads up to 160 MWh (eg residential and small businesses). This load size threshold can be amended by individual jurisdictions. The advanced meters deployed by DNSPs in Victoria are also deemed to be type 5 metering installations. Type 6 metering installations are accumulation metering installations that are used at connection points with loads up to 160 MWh (eg residential and small businesses). This load size threshold can also be amended by individual jurisdictions.

20 A LNSP is a network service provider within a local area, that has been allocated responsibility for delivering network services in that area by the authority responsible for administering the jurisdictional electricity legislation. Typically this role is performed by a DNSP.

21 National Electricity Amendment (Expanding competition in metering and related services) Rule 2015 No.12; and National Energy Retail Amendment (Expanding competition in metering and related services) Rule 2015 No.1.

22 For more information, see: AEMC, *Expanding Competition in Metering and Related Services*, Final Determination, 26 November 2015, p.129-132.

2.2.1 AEMO Procedures for the provision of metering data

Chapter 7 of the NER contains clauses relating to, among other things, the collection and provision of metering data and the provision of metering data services.[23] These clauses are supported by AEMO's *Service Level Procedure: Metering Data Provider Services* (Service Level Procedure), which details the obligations, technical requirements and performance levels that are to be performed, administered and maintained by the Metering Data Provider. AEMO's most recent Service Level Procedure came into effect on 1 September 2015.

Under AEMO's Service Level Procedure, Metering Data Providers must use reasonable endeavours to ensure that metering data is collected at least once every three months.[24] Metering Data Providers also have a reasonable endeavours obligation to ensure that metering data is collected with two business days either side of the scheduled reading date.[25]

The *B2B Procedure: Meter Data Process* (B2B Procedure) sets out the requirements in relation to standard meter data process and transaction data with which parties - including Metering Data Providers, retailers and Distribution Network Service Providers (DNSP) - must comply.[26] Under this B2B procedure, 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.[27]

2.2.2 Cost of Metering Data Provider services

Under Chapter 6 of the NER, the AER sets a revenue allowance for each DNSP based on the expected total efficient costs of operating and maintaining the network. As part of this process, the AER classifies the distribution services provided by a DNSP, including metering services, as either a direct control service or a negotiated distribution service. Prices for direct control services are determined by the AER and divided into two subclasses: standard control services, which are paid for by all users of the network; and alternative control services, which are generally only paid for by the users of that service.

Until recently, services provided in respect of types 5 and 6 meters had been classified by the AER as a standard control service. This means that DNSPs' charges for these metering services form part of distribution use of system charges that all users of the network pay, regardless of whether the consumer uses the service.

However, in its most recent distribution regulatory determinations the AER has classified services provided in respect of type 5 and 6 meters as alternative control

23 See clause 7.1.1(a) of the existing NER for a complete list of provisions that Chapter 7 covers.

24 6.4.1(c) of the *Service Level Procedure: Metering Data Provider Services.*

25 6.4.1(e) of the *Service Level Procedure: Metering Data Provider Services.*

26 AEMO, B2B Procedure: Meter Data Process, 13 May 2015, p.5.

27 3.2.3(2) of the B2B Procedure.

services, with a cap on the prices of individual services. In its determinations, the AER has approved two types of metering service charges:

- an upfront capital charge (for all new and upgraded meters installed from 1 July 2015); and
- an annual charge comprising of a capital component and a non-capital component.[28]

The efficient costs associated with the maintenance, reading and data services of type 5 and 6 meters were included in the non-capital component of the annual charge for metering services.

2.3 Expanding competition in metering and related services rule

On 26 November 2015, the AEMC published the Expanding Competition in Metering and Related Services final rule. This rule will facilitate a market-led approach to the deployment of advanced meters, where consumer choice determines the rate at which new products and services are taken up.

Under the rule, all new and replacement meters installed for small customers after 1 December 2017 must meet a minimum services specification. The minimum services specification includes a requirement that the meter be connected to a telecommunications network which enables remote access to the meter, eg for meter reads.

To enable remote access to the meter, the meter must be connected to a telecommunications network. 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 requirement of the minimum services specification. However, the meter installed must still be capable of providing the minimum services.[29]

28 See, for example: AER, Final Decision: Ergon Energy Determination 2015-20, Attachment 16 - Alternative Control Services, October 2015, p.20; AER, Final Decision: Ausgrid Determination 2015-19, Attachment 16 - Alternative Control Services, April 2015, p.30; and AER, Final Decision: SA Power Networks Determination 2015-20, Attachment 16 - Alternative Control Services, October 2015, p.8.

29 Clause 7.8.4 of the National Electricity Amendment (Expanding competition in metering and related services) Rule 2015 No.12

3 The rule change request

This chapter provides an overview of Ergon's rule change request and the rationale for its proposal.

3.1 Details of the rule change request

Ergon notes that the firm obligation on retailers under the NERR to issue a bill to small customers at least once every three months[30] is not consistent with the "best endeavours" obligation on Metering Data Providers under the Service Level Procedures. Ergon considers that this impacts on the ability of retailers to issue a bill based on actual consumption data to small customers at least once every three months. It notes that, if a retailer does not receive meter data from the Metering Data Provider at least the day before it is required to issue a bill to a small customer, the retailer would automatically issue a bill based on an estimation calculated by the retailer.[31] Ergon does not consider that issuing estimated bills is in the long term interests of consumers.[32]

To address this issue, Ergon's 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 Metering Data Provider. Specifically, it proposes to change the obligation on retailers under rule 24 of the NERR that requires them to issue a bill to small customers supplied under a standing offer at least once every three months to

> "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[33] and rule 21."[34]

Further, Ergon seeks amendments to rule 21(1)(c) of the NERR to clarify that a retailer may base a small customer's bill on an estimation of that customer's consumption of energy, where:

30 Ergon states that the AER has interpreted three months to mean 92 days. Ergon Energy Queensland rule change request, 15 September 2015, p.1.

31 Ergon Energy Queensland rule change request, 15 September 2015, p.12.

32 Ergon Energy Queensland rule change request, 15 September 2015, p.10.

33 While Ergon's rule change request states that its intention is to align the obligations of retailers under the NERR with the obligations on Metering Data Providers under the National Metrology Procedures, the obligations that its rule change request relate to are contained within the Service Level Procedure. Therefore, the AEMC considers that this drafting should refer to the Service Level Procedure and not the National Metrology Procedures.

34 Ergon Energy Queensland rule change request, 15 September 2015, p.10.

"metering data is not provided to the retailer by the responsible person in accordance with the requirements to do so under the National Metrology Procedures[35]."[36]

Ergon is of the view that this change would mean that, only where a Metering Data Provider has not complied with AEMO's Service Level Procedure, would a retailer be able to base a small customer's bill on an estimation of that customer's consumption.[37]

Ergon proposes that a maximum timeframe for withholding a customer bill due to a lack of meter data could be introduced as a safeguard for consumers. It proposes that this maximum timeframe be approximately 120 calendar days or four months.[38]

Ergon's rule change request considers an alternative to its proposed rule would be to require the Metering Data Provider to collect meter data more frequently. Ergon considers that this would increase costs, ultimately resulting in consumers paying higher prices for their energy.[39] However, Ergon does not quantify these additional costs. Ergon concludes that this is not an appropriate solution to the issue it identifies.

Ergon provides proposed rule changes as part of its rule change request.[40]

3.2 Rationale for the rule change request

Ergon's considers that its proposed rule would:

- improve customer experience and confidence in retail markets by producing more bills based on actual meter data and reducing the number of estimated bills;
- provide a link between the obligations on retailers under the NERR and the obligations on a Metering Data Provider under AEMO's Procedures;
- assign obligations to market participants in accordance with their respective market roles; and
- create obligations on the relevant parties that have the responsibility for preparing and delivering meter data to a retailer under the NER.[41]

Ergon expects that its proposed rule change would have a beneficial impact on small customers. It considers that the proposed rule change would result in a reduction in:

35 See footnote 33.

36 Ergon Energy Queensland rule change request, 15 September 2015, p.11.

37 Retailers would also be able to base a bill on an estimation if the customer consents or if the retailer is not able to reasonably or reliably base the bill on an actual meter read.

38 Ergon Energy Queensland rule change request, 15 September 2015, p.9.

39 Ergon Energy Queensland rule change request, 15 September 2015, p.14.

40 Ergon Energy Queensland rule change request, 15 September 2015, p.10-11.

41 Ergon Energy Queensland rule change request, 15 September 2015, pp.9-10.

- the likelihood of unexplained volatility in customer bills by limiting the number of estimated bills; and
- customer confusion resulting from a bill based on an estimate being replaced by a bill based on actual meter data, or from an adjustment to a subsequent bill to account for a misestimation in a previous bill.[42]

Ergon also notes that issuing a significant number of bills on the basis of a retailer generated estimation has the potential to expose the retailer to cash flow and volume risks.[43] This is because consumers' bills may vary from the consumption volumes settled through the National Electricity Market (NEM). Therefore, Ergon proposes that a short delay to the issuing of bills until receipt of actual meter data would allow retailers to better manage cash flow and result in a more accurate settlement of energy consumption in the NEM.[44]

However, settlements in the NEM occur on a weekly basis. Less frequent billing (ie if meters are not read every three months) could expose retailers to a longer period during which they would have to manage cash flow risk.

42 Ergon Energy Queensland rule change request, 15 September 2015, p.15.

43 Ergon Energy Queensland rule change request, 15 September 2015, p.15.

44 Ergon Energy Queensland rule change request, 15 September 2015, p.15.

4 Assessment Framework

This chapter:

- sets out the requirements under the NERL that the AEMC must satisfy in order to make a rule; and
- outlines the AEMC's proposed approach to the assessment of the rule change request, in light of the NERL requirements.

4.1 Requirements under the NERL

Any change to the retail rules, whether it be the proposed rule, or a more preferable rule, must satisfy two tests under the NERL.

The Commission's assessment must consider whether the rule will or is likely to promote the National Energy Retail Objective (NERO) (the "NERO test").[45] The NERO states:

> "The objective of this Law is to promote efficient investment in, and efficient operation and use of, energy services for the long term interests of consumers of energy with respect to price, quality, safety, reliability and security of supply of energy."[46]

The AEMC must also, where relevant, satisfy itself that the rule is "compatible with the development and application of consumer protections for small customers, including (but not limited to) protections relating to hardship customers" (the "consumer protections test").[47]

Where the consideration of the consumer protections test is relevant in the making of a rule, the AEMC must be satisfied that both the NERO test and the consumer protections test have been met.[48] If the AEMC is satisfied that one test has been met, but not the other, the rule cannot be made.

There may be some overlap in the application of the two tests. For example, a rule that provides a new protection for small customers may also, but will not necessarily, promote the NERO.

The AEMC can make a rule that is different from the proposed rule if it is satisfied that, having regard to the relevant issues, it will or is likely to better contribute to the NERO.[49]

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45 In accordance with section 236(1) of the NERL.

46 See section 13 of the NERL.

47 See section 236(2)(b) of the NERL.

48 That is, the legal tests outlined in section 236(1) and 236(2)(b) of the NERL.

49 See section 244 of the NERL.

The scope of consumer protections that the AEMC proposes to consider includes:

- consumer protections in the NERL and NERR;
- consumer protections under the general law, including the Australian Consumer Law;
- consumer protections under energy retail laws and regulations of National Energy Customer Framework (NECF) jurisdictions; and
- where relevant, consumer protections under energy laws and regulations of Victoria.

The AEMC is also required to consider any relevant Ministerial Council on Energy (MCE) statement of policy principles in determining where a change to the retail rules is required.[50] There are currently no relevant MCE statements of policy principles.

4.2 Proposed assessment framework

The rule change request proposes a number of amendments to the NERR that are designed to enable a retailer to delay issuing a bill to a small customers until a meter read is provided by the relevant Metering Data Provider. To determine whether the proposed rule is likely to promote the NERO, the AEMC proposes to consider whether such amendments will, or would likely:

- facilitate the efficient use of energy services;
- enhance consumer experience; and
- provide a proportional response to the issues identified.

4.2.1 Facilitate the efficient use of energy services

The NERR should provide a framework for consumers to use energy services efficiently, by providing consumers with information about the true costs of using energy services. This allows consumers to make informed decisions about how they use energy services by comparing the value they place on use of the services to the costs of these services. If some consumers choose to adjust their behaviour to minimise the costs that they incur, the prices consumers pay for energy services may be less than would otherwise be the case. Over time, this could help to facilitate more efficient investment in, and use of, energy services as consumers will be able to choose the services they use at a price they are willing to pay.

To assess whether Ergon's rule change request will, or is likely to, facilitate the efficient use of energy services, the Commission proposes to consider if the rule change would promote the efficient allocation of risk between retailers, Metering Data Providers and

50 See section 236(2) of the NERL.

consumers. Efficient outcomes are promoted when risks and corresponding costs are borne by the party with the greatest control over the risk and the information required to make prudent operational decisions.

In assessing this rule change request, the AEMC will consider how to facilitate the efficient use of energy services. This includes, for example, consideration of whether consumers can make efficient and informed decisions if they are issued with estimated bills rather than actual bills.

4.2.2 Enhance consumer experience

To encourage consumers to make better decisions with respect to their energy use, the framework that supports the retail market should aim to enhance consumer experience in the retail market.

The experiences of consumers in the retail market will impact on their ability and willingness to make informed decisions about their energy use. Where there is competition in the retail market, confidence to engage in the retail market is key to enabling consumers to pick a retail offer that best suits their needs and preferences. Where consumers have negative experiences in the retail market, such negative experiences have the potential to grow and, more broadly, undermine confidence in the retail market over time.

Consumer experience is likely to be enhanced through their ability to access better information about their energy consumption. This information will help consumers understand the basis of their charges and may enable them to make more informed choices about their energy consumption. Predictable timing of bills and predictable charges per billing period are also likely to enhance consumer experience. This enables consumers to budget and plan for their energy bills.

The degree to which the rule change request will, or will likely, enhance consumer experience will be considered.

4.2.3 Provide a proportional response to the issues identified

Changes to the NERR may drive more efficient outcomes for consumers. However, changes to the NERR may be costly for market participants to implement or comply with. A rule change that results in unnecessary additional costs on different market participants may not achieve its intended purpose and is, ultimately, likely to impose higher costs on consumers.

To avoid any unnecessary costs, any change to the NERR must be proportional to the issue that it is designed to address. Expressed another way, the benefits of new obligations on market participants should outweigh the costs of implementing or complying with new obligations.

The costs associated with Ergon's proposed solution, and any other alternative solution, that would be imposed on retailers, Metering Data Providers, DNSPs, and

ultimately, consumers will be considered. This includes, for example, considering whether the costs of requiring Metering Data Providers to provide more frequent meter reads to retailers are beneficial given the additional costs that may be incurred and passed onto all consumers.

5 Issues for consultation

This chapter identifies a number of issues for consultation that are relevant to this rule change request. The issues outlined are not exhaustive. Stakeholders are encouraged to comment on these issues as well as any other aspect of the rule change request, or this consultation paper, including the proposed assessment framework.

The rest of this chapter covers:

- the nature of the issue identified;
- the potential solutions to the issue identified; and
- the relevance of the rule change request to gas standing offers.

5.1 Nature of the issue identified

As outlined in section 3.1, Ergon considers that the obligations on retailers under the NERR and the obligations on Metering Data Providers under AEMO's Procedures are misaligned. It considers that this misalignment makes it difficult for retailers to issue bills on the basis of actual consumption to all small customers supplied under a standing offer at least once every three months.

The obligations on retailers with respect to the billing cycle and the obligations on Metering Data Providers with respect to the meter read cycle are not explicitly aligned. As outlined in sections 2.1.1 and 2.2.1, under the NERR retailers must issue a bill to a small customer at least once every three months,[51] while Metering Data Providers are only required to use reasonable endeavours to read the meter at least once every three months under AEMO's Service Level Procedure.[52] Further, AEMO's Service Level Procedure provides Metering Data Providers with a window of two business days to read the meter either side of the scheduled read date.[53]

The NERR does allow retailers and small customers to agree to a different billing cycle, where the retailer obtains the explicit informed consent of the small customer.[54] We are not aware of any retailer in the NEM using this provision to lengthen the billing cycle, although some retailers have used this provision to issue bills to their customers on a more frequent basis.[55]

If retailers do not receive meter data in time to issue a bill to a small customer within three months, the NERR allows retailers to estimate the customer's consumption. As outlined in 2.1.1, there are a number of different ways that a retailer can generate an

51 Rule 24(1) of the NERR

52 6.4.1(c) of AEMO's Service Level Procedure: Metering Data Provider Services

53 6.4.1(e) of AEMO's Service Level Procedure: Metering Data Provider Services.

54 Rule 24(2) of the NERR.

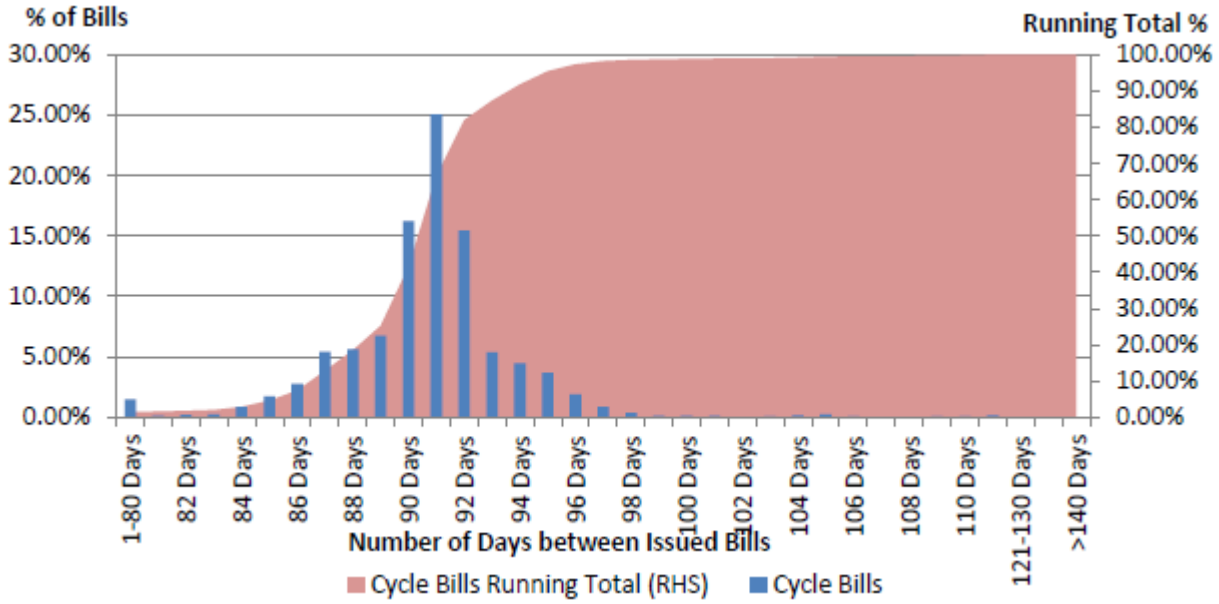
55 See, for example, AGL, *My AGL Monthly Bill*, online: https://www.agl.com.au/.

estimate. So, while the availability of meter data may prevent a retailer from issuing a bill to a small customer on the basis of actual consumption, the NERR does provide other mechanisms by which a retailer can issue a bill to a small customer at least once every three months.

In its rule change request, Ergon notes that under the Queensland arrangements in place until the commencement of the NERR on 1 July 2015, retailers were required to use "best endeavours" to issue a bill to a small customer at least quarterly.[56] Based on these requirements, Ergon notes that it generally waited until it received meter data before issuing a bill to a small customer.[57]

To determine how many small customers may receive estimated bills as a result of the commencement of the NERR, Ergon analysed the number of days between bills being issued for its residential customers between January and July 2015. The results of this analysis are presented in Figure 5.1. This figure indicates that Ergon had issued over 80 per cent of bills for small customers within 92 days, and approximately 95 per cent by day 95.

Figure 5.1 Number of days between issuing a bill from January to July 2015[58]



The availability of meter reads may become less significant over time as more advanced meters are rolled out under the competitive framework set out in the AEMC's Expanding Competition in Metering and Related Services Rule. As noted in section 2.3, under this framework all new and replacement meters for small customers installed after 1 December 2017 must be able to meet a minimum services specification, which includes a requirement that the meter be connected to a telecommunication

56 Section 4.9.1 of the Queensland Electricity Industry Code.

57 Ergon Energy Queensland rule change request, 15 September 2015, p.8.

58 Ergon Energy Queensland rule change request, 15 September 2015, p.8.

network which enables remote access to the meter. Under the new framework, advanced meters will be read by Metering Data Providers more frequently to support AEMO's settlement processes.

To remotely read an advanced meter it has to be connected to a telecommunications network. Many remote areas may not support a telecommunications network that is capable of enabling remote reading services. This may be a particular issue in some parts of rural Queensland to which Ergon provides retail services. In these instances, the availability of more advanced meters may not resolve issues in relation to the availability of meter data for small customers on a standing offer.

Question 1 Nature of the issue identified

(a) What proportion of consumers are likely to be affected by the issue identified by Ergon?

(b) Is the availability of meter reads an issue for retailers other than Ergon?

(c) To what extent will other developments, including the roll out of more advanced meters, address the issue identified by Ergon?

5.2 Potential solutions to the issue identified

If there is an issue to be addressed, potential solutions 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 (Ergon'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.

All three solutions involve some degree of trade-off between the frequency of bills, the accuracy of bills and the cost involved. The AEMC is interested in stakeholder feedback, and particularly consumer feedback, with respect to the appropriate balance between these factors and the extent to which each factor represents a consumer protection. The remainder of this section explores these potential solutions in more detail.

Question 2 Potential solutions to the issue identified

1. How should the AEMC consult with consumers and consumer groups on their preferences with respect to the trade-offs between the frequency of

bills, the accuracy of bills and the costs of billing?

5.2.1 Ergon's proposed solution

Ergon's proposed solution effectively would enable retailers to delay issuing a bill to a small customer until a meter read has been provided by the Metering Data Provider. This would enable retailers to issue a bill to small customers based on their actual consumption and limit the need to issue an estimated bill to a small customer.

As outlined in section 5.1, where retailers do not receive meter data in time to issue a bill to small customers at least once every three months, retailers issue an estimated bill. A retailer's estimation of the consumer's consumption over the preceding three months may not represent the consumer's actual consumption. This means the retailer may charge a small customer either too much or too little for their use of energy services. This may affect a retailer's cash flow and could also damage the relationship between the retailer and the customer.

Ergon's proposed solution has both positives and negatives. One the one hand retailers would be able to delay issuing a bill until they receive the meter read from the Metering Data Provider, thus reducing the need to generate an estimate. Since bills would be issued on the basis of actual meter data, consumers would likely have more confidence that they are being billed accurately for the energy they consume. Bills on the basis of actual meter reads also provide consumers with better information so that they can make informed decisions in regards to the energy services they consume.

On the other hand, Ergon's proposal would result in some small customers receiving less frequent bills. While a minor delay in the issuing of bills is unlikely to cause significant issues for many small customers, longer delays might. Less frequent bills could result in greater unexpected variation between bills for some small customers and may not provide them with the timely information they need in order to make informed decisions. Therefore, Ergon's proposed solution may impose a risk on small customers through less frequent billing.

The above also raises questions in relation to the 'consumer protections' test under the NERL.[59] Retail bills are an important consumer protection in that they provide consumers with information on the costs that they incur by consuming energy. The frequency with which a consumer receives a bill could also be seen as a consumer protection, as more frequent bills provide consumers with greater opportunity to manage, and budget for, the costs they are incurring. The AEMC will need to consider how material the frequency of bills is as a consumer protection and whether estimated bills provide adequate consumer protection.

There is likely to be a point in which it is preferable that small customers receive an estimated bill rather than a significantly delayed bill. This is particularly relevant in scenarios where the Metering Data Provider cannot get access to the meter in order to complete a meter read. Rather than receive a significantly delayed bill, these small

customers may prefer to receive an estimated bill. If Ergon's proposed solution is to be adopted, it is necessary to consider how long a retailer should be able to delay issuing a bill to a small customer based on the availability of a meter read.

As outlined in section 5.1, Ergon has indicated that only a relatively small number of their small customers do not have their meters read in time to issue a bill within 92 days. Given that only a small number of customers are likely to be affected by a delay in receiving their bill, allowing a retailer to delay issuing a bill to those customers may be a proportionate response to the issue identified. It is unlikely to impose significant costs on any of the market participants.

Finally, allowing retailers to delay issuing a bill to a small customer could also introduce a perverse incentive on retailers to amend their agreements with Metering Data Providers to reduce the frequency by which meters are read, and thereby reduce their costs. In this respect, Ergon's proposed solution may not address the issue identified in its rule change request, but rather delay the issue to a later time. The extent to which this is likely to happen would depend on how the cost saving compared to the financial cost of the retailer of managing its cash flow variation for longer.

Question 3 Ergon's proposed solution

1. **Do bills based on actual consumption enhance consumer experience and allow consumers to make more informed usage decisions compared to estimated bills?**
2. **Would delays to the frequency of retail bills cause significant issues for small customers? If so, would a maximum timeframe limit on billing frequency, eg. four months, sufficiently manage those issues?**
3. **Should the frequency of retail bills be considered a consumer protection?**

5.2.2 Frequency of meter reading

An alternative solution to the one proposed in Ergon's rule change request is to recommend that AEMO amend its Service Level Procedure to shorten the meter read cycle.

As noted in section 2.2.1, the requirements on Metering Data Providers in relation to the frequency of meter reads are set out in AEMO's Service Level Procedure. Under this procedure, Metering Data Providers have a "best endeavours" obligation to read a meter once every three months. These procedures are made under the NER, not the NERR. Ergon's rule change request only relates to the NERR and the AEMC does not have the power as part of this rule change to amend the NER to effect a change to the frequency of meter reads. However, the AEMC could recommend that AEMO amend

59 Outlined in section 4.1.

its Service Level Procedure. This process would be subject to AEMO's normal process for changing its procedures, including stakeholder consultation.

By requiring that a Metering Data Provider provide a retailer with a meter read in time for the retailer to meet its billing obligations under the NERR, the issue identified by Ergon could be significantly reduced. Retailers would receive a meter read in time to issue a bill to a small customer on the basis of actual consumption in most instances, limiting the circumstances in which they would need to generate an estimate.

This solution recognises that retailers have an incentive to issue a bill to small customers as soon as they receive the meter read from the Metering Data Provider. This is because retailers can minimise their exposure to cash flow risk by issuing a bill to small customers as soon as they receive meter data. As outlined in section 5.2.1, bills issued on the basis of actual consumption are also likely to enhance consumer experiences in the retail market.

Ergon did consider this solution in its rule change request and rejected it. As noted in section 3.1, Ergon assumes that reading type 5 and 6 meters more frequently would result in an increase in costs, which would then be passed onto consumers.[60] Because Metering Data Providers do not have information with respect to the type of retail offer that a customer is supplied under, they would be required to read type 5 and 6 meters for all small customers more frequently.

Given that the issue identified by Ergon only applies to small customers supplied under a standing offer, if this solution resulted in higher costs for all customers on both standing and market offers, it may not be proportionate to the issue identified. The AEMC is interested in any quantitative evidence that stakeholders could provide on this issue.

Question 4 Frequency of meter reading

1. **Would more frequent meter reading by the Metering Data Provider provide an efficient solution to the issue identified by Ergon in its rule change request?**
2. **Would more frequent meter reading impose additional costs on the Metering Data Provider? If so, how much are costs likely to increase?**
3. **Where there is a choice between bills based on actual consumption issued at less frequency or issued at the same frequency but at greater cost, what better serves the consumer's long term interest and is compatible with consumer protections?**

60 The costs of meter reading services have been classified as alternative control services in the recent distribution regulatory determinations. As outlined in section 2.2.2, this means that the AER has set a cap on the prices of these services. If the meter read cycle were to be shortened, this may increase the costs incurred by the Metering Data Provider in providing these services. This increase in costs may mean that the allowance that the AER has given to DNSP to pay for these services is no longer adequate, which may lead to an increase in cost pass through applications.

5.2.3 Billing on the basis of estimates

Under the existing arrangements, retailers may have to issue estimated bills to small customers in order to meet their obligations under the NERR to issue bills to standing offer customers at least once every three months.

As part of the Review of Electricity Customer Switching, the AEMC noted stakeholder comments that estimated reads tend to lead to customer complaints and disputes with the retailer. These disputes have the potential to escalate to the ombudsman, creating costs for both customers and retailers.[61] Ergon made similar comments in its rule change request, noting an increase in the number of customer complaints when an estimated bill is issued.[62]

The question is whether issuing a bill on the basis of an estimate where there is no meter read available would provide a better consumer experience than delaying issuing a bill until a meter read is available. The NERR provides mechanisms to protect a small customer who has been undercharged for a prolonged period. Under the NERR, retailers are only able to recover an amount undercharged in the nine months before the customer was notified of the undercharging.[63] Similarly, the NERR requires a retailer to return any amount a customer has been overcharged to that customer.[64]

Given that the issue identified in Ergon's rule change request only affects a portion of customers supplied under a standing offer, continuing to issue estimated bills may be a proportionate response if less frequent bills represent an erosion of consumer protections and the cost of more frequent meter reads is prohibitive. Under this scenario, no market participant or consumer incurs additional costs. Further, over time, the number of bills issued on the basis of estimates would likely decline, as more advanced meters are installed and competition in the retail market becomes stronger.

The basis of estimated bills

As noted in section 2.1.1, under the NERR, a retailer can base an estimate of a small customer's consumption on:[65]

- the customer's reading of the meter;
- historical metering data for the customer reasonably available to the retailer; or
- the average usage of a comparable customer over the corresponding period, if there is no historical metering data for that customer.

61 AEMC, Review of Electricity Customer Switching, Final Report, 16 April 2014, p.44.

62 Ergon Energy Queensland rule change request, 15 September 2015, p.14.

63 Rule 30(2)(a) of the NERR.

64 Rule 31 of the NERR.

65 Rule 21 of the NERR.

A number of retailers provide an ability for small customers to provide a reading of their meter. For example, AGL's My AGL Monthly Bill enables a small customer to enter their own meter reads through their AGL Energy Online account, where an advanced meter has not been installed.[66] Similarly, Powershop provides its small customers with the opportunity to enter their own meter readings online or through its smart phone applications.[67]

There may be a difference in consumer acceptance of estimated bills depending on how the estimate has been generated. If given an option between a bill estimated by the retailer or a bill based on a customer's reading of the meter,[68] customers may choose to provide their own meter reading to avoid being either under- or over-charged for their consumption of energy.

While the NERR allows for consumers to generate their own estimate, by reading their own meter, it is unclear how many retailers accept such consumer-generated estimates. Ergon, and other retailers in similar situations, may be able to effectively resolve the issue identified in the rule change request by accepting a customer's reading of the meter. However, there would still be some customers who are disengaged from the market or unable to provide their own meter read. For those customers, the issue raised in Ergon's rule change request would remain.

There is also a question of who is best placed to generate an estimate of a customer's consumption. While the retailer has the responsibility to issue bills to small customers, it may not have access to the best information by which to generate an estimate. An alternative solution could be to allow a retailer to request a meter read estimate from the Metering Data Provider in advance of when the retailer is due to issue a bill to a small customer. As the party responsible for collecting, processing, storing and delivering metering data, Metering Data Providers are likely to have access to the best data on which to generate an estimate. However, this would likely impose additional costs on Metering Data Providers. These additional costs would likely be passed onto consumers unless they are offset by a reduction in retailers' costs.

Similar to the solution outlined in section 5.2.2, enabling a retailer to request a meter read estimate from a Metering Data Provider would not require a change to the NERR, but would involve the AEMC recommending that AEMO amend its B2B Procedure.

Question 5 Billing on the basis of estimates

1. **Where there is a choice between estimated bills issued on a regular recurrent basis or less frequent bills based on actual consumption, what better serves the consumer's long term interest and is compatible with consumer protections?**

2. **Are there any barriers to retailers accepting a customer's reading of its**

66 AGL, *My AGL Monthly Bill*, Online: https://www.agl.com.au/.

67 Powershop, *Do I have to read my meter myself?*, Online: http://www.powershop.com.au/.

68 Under the NERR, this would technically be classified as an estimated meter read.

meter as a basis for an estimate?

3. **How much are Metering Data Providers costs likely to increase if Metering Data Providers were required to generate estimates of small customers' consumption? Would the increase in the Metering Data Providers' costs be offset by a reduction in retailers' costs?**

5.3 Relevance of the rule change request to gas

The rules in the NERR that Ergon has identified in its rule change request also apply to standing offers for the supply of gas. Ergon does not supply gas to small customers, and as such, its consideration of the issues and potential solutions relate primarily to electricity standing offers. We will consider the extent the issue identified by Ergon also applies to standing offers for the supply of gas.

Question 6 Gas

1. **Do the issues identified by Ergon in its rule change request apply to standing offers for the supply of gas?**

2. **Should the same solution developed for standing offers for the supply of electricity be applied to standing offers for the supply of gas?**

6 Lodging a submission

The Commission invites written submission on this rule change proposal.[69] Submissions are to be lodged online or by mail by 28 January 2016 in accordance with the following requirements.

Where practicable, submissions should be prepared in accordance with the Commission's Guidelines for making written submissions on Rule change proposals.[70] The Commission publishes all submissions on its website subject to a claim of confidentiality.

All enquiries on this project should be addressed to Emma Fishburn on (02) 8296 7800.

6.1 Lodging a submission electronically

Electronic submissions must be lodged online via the Commission's website, www.aemc.gov.au, using the "lodge a submission" function and selecting the project reference code RRC0006. The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated.

Upon receipt of the electronic submission, the Commission will issue a confirmation email. If this confirmation email is not received within 3 business days, it is the submitter's responsibility to ensure the submission has been delivered successfully.

6.2 Lodging a submission by mail or fax

The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated. The submission should be sent by mail to:

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

The envelope must be clearly marked with the project reference code: RRC0006.

Alternatively, the submission may be sent by fax to (02) 8296 7899.

Except in circumstances where the submission has been received electronically, upon receipt of the hardcopy submission the Commission will issue a confirmation letter.

If this confirmation letter is not received within 3 business days, it is the submitter's responsibility to ensure successful delivery of the submission has occurred.

69 The Commission published a notice under section 251 of the NERL to commence and assess this rule change request.

70 This guideline is available on the Commission's website.

Abbreviations

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Commission	See AEMC
DNSP	Distribution Network Service Provider
LNSP	Local Network Service Provider
MCE	Ministerial Council on Energy
MWh	megawatt hour
NECF	National Energy Customer Framework
NEM	National Electricity Market
NER	National Electricity Rules
NERL	National Energy Retail Law
NERO	National Energy Retail Objective
NERR	National Energy Retail Rules