



## SUBMISSION

**Prepared for submission to:**

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 Options Paper on *Review of Electricity Customer Switching*, which was published for stakeholder comment on 23 January 2014. We previously responded to the AEMC's Issues Paper, 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 Options Paper, which we hope will be of interest and of value to the AEMC. We were pleased that the AEMC found our previous submission on the Issues Paper to be of interest and value,<sup>2</sup> and this has motivated us to provide this further submission on the Options Paper.

In particular, we comment in this submission on issue (A) – the timing of the customer transfer process, and options to address this issue. The time taken to transfer is largely determined by the current practice of transferring a customer only after an actual meter reading has been recorded. We concur with the view of the AEMC that this is a key element of the electricity customer transfer process that could be improved.

This submission should be taken as being in addition to our previous submission, and not a replacement. We stand by our previous comments, and now take the opportunity to add to our previous Issues Paper comments in this response to the Options Paper.

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. OPTIONS TO ADDRESS THE TIMING OF THE CUSTOMER TRANSFER PROCESS

The Options Paper sets out a range of possible options that could be deployed to address the timing of the customer transfer process:

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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>

<sup>2</sup> See for example page 83 of the Issues Paper, where a response to a comment from Etrog Consulting states "The Commission values such feedback."

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- Option A1: reduce the maximum prospective timeframe for customer transfer requests, as set out in the Market Settlement and Transfer Solutions (MSATS) Procedures,<sup>3</sup> from 65 business days to 21 business days.
- Option A2: allow customer transfers to occur on the basis of estimated reads, which would provide an alternative to the current practice of obtaining an actual meter read for a transfer request to complete.
- Option A3: introduce an incentive scheme on regulated metering data providers, to encourage such parties to provide more timely and accurate special meter reads.
- Option A4: increase monitoring, and public reporting, of statistics associated with the timing of the customer transfer process, by the Australian Energy Market Operator (AEMO) and the Australian Energy Regulator (AER).

We comment particularly on Option A1 and Option A2.

### 3. COMMENTS FROM ETROG CONSULTING

#### 3.1. ADVANCED METERING INFRASTRUCTURE

As stated in the Options Paper, the customer transfer process will be enhanced with the roll-out of advanced metering infrastructure (AMI).

For example, with AMI, metering data will be remotely read and recorded with a half-hourly resolution on a weekly basis, and so customers could potentially be transferred in very short timeframes, and at a lower cost to retailers. This would also minimise the time taken to transfer, the length of which may currently be extended through the metering data provider not being able to obtain physical access to the customer's meter, and so an actual read not being obtained.<sup>4</sup>

We agree with the AEMC that improvements could be made to the customer transfer process prior to any roll-out of AMI.<sup>5</sup> This would be the case in jurisdictions other than Victoria, where AMI roll-out is well underway. Improvements in the customer transfer process and other benefits of AMI are being captured much earlier in Victoria as compared to other jurisdictions that are not yet rolling out AMI.

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<sup>3</sup> The MSATS Procedures detail the arrangements for billing, settlement and customer transfers in the NEM.

<sup>4</sup> Options Paper, page 5

<sup>5</sup> Options Paper, page 6

### 3.2. LARGE CUSTOMERS

The focus of the current review is on the transfer process of in-situ electricity small customers. Most large customer transfers occur within a shorter timeframe due to the type of meter typically installed for such customers (i.e. remotely read, interval). Several submissions raised issues in relation to the customer transfer process for large customers. For example, Energy Action commented that in a significant number of cases, the transfer of large customers is either not achieved on time or only achieved on time given close management of the transfer process.<sup>6</sup>

While others argued that the review should therefore consider large customer transfers on an equal basis as small customer transfers, we would rather learn from the experience with large customers that the installation of remotely read interval metering (which is generally in the form of AMI roll-out for small customers) is not on its own likely to provide the full solution to address the timing of the customer transfer process – for large customers or for small customers.

### 3.3. LENGTH OF THE CUSTOMER TRANSFER PROCESS

In the Options Paper, the AEMC states that it identified previously in the Issues Paper that approximately 99 per cent of all small customer transfers were completed within 65 business days for the NEM as a whole, between January 2010 and July 2013. 65 per cent of all small customer transfer requests were completed within 30 calendar days.<sup>7</sup>

However, the Options Paper does not clarify that the starting point for counting the calendar days in these statistics is initiation of the transfer process within MSATS. This may be some time after the customer informed their retailer of choice that they wished to switch to them, after the winning retailer has gained information and consent from the customer in order to commence the transfer process, and also some time after any cooling-off period has expired. There may not be consistency between retailers or between switching cases in regard to how much time elapses between the customer completing their transfer request to their retailer of choice and the winning retailer initiating the transfer process within MSATS.

The date on which the winning retailer initiates the transfer process within MSATS is totally unknown to the customer. We are concerned that the Options Paper moves straight from stating that 65 per cent of all small customer transfer requests were completed within 30 calendar days to stating that in most cases, 30 calendar days (approximately 21 business days) may be considered a reasonable timeframe for the completion of customer transfer requests, without clarifying when that 30 calendar day period starts. Starting that count on a date that is unknown to the customer and is decided solely at the discretion of the retailer may not be in customers' interests.

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<sup>6</sup> Options Paper, page 6

<sup>7</sup> Issues Paper, page 52; Options Paper pages 19-20

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We are also concerned that the Options Paper may further confuse by linking the statement that in most cases, 30 calendar days (approximately 21 business days) may be considered a reasonable timeframe for the completion of customer transfer requests with a statement that this is also consistent with timeframes in overseas jurisdictions. Footnote 33 then associates this with the example that in 2009, the European Union identified that all customer transfers should occur within 21 calendar days (or 3 weeks). This is notwithstanding the fact that the Issues Paper previously recognised differences in how this statistic was applied across the European Union.<sup>8</sup>

We discuss further aspects of this uncertain starting point for measuring how long a customer transfer takes to complete in regard to Option A1 in our comments below.

#### **3.4. USE OF ACTUAL METER READS**

We agree with the AEMC that the most material issue associated with obtaining an actual meter read appears to be related to access to the meter.<sup>9</sup>

However, this is also on a par with the fact that for manually read meters, the next scheduled meter read occurs in accordance with the metering data provider's quarterly meter reading cycle. Therefore, if the transfer request occurs soon after the last actual meter read, the next scheduled meter read may be up to three months into the future.<sup>10</sup> This can cause considerable delay to customer switching even without an access issue.

#### **3.5. ESTIMATED READS AND/OR CUSTOMER SELF-READS**

Currently, the MSATS Procedures set out that both estimated reads and customer self-reads can be used in the customer transfer process, provided that this is consistent with jurisdictional policy and the customer consents to this. The use of these meter read types would circumvent access issues, since retailers would not have to rely on the meter being read physically by the metering data provider.<sup>11</sup>

#### **3.6. MSATS PROCESSING TIME**

The Commission considers that, while the MSATS system may be labour intensive, if an actual meter read is available, and no objections to a transfer request are lodged, then the MSATS process can complete within approximately 10 business days.<sup>12</sup>

We find this to be a useful benchmark, which can provide the basis for how long customer switching should take, with some additions for other process components.

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8 Issues Paper, section 1.1.2

9 Options Paper, page 22

10 Options Paper, page 21

11 Options Paper, page 23

12 Options Paper, page 25

### 3.7. OPTION A1: REDUCE THE MAXIMUM PROSPECTIVE TIMEFRAME FOR CUSTOMER TRANSFERS

This option would reduce the maximum prospective timeframe for customer transfer requests, as set out in the MSATS Procedures, from 65 business days to 21 business days.<sup>13</sup> The Options Paper claims that by reducing the prospective timeframe for customer transfers, retailers would be under increased pressure, and incentivised to undertake customer transfers faster. Retailers would be encouraged to use other available meter read methods for transferring customers, as opposed to solely waiting for the next actual meter read.<sup>14</sup>

We find this option puzzling, and do not see what it will achieve. As we discussed above, the timeframe of 65 business days is measured from when the winning retailer initiates the transfer process within MSATS. The date on which the winning retailer initiates the transfer process within MSATS is totally unknown to the customer. This may be some time after the customer informed their retailer of choice that they wished to switch to them, after the winning retailer has gained information and consent from the customer in order to commence the transfer process, and also some time after any cooling-off period has expired. There may not be consistency between retailers or between switching cases in regard to how much time elapses between the customer completing their transfer request to their retailer of choice and the winning retailer initiating the transfer process within MSATS.

It seems to us that on its own this change would simply cause retailers to delay initiation of the transfer process within MSATS to a date such that they would expect the transfer to complete within 21 business days, based on their knowledge of the meter reading schedule. It would not actually decrease customer switching times from the customer's perspective. Delaying MSATS initiation may also cause more administration costs for the retailer to have to have new processes to time the MSATS initiation optimally with the expected meter reading date, and would cause some initiations to miss the window of opportunity in MSATS, and some customer switching requests may simply be "lost" in retailer systems awaiting initiation in MSATS.

According to the Options Paper, the Victorian Electricity Transfer Code (Victorian Code) specifies that the proposed transfer date for a small customer may be up to 20 business days in the future (i.e. the prospective timeframe in Victoria is less than the 65 business days in the rest of the NEM). This requirement has been in the Victorian Code for a number of years, and so it is not a recent amendment in response to the roll-out of AMI, which enable faster transfers. The Commission considers that the lower prospective timeframe in Victoria may have in some part influenced retailer behaviour in achieving shorter transfer timeframes in this jurisdiction.<sup>15</sup>

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13 Options Paper, page 26

14 Options Paper, page 27

15 Options Paper, page 27

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In the absence of knowledge of how retailers may behave differently in Victoria, we wonder whether what has been happening already in Victoria is as we described above: the statistics in MSATS look better, but there is no actual customer benefit.

### **3.8. OPTION A2: ALLOW CUSTOMERS TO OCCUR BASED ON ESTIMATED METER READS**

This option would confirm that customer transfers are allowed to occur on the basis of estimated meter reads (including potentially customer self-reads) which would provide an alternative to the current practice of obtaining an actual meter read for a transfer request to complete.<sup>16</sup>

We supported consideration of this option in our previous submission, and we maintain that position now.

The Options Paper uses the term 'estimated read' to cover both an estimate through a statistical method, and a customer self-read. We see significant distinction between the two, since the first is really an estimate whereas the second is an actual read. The second is even more certainly an actual read if it is to be accompanied by a photo provided by the customer.<sup>17</sup> We do not see why a self-read might require a photo, while a read by a metering data provider does not require an accompanying photo.

The metering data provider would source an estimate for the customer's consumption, as at the relevant transfer date. This estimate would be sourced in accordance with an industry-agreed, and AEMO-specified, method for estimating meter reads, which would be set out in the Metrology Procedures.<sup>18</sup>

The Options Paper suggests that the losing and winning retailers would have an option to dispute the estimated read, if its own estimated read was more than, say, 200 kWh different to the metering data provider's read, with the dispute occurring in accordance with an industry-agreed dispute process.<sup>19</sup> We would suggest that disputes should only arise if the estimate was not sourced in accordance with the industry-agreed, and AEMO-specified, method for estimating meter reads, which would be set out in the Metrology Procedures. If the correct procedures are followed, the estimate should not be the subject of dispute just because there is a discrepancy with another estimate obtained through following different procedures, no matter how big the discrepancy.

We agree with the AEMC that if this option was pursued, AEMO, in conjunction with an industry working group, should review and update the existing estimation methods, with the aim of obtaining an industry agreed, robust estimation methodology promoting accuracy.<sup>20</sup>

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16 Options Paper, page 29

17 Options Paper, page 30

18 Options Paper, page 30

19 Options Paper, page 31

20 Options Paper, page 31

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We support the view of the AEMC that this option provides an alternative option for a source of a meter read required for transferring a customer. This means that the retailer would not have to wait for an actual read (which could be up to three months away), or pay for a special read (or require a consenting customer to pay), in order for a transfer to take effect. Importantly, this option does not prescribe that all transfers could occur on the basis of an estimated read. Instead, it provides increased flexibility for the retailer and the customer as how to achieve a transfer faster. Customers (and so retailers) would opt to transfer on an estimated read where the benefits of the faster transfer time outweighed the costs associated with this.

We agree with the AEMC that of the options considered in this paper, this option is most likely to have a significant impact in reducing customer transfer times for customers with manually read meters.<sup>21</sup>

We concur with the AEMC that since the same estimated read is used in both the retail and wholesale markets, there are no “unders” or “overs” for retailers in wholesale settlement, or charging customers in the retail market. Therefore, there should be no volume risk for retailers since the same volumes of electricity are used in both the wholesale and retail markets.<sup>22</sup>

We would add that the same estimated read should also be used in network use of system charging, so there would be no volume risk there either. This should be the case whether or not the metering data provider is the local distributor.

The Commission accepts that there may be some increased risks for retailers from using estimated reads, which relate to a retailer’s hedging strategy.<sup>23</sup> However, in the example given, it seems the customer genuinely did use more electricity than may have previously been expected. Had the customer not switched, they would still have used more electricity than previously expected. Even with an actual read at switching, the customer would have been found to have used more electricity than previously expected. Any inaccuracy in the estimated read may if anything change the balance of where that unexpected load fell as between Retailer A and Retailer B. But as the Options Paper states, any changes would operate in both directions (i.e. positive and negative) and so balance out over time.

### 3.9. MANUALLY READ INTERVAL METERS

In our previous submission we commented that one further case did 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.

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21 Options Paper, page 32

22 Options Paper, page 33

23 Options Paper, page 34

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- 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.

The AEMC responded: “The Commission values such feedback. The Commission agrees that where such manually read interval meters exist, the customer could not take advantage of a customer self-read. However, customers could make use of an estimated read (although this would require a different method for estimation than that used for manually read accumulation meters).”<sup>24</sup>

On a point of detail, we would add that there may still be a role in this case for a customer self-read of the index values visible on the meter to feed into an estimated read.

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24 Options Paper, page 83