



## SUBMISSION

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Australian Energy Market Commission (AEMC)

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# Review of Electricity Customer Switching

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## 1. INTRODUCTION

This submission is a response from Etrog Consulting Pty Ltd (Etrog Consulting) to the AEMC's Issues Paper on *Review of Electricity Customer Switching*, which was published for stakeholder comment on 3 December 2013.<sup>1</sup>

Etrog Consulting is a specialist consultancy in energy and utilities, focusing on regulatory policy and the interplay between regulation and competition in energy and water industries and markets. The director of Etrog Consulting, David Prins, who is the author of this submission, has 24 years consulting experience in this field.

Etrog Consulting is not currently engaged by any client on the subject of this submission. The views put forward in this submission are the views of Etrog Consulting and its author, and are not intended to represent the views of any client of Etrog Consulting.

This submission discusses some aspects of the AEMC's Issues Paper, which we hope will be of interest and of value to the AEMC.

Subject to any other client commitments or conflicts, we will be happy to discuss our views further with the AEMC or with any other stakeholders or interested parties that read this submission.

## 2. COMMENTS FROM ETROG CONSULTING

### 2.1. PURPOSE OF THE REVIEW

The purpose of the review is discussed in section 1.2 of the Issues Paper. The Issues Paper states:

*The AEMC considers that more engaged and active customers provide for a more competitive market. Switching is an indicator of active customers, but switching rates cannot indicate whether customers are making informed decisions and switching to plans that are likely to suit them. Only when switching rates are combined with other indicators can it provide a more complete picture of the competitive state of the market.*

We agree that on their own, switching rates cannot indicate whether customers are making informed decisions and switching to plans that are likely to suit them. While high switching rate may be indicative of a healthy competitive market, where customers can switch to plans that suit them better, they may also be indicative over-zealous and perhaps inappropriate marketing that may result in inefficient switching which is not beneficial to customers. Frequent switching by the same customer may indicate a failure to find satisfaction with a retail offer, or in some cases customers may be leaving a trail of debt with multiple retailers.

The Issues Paper further states:

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<sup>1</sup> Documentation on the review is available on the AEMC website at <http://aemc.gov.au/Market-Reviews/Open/review-of-electricity-customer-switching.html>

*That said, making further improvements to the current customer transfer process in the NEM may be beneficial. Where customers are able to engage in an easy and timely process, they are likely to be more willing to switch retailers in order to select the retail product that most closely reflects their needs and perception of good value. This, in turn, promotes competition in retail energy markets.*

*Further, creating an easy and timely process for customer transfers may also benefit retailers. For example, an efficient and automated transfer process is likely to reduce the administrative costs of retailers by reducing the time that it takes for retailers to complete transfers successfully through fewer instances of rectifying failed or objected to transfer requests. This may, in turn, lead to lower retail prices for customers over the longer term.*

We agree with these points. We would add that our research has shown that in some cases elongated switching processes leave customers not knowing whether the switching is actually taking place. As time goes by, they may in some cases think the switch from Retailer A to Retailer B is not happening, and attempt to start a new transfer process to Retailer C instead. While the system should pick this up and prevent a second transfer process occurring, such cases are clearly indicating customer confusion which should be avoidable. Faster transfers will help. Also we have found that the communications from retailers to customers between the time the customer initiates the switch and the time the switch actually occurs can be quite variable in quality and quantity. There may be less customer confusion if retailers did more to keep customers informed regarding the progress of the switch. In some cases, customers only know for certain that they have switched retailer when they get their first bill from their new retailer, which may be many months after they initiated the switching process.

## **2.2. SCOPE OF THE REVIEW**

Section 1.3.2 of the Issues Paper lists several potentially related issues that the AEMC considers are out of scope for this review. The AEMC also states: "While these issues are considered to be out of scope they are parameters that need to be taken into account in considering the efficiency of the current customer transfer arrangements."

We concur with that view. We particularly see parameters that need to be taken into account in regard to move-in / move-out scenarios. In-situ transfers involve change of retailer, without change of customer. Move-in / move-out involves change of customer, and may or may not involve change of retailer as well. In each case, there is a change in the identity of a party to the retail energy contract for supply of electricity to a premise – be that a change of identity of the retailer or the customer or both.

As discussed in the next section of this submission, a key issue in the change of retailer customer switching process is the time that may elapse before a meter read can be obtained. This is somewhat analogous to the need for a meter read to support move-in / move-out. We recently completed a research project on move-in / move-out. Our research primarily focused on whether physical disconnection is economically efficient if a customer is moving out of a premise but no customer is scheduled to move in on the same day. Our international research showed that an important secondary issue was whether a special meter read was required on the day a customer leaves a premise, or whether it is more economically efficient to use an estimated read or a customer's own read to support the move-in / move-out process.<sup>2</sup>

### 2.3. METER READING TO SUPPORT CHANGE OF RETAILER

One of the key drivers of the time it takes to change electricity retailer in Australia is the fact that generally change of retailer in Australia requires an actual meter read to be obtained on or close to the day that the customer switches retailer, and generally at the next scheduled read date.

As stated in the Issues Paper, in the NEM, the maximum 65 business day prospective transfer date for a customer's transfer to a new retailer to become effective is based on the requirement that metering data providers should use reasonable endeavours to collect metering data once every three months.<sup>3</sup>

In contrast, other jurisdictions which have shorter timeframes for customer switching rely heavily on estimated reads and customer own-reads, or on remote meter reading:

- **Sweden:** Prior to 2009, transfers often occurred on the basis of estimated meter reads. However, Swedish legislation was subsequently introduced requiring meters to be read monthly to improve accuracy of meter reading. This legislation also specified that customers were no longer able to be switched on the basis of estimated meter readings. This led to interval meters with remote reading capability being introduced for all customers by the end of 2009.<sup>4</sup>
- **New Zealand:** An important aspect of the New Zealand electricity market is the ability under the Code for the retailer to transfer customers on the basis of estimated meter reads. Most switches for non-half hourly meters (those without time of use and remote reading capability) occur on this basis, due to the short period of time in which the switching process must take place.<sup>5</sup>
- **Britain:**

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2 *Electricity supply disconnection on change of tenancy*, Etrog Consulting, 28 November 2013

3 Issues Paper, page 36

4 Issues Paper, page 91

5 Issues Paper, page 95

- The winning retailer, through its newly appointed data collector, can obtain a meter reading from the customer or the former data collector, which should be taken no earlier than five days before, and no later than five days, after the proposed transfer date.
- The new data collector will validate any reading received against other data provided by the losing retailer's data collector. This data includes the last actual meter read and consumption history for that customer. This information is provided by the 8th working day past the day of the switch and is used by the new data collector to validate the customer's change of retailer meter read.
- If an acceptable meter read is not received within eight days of the switch date, the new data collector will generate and send out an estimated reading to be used instead.<sup>6</sup>
- The process is similar to that used in New Zealand, in that transfers can be completed on the basis of both actual and estimated meter reads and the winning and losing retailers need to agree on the meter reading used for the transfer. Where the winning and losing retailer disagree on the meter reading and the difference between the readings performed by them is greater than 250 kWh, then the reading becomes subject to a dispute resolution process.<sup>7</sup>

This last comment highlights that materiality should be a key consideration in deciding:

- Whether an actual meter read is required, or whether reliance can be put on an estimate; and
- Whether an accredited person needs to read the meter, or whether a customer-own read will suffice.

There is a materiality threshold of 250 kWh in Britain, and perhaps a similar materiality threshold could be agreed in the NEM. Are more costly or less timely processes justified if the materiality of their expected additional accuracy is below the agreed materiality threshold?

Validation processes for meter readings are also highlighted as being important, and should use all available data.

We note that other jurisdictions generally accept customer's own-reads without a photograph.<sup>8</sup>

As we stated in our research report on move-in / move-out, international jurisdictions that rely on customer own-reads have developed a culture and environment where:

- Customers are not surprised to be asked to read their own meter.

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6 Issues Paper, page 58

7 Issues Paper, page 100

8 The Issues Paper suggested: "e.g customer could take a smart phone picture of their meter and provide this to the appropriate party (page 37)."

- Customers are actively encouraged to provide their own meter reads in various circumstances.
- The industry has put in place systems and procedures to accept and validate customer own-reads and to ensure that customer own-reads are properly propagated in the industry to all who need the meter reading.

The AEMC may need to consider the advantages to retailers and customers of shortening customer transfer timeframes using estimated reads or customer own-reads, as against any inaccuracy that may result. Costs of system and process changes also need to be taken into account.

Where remotely read metering is in place, actual meter reads can be obtained by remote reading as required, so the time taken to get an actual meter read should not impact adversely on the customer transfer process timeframe. Rollout of remotely read metering is costly, and should be undertaken subject to extensive cost-benefit analysis. Benefits from improvements to customer switching processes should be included among other factors.

With manual meter reading of meters that are not interval meters, either an actual meter read is required (by an industry operative or by a customer) or an estimate is used. In each case, if an actual read or an estimate is validated and used, and is not subject to dispute, that meter read will stand as the one to be used when the customer switches retailer. An exception to this may occur if an estimate turns out to have been so inaccurately high that it is higher than the next actual read. Clearly the customer does not consume negative energy between the customer transfer date and the next meter read. In this exceptional case, some revisiting of the estimated meter read used on customer switching may be warranted.

One further case does not seem to be addressed in the Issues Paper, and may warrant further consideration. That is the case of a Manually Read Interval Meter (MRIM), where

- A customer own-read will not record all the interval data that may be required to bill the customer.
- If estimates are used, unlike in the case of a non-interval meter, with an interval meter the actual data up to and after the date of customer switching can be retrieved later. The use or otherwise of that data when it is later obtained from the meter may require further consideration.

## 2.4. CUSTOMER TRANSFER COMPLAINTS

Along with the AEMC, we also note the significant increase in customer transfer complaints that has occurred in the past years. We agree that this suggests that there may be an increasing number of customers who are adversely affected by the customer transfer process.<sup>9</sup> Absolute numbers of complaints also need to be weighed against the numbers of customer transfers that are taking place. If those are increasing as rapidly, then the corresponding increase in complaints may be less concerning. Reporting of the number of complaints as a percentage of transfers would add value to the Issues Paper.

## 3. QUESTIONS IN THE ISSUES PAPER THAT ARE ADDRESSED IN THIS SUBMISSION

This submission does not seek to address all the questions that are raised in the AEMC's Issues Paper. Those questions that are addressed at least to some extent are as follows:

- Question 2 asks regarding regulatory frameworks for the customer transfer process. Change from the current practice of reliance on actual meter reads through sending an operative to read the meter rather than accepting customer own-reads or estimates may require changes to existing regulatory frameworks that may not currently be giving the most efficient outcomes. Alternatively, if such alternative reads are allowed but are not being deployed, that may be evidence that appropriate incentives are not currently placed on parties under the regulatory framework for the customer transfer process to allow for efficient outcomes.
- Questions 3 and 4 ask whether the current MSATS and jurisdictional customer transfer processes promote timely and accurate customer transfers, and what enhancements could be made. We suggest that a move to promote more use of customer own-reads and / or estimates may result in more timely customer transfers. An actual read will always be more accurate than an estimate, but the materiality may not be significant. A customer own-read may be just as accurate as a meter read by an accredited person.
- Question 6 asks whether the current continuation of the MSATS process beyond 65 business days allows for efficient outcomes. This continuation generally occurs due to failure to get an actual timely meter read. Our answer to this is similar to our answer to questions 3 and 4. There are alternatives that would address this.
- Question 8 asks regarding typical customer experiences where the customer transfer process has broken down. We believe these are well documented in energy ombudsmen's reports and case studies. We have commented here specifically on issues that arise when a customer is not kept informed whether their transfer process is ongoing or has somehow lapsed and is not proceeding.

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<sup>9</sup> Issues Paper, page 50

- Question 9 asks whether there any aspects of the customer transfer process for large customers that could be applied for the purpose of effecting timely and efficient small customer transfers. The Issues Paper states that the presence of smart meters for large customers means that the customer transfer process is timely and subject to fewer delays that may arise through meter access issues that are typically faced by mass market customers, since meters are remotely read.<sup>10</sup> This supports our view that obtaining timely meter reads, perhaps through promoting alternatives to current practices, is key to shortening customer transfer timeframes.
- Question 10 asks regarding customer experiences with the customer switching process. We share the AEMC's concerns regarding the significant increase in customer transfer complaints that has occurred in the past years. We also note that the absolute numbers of complaints also need to be weighed against the numbers of customer transfers that are taking place. If those are increasing as rapidly, then the corresponding increase in complaints may be less concerning. Some reporting of the number of complaints as a percentage of the number of transfers would be useful.
- Question 11 asks whether up to 30 calendar days for the completion of a small customer transfer considered to be a reasonably acceptable timeframe in which to complete a switch; for customers that experience switch times in excess of 30 calendar days, what are the main reasons for (and obstacles to faster) switching times; and does the AEMO MSATS data on small customer transfer timeframes suggest that the existing customer transfer processes allow for efficient outcomes. We believe that meter reading requirements are the main reasons for (and obstacles to faster) switching times. If this were resolved, switching in a much shorter timeframe than 30 calendar days should be achievable. The AEMO MSATS data on small customer transfer timeframes suggest that there are opportunities to change existing customer transfer processes to allow for more efficient outcomes.

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10 Issues Paper, page 46

- Question 12 asks does the AEMO MSATS data on large customer transfer timeframes suggest that the existing customer transfer process allows for efficient outcomes, and what lessons from the large customer transfer experience could be applied to the small customer transfer experiences. We refer to our answer to question 9. We also note that there is a subtle difference between small and large customer transfer. Generally small customers want to transfer as soon as possible once they have chosen a new retailer. Therefore, shorter timeframes are beneficial to them. Generally large customers want a transfer date that ties with an existing contract termination. Therefore, large customers want to be able to choose their transfer date rather than have a transfer date that is as early as possible.<sup>11</sup> In some cases, small customers may also be on contracts with early termination fees so want to delay a transfer. However, back-to-back contracting where a customer seeks to start a new contract exactly when a fixed term on an old contract ends is more common with large customers than with small customers. Small customers are also impeded from such behaviour by not being able to select an exact date for customer switching to another retailer.
- Question 14 asks for evidence that aspects such as issues with erroneous transfers are a problem. We believe the evidence is well documented in energy ombudsmen's reports and case studies.

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<sup>11</sup> The Issues Paper alludes to this in the reference to “anecdotal information the AEMC obtained from some retailers who suggested that large customers tended to transfer around the end of major financial reporting periods because this tended to coincide with the expiry date of their existing energy supply contracts” (page 59)