

**Improving the timing of the electricity customer transfer process
Rule Change Request**

October 2015

1. Name and address of rule change proponent

Council of Australian Governments (COAG) Energy Council
Senior Committee of Officials
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2. Description of the proposed Rule

The proposed rule change is to allow for estimated meter reads to be used for the purpose of in-situ customer transfers between retailers. That is, where a customer wishes to transfer from their current electricity retailer to another preferred retailer without moving address. This is to be achieved through new obligations in the National Energy Retail Rules (NERR). To complement the NERR changes, it is proposed some existing National Electricity Rules (NER) obligations are amended, or new obligations created, as appropriate.

2.1 National Energy Retail Rule changes

2.1.1 National Energy Retail Rules

The NERR focus on the sale and supply of energy to, primarily, small retail customers. This includes guidance on the terms and conditions of retail contracts, information provision and marketing, customer hardship policies and connections.

The NERR also provides guidance on the inter-relationships between distributors and retailers in coordinating the supply of electricity and gas to small customers. The NERR provides some guidance on the customer transfer process. Specifically, Rule 57 of the NERR provides that a retailer must not submit a request for the transfer of a small customer under the relevant Retail Market Procedures unless (a) the retailer has obtained explicit informed consent from the customer, and (b) the retailer has a customer retail contract in place to enable the sale of energy to the customer at their premises.¹ Retailers must comply with the relevant Market Settlement and Transfer Solution (MSATS) Procedures.²

The NERR also includes requirements such as:

- The winning retailer must notify the customer: that the transfer process is complete; that the winning retailer has commenced selling electricity to the customer; and the date when they commenced selling electricity to the customer;³ and
- The retailer must also notify the customer if the transfer did not commence as expected, along with several related aspects.⁴

2.1.2 National Energy Retail Rule amendments

While the currently regulatory framework may allow for customer transfers to take place on the basis of estimated meter reads (provided this is consistent with jurisdictional policy) this

¹ Rule 57 of the NERR. This rule also permits the retailer to begin processing the customer transfer process prior to the completion of the cooling off period, provided that the process can be reversed if the customer changes their mind regarding the new contract prior to the cooling off period expiring (ie rule 57(2)).

² Rule 7.2.8(d).

³ Rule 58 of the NERR

⁴ Rule 59 of the NERR.

proposal provides for a new rule to be inserted in the NERR to put it beyond doubt that a small customer can transfer on the basis of an estimated meter read.

The new rule will provide the following:

- (a) Where an in-situ customer of electricity is transferring from one retailer to another, the final bill to be issued to the transferring customer can be based on an estimation of the customer's consumption, where:
 - o the customer consents; and
 - o the meter at the customer's premises is a manually read meter; and
 - o the immediately prior meter read is an actual meter read.
- (b) For the purposes of the above, evidence from the winning retailer (who is getting the customer and who is currently required to obtain explicit informed consent to the transfer) that the customer consents to the final bill being based on an estimation, will be sufficient consent for a losing retailer (who is losing the customer) to issue a final bill based on estimated data.
- (c) Where the customer consents to a bill being issued based on estimated data the losing retailer must issue a bill based on estimated data.
- (d) For the purposes of ongoing and final billing, both winning and losing retailers must use the same estimated meter reading. This is to be determined using the methodology set out in the Australian Energy Market Operator's (AEMO) Metrology Procedure, and used in accordance with the MSATS Procedures by AEMO.

Amendments are proposed for the model terms and conditions for standard retail contracts to give effect to the new rule.

Amendments are proposed to rule 21 of the NERR (which is about estimation as a basis for bills) to ensure consistency with the new rule and to specify that customers with market retail contracts for electricity have the option of estimation as the basis for bills by making this a minimum requirement for market retail contracts .

Consistently with the current structure of the NERR, the new rule would be limited to small customers.⁵

2.2 National Electricity Rule changes

To complement the proposed NERR changes above, this rule change proposal recommends that changes to the NER are also undertaken.

2.2.1 Current Provisions in the National Electricity Rules around estimated reads

Chapter 7 of the NER deals with arrangements for metering in the National Electricity Market, including high-level guidance on the various roles and obligations of registered participants that may be involved in the customer transfer process. These include metering providers, metering data providers, and Local Network Service Providers (LNSPs) and retailers. The NER does not

⁵ The new rule is best located in Part 2, Division 9 of the National Energy Retail Rules, which relates to "other retailer obligations." Part 2 of the NERR deals with 'customer retail contracts', which is limited to contracts between retailers and small customers. There is currently no Part in the NERR that specifically deals with the relationship between retailers and large customers. Cf AEMC Review of Electricity Customer Switching in the National Electricity Market, 67.

describe the roles and obligations of each of these parties in a great level of detail. Rather, it delegates this responsibility to AEMO to determine through its procedures.

The NER does establish requirements about the preparation, development and content of these procedures. The main procedures within the NER relevant to the customer switching process are:

- AEMO's MSATS System Procedures, which detail the arrangements for billing, settlement and customer transfers in the NEM;⁶
- AEMO's Metrology Procedure which deals with the treatment of metering data and information;⁷ and
- AEMO's Service Level Procedures, which detail the obligations, technical requirements and performance levels associated with the processes of meter reading, data collection, data processing, adjustment, aggregation and delivery of metering data.⁸

Market Settlement and Transfer Solution Procedures

AEMO develops and maintains the MSATS System Procedures. The MSATS Procedures underpin a number of business processes impacting retailers and distributors, including wholesale market settlement, billing and the customer transfer process.

The MSATS Procedures have a read code that can be used to give effect to a customer transfer on the basis of an estimated read.⁹ An estimated read is defined in the MSATS Procedures as being where no actual meter read is required.¹⁰ Instead, the metering data provider estimates a read in accordance with the Metrology Procedure¹¹ and jurisdictional requirements.¹²

The interaction of various market participants in relation to customer billing and transfers is captured through the Consumer Administration and Transfer Solution (CATS) Procedures, which forms part of MSATS. The CATS Procedures serve a specific purpose by detailing the roles and obligations of various parties in relation to a connection point (i.e. a small customer's metering installation) as well as containing the principles that govern customer transfers, the registration of metering installations, and the management of standing data.

The CATS Procedures:

- Define the attributes of a connection point for the purpose of transferring customers. This may include the registration of the National Metering Identifier (NMI) for that connection point (i.e. the meter installation); and
- Facilitate market settlement and efficient industry processes for transferring NMIs between retailers, as well as the provision and maintenance of standing data, rules and codes. This also includes processes for NMI discovery.

The processes and guidelines outlined in the CATS Procedures contribute to defining the customer transfer process between retailers.

⁶ NER rule 7.2.8

⁷ NER, rule 7.14.1

⁸ NER, rule 7.14.1A

⁹ MSATS Procedures: CATS Procedure Principles and Obligations, clause 4.13(i)

¹⁰ MSATS Procedures: CATS Procedure Principles and Obligations, clause 4.13(g)

¹¹ The Metrology Procedure developed by AEMO provides a framework for metering providers and metering data providers (including their engagement).

¹² MSATS Procedures: CATS Procedure Principles and Obligations, clause 4.13(i)

The MSATS Procedures set out that both estimated reads and customer self-reads can be used in the customer transfer process, providing that this is consistent with jurisdictional policy and the customer consents to this.¹³

As part of its review of customer switching, the Australian Energy Market Commission (AEMC) undertook a review of existing jurisdictional instruments and noted that the only jurisdiction that explicitly does not permit customer transfers to occur on the basis of an estimated read appears to be Victoria.¹⁴

However, regardless of the current jurisdictional policy on these available read methods, the AEMC's Review of Electricity Customer Switching¹⁵ revealed that retailers appear to prefer not to use these read methods for customer transfer (although it is understood that some retailers do use customer self reads or estimated reads for billing purposes).¹⁶

2.2.2 Changes to the National Electricity Rules:

To complement the above changes to the NER, the following amendments are proposed for the NER to require the necessary changes to the MSATS procedures to ensure appropriate measures for how estimates are to be determined, and disputes resolved.

- (a) Changes to rule 7.14.1 of the NER to provide for the content of the Metrology Procedure: Part B: Metering Data Validations, Substitution and Estimation Procedure for Metering Types 1-7 to be amended to ensure those procedures give support to transfers on the basis of estimates (e.g. how estimates are to be determined, and disputes resolved) including:
 - Amending clause 7.14.1(6)(ii) so that the procedures for estimating data have regard to the use of estimates in customer transfers.
- (b) AEMO to develop and publish a method (as part of the Metrology Procedures) by which disputes between retailers and metering data providers, arising from the use of estimated metering data used when transferring customers, are to be resolved.¹⁷

It is proposed that a transitional rule be inserted into the NER that requires AEMO to consider whether any consequential amendment to the MSATS Procedures are necessary as a result of the proposed changes and, if necessary, develop and publish such amendments.

The changes to be made to AEMO's procedures required to give effect to the use of estimated reads for the purposes of transfers as a result of this rule change should be able to be undertaken through AEMO's usual procedure making processes.¹⁸

The AEMC Report recommends amendments to rule 7.2.8 of the NER to provide for the use of estimated metering data used when transferring customers.¹⁹ However, the definition of 'Market Settlement and Transfer Solution Procedures' in Chapter 10 of the NER is sufficiently broad to allow for the content of the MSATS Procedures to provide for the use of estimated metering data when transferring customers. Indeed, the MSATS Procedures: CATS Procedure

¹³ MSATS Procedures: CATS Procedure Principles and Obligations, clause 4.13..

¹⁴ AEMC Review of Electricity Customer Switching in the National Electricity Market, 5.2.1; Clause 4.3(b) of the Victorian Electricity Transfer Code). However, we note that cl 4.3 only applies if the customer is vacating their premises (not for in-situ customer transfers as contemplated in this rule change request).

¹⁵ AEMC Review of Electricity Customer Switching in the National Electricity Market

¹⁶ AEMC Review of Electricity Customer Switching in the National Electricity Market

¹⁷ AEMC Review of Electricity Customer Switching in the National Electricity Market, 40.

¹⁸ NER, rule 8.9.

¹⁹ AEMC Review of Electricity Customer Switching in the National Electricity Market, 69.

Principles and Obligations already allows for the use of estimated data when transferring customers.²⁰

The drafting for the rule changes are attached to this proposal. This proposal has been developed based on the findings and analysis within the AEMC Review of Electricity Customer Switching in the National Electricity Market Final Report.

3. Background to the proposed rule changes

3.1 Development of Retail Energy Markets

Since the late 1990s there have been a number of reforms to retail energy markets to introduce and enhance competition. As part of these reforms, state and territory governments have gradually introduced ‘full retail contestability’ (FRC), where all customers have the ability to choose their retailer of choice.

All jurisdictions in the National Electricity Market (NEM) have now introduced FRC however, this has occurred at different stages. The introduction of FRC has encouraged competition between retailers and allowed for more consumers to switch between electricity retailers. The opportunity to switch between retailers has been further enhanced in some jurisdictions (e.g. Victoria, South Australia and New South Wales) that have effective competition and have deregulated retail electricity prices.

As the retail electricity market has changed and evolved, small customers are now engaging in the market and transferring between retailers more frequently. Given these changes, it is timely to consider the effectiveness of the current transfer process and whether it is operating most effectively and efficiently to allow for, and to enhance, the customer switching process.

It is also important to consider how the retail market may evolve in the future, including changes that are already occurring such as the roll-out of smart meter technologies, and the introduction of contestability in metering and related services for small customers. It is important that measures to enhance the customer transfer process do not inhibit the advance of such technologies.

3.2 Energy Market Reform

In December 2012, the Council of Australian Governments (COAG) and the former Standing Council on Energy and Resources (SCER) (now the COAG Energy Council) agreed to a broad energy market reform package to support investment and market outcomes in the long term interests of consumers.

3.3 AEMC Power of Choice Review

In November 2012, the AEMC published its Report “*Power of choice review- giving consumers options in the way they use electricity*” (the Power of Choice Review).

The overall objective of the Power of Choice Review was to ensure that the community’s demand for electricity services is met by the lowest cost combination of demand and supply options. The Review identified opportunities for customers to make more informed choices about the way that they use electricity. The Review noted customers require tools, such as: information; education; technology; and flexible pricing options to make efficient consumption decisions. It also addressed the market conditions and incentives needed for network operators,

²⁰ MSATS Procedures: CATS Procedure Principles and Obligations, cl 4.13.

retailers and other parties to maximise the potential of efficient Demand Side Participation (DSP) and respond to customers' choices.

In the Power of Choice Review, the AEMC made a number of recommendations across nine priority areas. These recommendations included gradually phasing in efficient and flexible pricing options, and introducing competition in metering and related services, to allow customers to receive smart meters where there is a benefit for them.

Another recommendation in the Power of Choice Review was that the former SCER should direct the AEMC to review whether the current arrangements for customer switching support the efficient and timely transfer of electricity customers between retailers. This was driven by the fact that the AEMC had identified that the maximum allowable prospective timeframe for transferring customers between retailers in the NEM was 65 business days and this appeared to lag behind other countries, with the maximum timeframe elsewhere typically ranging between 10 and 20 business days.

As a result of the recommendations in the Power of Choice Review, the former SCER directed the AEMC to undertake a review of customer switching arrangements in the NEM.

3.4 AEMC Customer Switching Review

In May 2013, the former SCER issued the AEMC with Terms of Reference to undertake a *Review of Electricity Customer Switching* (the Review). The purpose of the Review was to assess whether the current process is effective, timely and accurate and whether any improvements could be made.

On 10 April 2014, the AEMC released the Final Report on its Review. The Review identified a range of areas of improvement to the current customer transfer process - in particular its timing and its accuracy - and made recommendations to the former SCER on ways to improve the efficiency of the current customer transfer process in the NEM.

Relevant to this rule change request are the AEMC's findings and recommendations around improvements in the timing of the customer transfer process. In particular, the AEMC found the following:

- Generally customer transfers occur in an efficient manner. Nearly three-quarters of small customer transfers in the NEM between January to July 2013 were completed in less than 30 calendar days. However, the AEMC's research identified that some customers experience transfer completion times in excess of 30 calendar days, with a small number of transfer times extending beyond 60 calendar days (around 10 per cent of small customer transfers).²¹
- The time taken to transfer is largely determined by the current practice of transferring a customer only after an actual meter read for their electricity consumption has been recorded. If the next actual read is not scheduled for some time or is delayed, the customer transfer is also delayed.²²
- The AEMC's Review noted that the timing of the customer transfer process could be improved by providing an alternative to obtaining an actual meter read for the customer

²¹ AEMC Review of Electricity Customer Switching in the National Electricity Market, 19-20.

²² AEMC Review of Electricity Customer Switching in the National Electricity Market, 21-22.

transfer.²³ A meter reading on a transfer is required so that a final bill can be prepared for the customer, and to allow correct settlement in the wholesale market.

- The AEMC's Review recommended that customer transfers be permitted to occur on the basis of an estimated meter read, where the customer has a manually read meter.²⁴
 - The AEMC noted this would provide consenting customers with the option of moving to their new retailer (and retail market offer) in a shorter timeframe, compared to waiting for their next scheduled meter read which may be up to three months away.
 - Customers could opt to transfer on an estimated read where the benefits to them of a faster transfer time outweigh the cost of waiting for an actual meter read (whether scheduled or a special meter read).

4. Nature and scope of the issues the proposed rule will address and how it would address the issues

The AEMC's Review revealed that lengthy and inaccurate customer transfers comprise a relatively small proportion of total customer transfers. However, the impact felt by customers that experience such transfers can be substantial. The Review notes it only takes unsatisfactory experiences for a few customers to be known more widely to undermine confidence in the retail market.²⁵

4.1 Timing of the customer transfer process

4.1.1 Data on customer switching times

AEMO administers the MSATS system which facilitates customer transfers in the NEM. For the purposes of the AEMC's Review, AEMO provided transfer completion data, which stems from the MSATS database and sets out electricity customer switching times between energy retailers in the NEM for recent years.

Specifically, it sets out the customer transfer timeframe from the point at which the transfer process in MSATS is initiated, to when the transfer is completed in MSATS. The data for customer transfers in the NEM has been categorised as occurring:²⁶

- Within 30 calendar days (equivalent to 21 business days);
- Between 30 and 60 calendar days (21 to 42 business days); and
- Greater than 60 calendar days (at least 42 business days).

The AEMC's Review and stakeholder submissions to the Review indicated that 30 calendar days was considered to be a reasonable timeframe for the completion of customer transfer requests. This is also consistent with timeframes overseas. The AEMC considered that transfers should be completed within 30 calendar days at most and ideally in less time.

The AEMC's Review highlighted that while for the majority of customers in the NEM transfers occur in a timely manner, some customers experience transfer completion times in excess of 30

²³ AEMC Review of Electricity Customer Switching in the National Electricity Market, 24.

²⁴ AEMC Review of Electricity Customer Switching in the National Electricity Market, 33.

²⁵ AEMC Review of Electricity Customer Switching in the National Electricity Market, 23.

²⁶ AEMC Review of Electricity Customer Switching in the National Electricity Market, 18.

calendar days- with a small number of transfer times extending beyond 60 calendar days (around 10 per cent of small customer transfers).

4.1.2 Reasons for prolonged customer transfer times

The time taken for customers to transfer appears to be determined primarily by the current practice whereby customers are only transferred after an actual meter read is obtained²⁷ and supplied to AEMO's MSATS system by the metering data provider.

Under current practices, in order to obtain a meter read, retailers have the following options:

- Wait for the next scheduled meter read, which for manually read meters, occurs in accordance with a quarterly meter reading cycle that is managed by the metering data provider; and for remotely read interval meters, data is received approximately weekly; or
- Pay (or obtain consent from the customer to pay) for a special meter read. This involves the metering data provider undertaking a 'one-off' read of the meter outside of the scheduled quarterly meter reading cycle in order to obtain an actual meter read. The costs of special meter reads are incurred either by the retailer or the consenting customer.
- The AEMC's Review revealed that some stakeholders consider special meter reads are too expensive (and potentially not cost reflective) and are not used by retailers or customers. If a special meter read is not used, the quarterly meter read cycle may mean it is some time before an actual meter read is obtained, and therefore the time for the customer to transfer will also be longer.²⁸

However, the AEMC's Review revealed that the more material issue associated with obtaining an actual meter read is related to access to manually read meters. Approximately, two-thirds of households and businesses in the NEM have manually read meters.²⁹ Under both scheduled and special meter reads, metering data providers are permitted to "object" in MSATS to a transfer request on the basis of "no access" to a manually read meter. This means that no actual meter read can be obtained since the metering data provider cannot obtain access to the customer's meter. There are a range of reasons why access to a meter may not be possible (e.g. a vicious dog or locked gate). Objections to the customer transfer process relating to no access comprise approximately 29 per cent of objections that are raised in MSATS.³⁰

4.1.3 Impacts from prolonged transfer times

Failure to obtain actual meter read data currently extends the customer transfer process. Longer than expected timeframes for customer transfers can have impacts on customers and retailers, for example:

- A customer who has experienced a longer than expected timeframe to transfer to their retailer of choice may also complain that they have not received their final bill (from the losing retailer) or the first bill (from the winning retailer); or

²⁷ AEMC Review of Electricity Customer Switching in the National Electricity Market, 21.

²⁸ AEMC Review of Electricity Customer Switching in the National Electricity Market, 21.

²⁹ The penetration of remotely read meters varies across jurisdictions, and types of customers. Victoria has nearly all of its meters being remotely read, while other jurisdictions have minimal amounts of remotely read meters. The penetration of remotely read meters is also typically higher for business than for households. AEMC 2014 *Review of Electricity Customer Switching*, 22.

³⁰ AEMC 2014 Review of Electricity Customer Switching in the National Electricity Market, 22.

- When a bill is received, the bill(s) may be higher than expected since it would relate to a longer billing period than usual.³¹

The AEMC's Review noted that such experiences can affect a customer's level of confidence in the switching process and as a result the customer may become disenchanted and participate less in the retail market. One customer's bad experience, through negative word of mouth and media reporting, can also disenchant other customers, thereby reducing overall confidence in the switching process and in retail markets more broadly.³²

Longer transfer times also affect retailers, that is, retailers may incur greater administrative costs as:

- They will be required to field more queries and complaints from customers where the transfer has not yet occurred, these complaints may ultimately end up with the energy ombudsmen.
- They will be required to respond to, and deal with, 'no access' objections that are raised in response to transfer requests. The retailer will be required to contact both the customer and metering data provider in order to set up a new time where site access would be provided to the meter.³³

The AEMC's Review detailed that it is possible that excessive transaction costs associated with securing new customers could undermine retail competition and new retailer entry into markets.

4.2 Allowing estimated meter reads to be used for customer transfers

While for the majority of customers, transfers are completed within a timely manner, for a small but significant number of customers, this is not the case. These cases largely relate to customers where:

- There is no remotely read meter at the site; or
- Their next scheduled meter read is some time away; or
- Where access to the customer's meter to obtain an actual meter read may be an issue; or
- A special meter read is considered too costly.

Given that longer than expected transfer times can have significant detrimental impacts on both retailers and customers, and broader impacts on retail energy markets, it is worth considering options to address such delays in customer transfers.

As has been seen in Victoria, the roll-out of more advanced technologies, such as smart meters, will help to address some of the issues outlined above, since the weekly receipt of remotely read data will allow transfers to be completed faster, as well as alleviating any access issues that may arise.

However, noting that two-thirds of customers in the NEM are still on manually read meters,³⁴ and given the impacts on the retail market from delayed transfer times, there are benefits from providing an alternative means for customers with manually read meters to transfer in a faster timeframe.

³¹ AEMC, 2014 Customer Switching Review, 23.

³² AEMC Review of Electricity Customer Switching in the National Electricity Market, 23.

³³ AEMC, 2014 Customer Switching Review, 23.

³⁴ AEMC Review of Customer Switching, 22.

This rule change will not require retailers to give effect to all customer transfer requests on the basis of an estimated read. Instead, it would provide retailers with another service option to be offered to potential customers who choose to quickly transfer to the retailer. Therefore, it simply provides for an alternative source of meter read to fulfil the customer's transfer request, where appropriate.

It is important to note that currently, rule 35 of the NERR, which obliges retailers to use best endeavours to prepare final bills as requested, also obliges retailers to arrange final meter reads. This applies only in relation to customers on Standard Retail Contracts; no provision of the NERR obliges retailers to prepare final bills for customers on Market Retail Contracts. This rule change request is only about the use of estimated meter reads and it does not propose to change obligations to prepare final bills for customers on Market Retail Contracts.

The changes outlined in this rule change proposal clarifying the use of estimated reads for the purposes of customer transfers will go some way to improve the timing of the customer transfer process.

However, the use of estimated reads for transfers should only be available as an option where the customer does not have a remotely read meter. Where the customer does have a remotely read meter, consumption data is provided more frequently; typically weekly, but in Victoria, data from smart meters is provided daily.

4.3 Scope

AEMO's MSATS system already has a code that can be used to give effect to a transfer on the basis of an estimated meter read.³⁵ The MSATS Procedures allows an estimated read to be provided in place of the actual meter read.³⁶ The metering data provider estimates a reading in accordance with the Metrology Procedure and jurisdictional requirements.

While this suggests estimated meter reads are not necessarily prohibited for use in transfers, the AEMC's Review outlines that there is some confusion as to whether transfers can take place on the basis of estimated reads in each jurisdiction. The Victorian Electricity Customer Transfer Code does prohibit transfers on the basis of estimates³⁷, however, in other jurisdictions there are no provisions that prohibit the use of estimated reads for transfers.

The purpose of the suggested changes to the rules is to make it clear that transfers can occur on the basis of estimated reads. The changes provide that the use of estimated reads is only permitted in the following circumstances:

- ***In-situ customer transfers***

Estimated meter reads should only apply for in-situ customer transfers (that is, where a customer wishes to transfer from their current electricity retailer, to another retailer, without moving address). By restricting the transfers to this scenario, it is less likely that the transfer process will be overly complex or create confusion. Where it is a 'move-in' or 'move-out' transfer request (not in-situ) more parties are involved and affected and therefore the transactions are likely to be more complex and less appropriate for estimated reads to be used.

³⁵ MSATS Procedures: CATS Procedure Principles and Obligations, clause 4.13(i)

³⁶ MSATS Procedures: CATS Procedure Principles and Obligations, clause 4.13(g)

³⁷ Clause 4.3(b) of the Victorian Electricity Customer Transfer Code. However, this prohibition is only in relation to customers that are vacating their premises.

- ***With customer consent***

Customers will need to give their explicit informed consent for a transfer based on an estimated read. Explicit informed consent is to be given to the winning retailer but is intended to be binding as it regards the losing retailer. Existing Rule 57 (Retailer obligations in relation to customer transfers) already makes it clear that a (winning) retailer must obtain explicit informed consent from a customer to submit a transfer request. Rule 57 applies for all small customers on Standard Retail Contracts, or Market Retail Contracts.

- ***Previous meter read is an actual read***

Estimated reads should only be allowed for transfers where the previous read for the customer's site was an actual read. The AEMC's Review noted that while there are some costs associated with implementing systems in order to check whether or not the previous meter read for a customer was an actual read, this is an important check on the process, which would minimise risks for retailers and the market overall. That is, this check would reduce the likelihood of there being material differences between actual and estimated consumption levels, and so minimises the chance of disputes arising over the validity of an estimated read.

4.3.1 Updated methods for estimated customer reads

AEMO's Metrology Procedures set out methods for estimated meter reads for manually read interval (i.e. type 5) and accumulation (i.e. type 6) meters.³⁸

The changes proposed to the NERR, as part of this rule change request, task AEMO with developing an updated, standardised, robust estimation methodology suitable to support customer transfers, based on a number of principles, including promoting accuracy. The purpose of this is to reduce the likelihood that an estimated meter read would be significantly different to an actual read for a customer. It is considered that the updated method should be based on, and consider, the existing methods for estimating reads.

This rule change proposal does not prescribe which source of information is to be used for the updated method. It is instead preferable that AEMO has the discretion to consider the practicalities of different sources of information (e.g. consideration of different consumption load profiles in different jurisdictions).

Regardless of how the 'estimate' is sourced, the metering data provider would be required to validate the estimate to check that it falls within the plausible range, and provide the validated estimate to the retailer (via MSATS) for this to be used in the customer transfer process.

- ***Dispute resolution process***

The proposed rule changes also require AEMO to develop a dispute resolution process for disputes between retailers and metering data providers about estimates. The AEMC's Review considered the need for a dispute resolution process for the use of estimated reads, and the circumstances in which it should be used. Coming out of this Review, it is considered there is a need for a dispute resolution process due to the following reasons:³⁹

- The transfer of a customer results in a different party being responsible for the customer, which has ongoing financial ramifications and responsibilities for retailers; and

³⁸ Part B section 15 specifies the use of substitution reads for the purposes of transferring customers in the event of a Retailer of Last Resort event. (AEMC, 2014 Review of Electricity Customer Switching, 39).

³⁹ AEMC Review of Customer Switching, 40.

- Using estimated reads for transfers is a new process, which increases the likelihood of disputes as participants “learn” how the process works.

5. Other policy reforms

The rule changes to improve the customer switching times in the NEM as outlined in this rule change request are complimentary to, and fit within, the broader COAG Energy Reform agenda. Other energy market reforms that are related to this rule change proposal include:

- **The Improving the accuracy of the electricity customer transfer process** rule change request submitted at the same time as this request.
- **Enhancing competition in metering and related services.** The AEMC is considering a rule change request that would support market-led development of advanced meters. Among other things, these meters would make obtaining a special read much simpler for retailers.
- **Smart meter consumer protection rule change.** This rule change is being implemented through the COAG Energy Council and clarifies that estimation includes metering data that has been substituted in accordance with the Metrology Procedure.
- **The AEMC’s 2014 Retail Competition Review** considered the state of competition in the small customer electricity and natural gas markets and the possible future development of competition. Available at: <http://www.aemc.gov.au/Markets-Reviews-Advice/2014-Retail-Competition-Review>.
- **The Distribution Network Pricing Arrangements** rule change request is considering how the principles used to set prices for distributors should be adjusted to encourage distributors to set and structure network prices that better reflect the cost of providing network services. This would encourage customers to change consumption in accordance with these price signals. Available at: <http://www.aemc.gov.au/Rule-Changes/Distribution-Network-Pricing-Arrangements>.

As well as the above reports, when developing the policy analysis and advice as part of its Review, the AEMC took into consideration the outcomes of other projects it was undertaking at the time including:

- **The Review of Competition in the Retail Electricity and Natural Gas Markets in New South Wales (NSW)**, in which the AEMC assessed competition in the retail markets for electricity and natural gas in NSW for the purpose of retaining, removing or reintroducing retail price regulation. Available at: <http://www.aemc.gov.au/Markets-Reviews-Advice/Review-of-Competition-in-the-Retail-Electricity-an>
- **Review of a Framework for Open Access and Communication Standards**, which provided advice to the Energy Council on open access and common communication standards to support contestability in demand side participation and end-user services enabled by smart meters. Available at: <http://www.aemc.gov.au/Markets-Reviews-Advice/Framework-for-open-access-and-communication-standa>

6. How the proposed rule will or is likely to contribute to the achievement of the National Energy Retail Objective (NERO) and the National Electricity Objective (NEO)

6.1 National Energy Retail Objective

The NERO states that:⁴⁰

“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.”

The changes to the NERR proposed as part of this rule change request will contribute to the achievement of the NERO by allowing for more efficient operation of the electricity market for the benefit of consumers. Where consumers are able to engage in an easy and timely customer transfer 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. It also reduces the time and energy that customers incur in making and resolving complaints about the transfers that do occur and it is likely to reduce the administrative costs of retailers by reducing the time that it takes for retailers to respond to, and deal with, such matters.

Making it expressly clear in the rules that estimated meter reads can be used for the purposes of in-situ customer transfers removes the ambiguity about whether estimated reads can be used. It also provides for a clearer, more easily understood process for customers to navigate.

Engaging in retail markets by switching retailers provides one of the most powerful tools consumers have for exerting their influence on the competitiveness process. The proposed rule further improves the ability of customers to switch retailers and allows for increased engagement in retail energy markets thereby enhancing retail competition which is in the long term interest of consumers and the efficient operation of energy markets more broadly.

6.2 National Electricity Objective

The NEO states that:⁴¹

“The objective of this Law is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to-

- (a) price, quality, safety, reliability and security of supply of electricity; and*
- (b) the reliability, safety and security of the national electricity system.”*

The proposed changes to the NER contribute to the NEO by allowing for transparency and predictability in the circumstances under which estimated reads are to be used and how the estimates are to be validated and disputes resolved. Transparency promotes accountability and confidence in the retail market.

AEMO’s development of an updated, standardised and robust methodology to support transfers will reduce the likelihood that an estimated read would be significantly different to an actual meter read for a customer.

Improved transparency also enables both the consumer, and the other parties involved in a transfer to understand their obligations for the use of estimated meter reads and how parties

⁴⁰ NERL, s 13.

⁴¹ NEL, s 7.

should interact to effect a customer transfer, including how to resolve any disputes that may arise. Clearly articulating these requirements allows for a more efficient operation of the electricity services in the long term interests of consumers. It will also increase the likelihood that consumers and retailers will support the use of estimated reads.

This rule change allows for the development of procedures to determine how estimates are to be validated and disputes resolved, thereby allowing for costs and risks to be allocated to those best placed to manage them- leading to lower system costs overall.

Additionally, this rule change helps to ensure that all parties understand what their own and others' obligations under the rules are, and how they should interact with other parties to effect a customer switch which is in the interests of the efficient operation of the system and long term interests of consumers.

7. Australian Energy Market Operator's Declared Network functions

This proposed rule change will not affect AEMO's declared network functions.

8. Expected costs, benefits and impacts of the proposed rule

8.1 Costs

Retailers would be obliged to put in place systems to facilitate transfers on the basis of estimated reads. Both the winning retailer offering the estimated read for the purpose of the transfer, and the losing retailer who must transfer the customer on the basis of an estimated read would need to have systems to give effect to the transfer.

This rule change proposal requires that estimated reads should only be allowed for transfers where the previous read for the customer's site was an actual read. Restricting the use of estimated reads in this manner would involve greater system changes in order to accommodate this recommendation, and thereby, increasing its implementation costs. For example, a new objection code would have to be created in MSATS, which would be used to flag where the previous read for that site was not an actual read.

- The AEMC's Review noted that one retailer considered it would cost them approximately \$1-2 million to implement a new transfer code for transfers based on using estimated reads where the previous read was an actual, and subject to it being an in-situ transfer.
- However, several other submissions to the AEMC's Review commented that it is important that this restriction is maintained as the likelihood of an estimated read being incorrect increases significantly if the previous meter read was not an actual read.

Other costs include:

- Costs incurred by AEMO in developing new procedures.
- Some changes to participants' back-office business and process systems to accommodate changes to the customer transfer process (e.g. metering data providers may need to adapt their systems to reflect the new estimation methodology).
- Training of retailer's staff in order for them to be aware that they must obtain the explicit informed consent of the customer prior to permitting a transfer to occur in MSATS on the basis of an estimated meter read.

- Costs associated with any dispute that may arise from disagreements over estimated read values.
- A potential increase in risk to retailers, relating to their hedging strategies.

The first two costs would be largely one-off costs, while the latter three potential costs would need to be managed over time.

8.2 Benefits

There are a range of benefits associated with this rule change request including:

- The transparency and understanding of the current arrangements would be increased for all participants, allowing them to manage transfers as effectively as possible. This may improve customer engagement and confidence in the retail market, thereby supporting competition.
- Customers would have the option of moving to their new retail offer much sooner than having to wait to transfer on their next scheduled meter read or pay for a special read. This would, therefore, reduce transaction costs for those customers that opt to switch on estimated reads, since transfers would occur more quickly and potentially more cheaply.
- This option provides an alternative means of obtaining a meter read, which circumvents the problems of meter access that have been widely cited as being one of the main constraints on giving effect to faster transfers.
- There would be reduced transaction costs for retailers, since they would be able to become the financially responsible market participant for the new customer sooner, and so benefit from customer revenues sooner.
- The availability of quicker transfers to a new retailer may make transfers more attractive to consumers, which may lead to an increase in competition, which is in the long term interests of consumers.

In addition, there are economies of scale with this change. That is, the more retailers make use of estimated reads, the more likely it is that the value derived from the benefits will outweigh the implementation costs.

Several submissions by consumer groups and energy ombudsmen to the AEMC's Customer Switching Review supported the use of estimated reads.

8.3 Risks and mitigation strategies

There may be concerns that the party responsible for providing the estimate (e.g. the metering data provider) has limited exposure to the risk of an estimate being incorrect, and so may have limited incentives to resolve any errors, or provide an accurate estimate.

- However, since the estimated read would be undertaken by the metering data provider, in accordance with the new method for estimation set out in the Metrology Procedures, the likelihood of inaccurate estimates should be minimal. There would be little scope for the metering data provider to deviate from this agreed method, and it would be a compliance issue if they did so.

During the AEMC's review, several consumer groups and energy ombudsmen commented that customers may be wary of estimated reads, given the potential for such estimates to be different to the amount of electricity that is actually consumed. The group noted that based on their experience, estimated reads have the tendency to create customer complaints and result in

disputes. These disputes have the potential to escalate to the ombudsmen, creating costs for both customers and retailers. However, this risk would be mitigated by the following:

- To the extent that the estimated consumption is different to the actual consumption, this would be adjusted effectively for the customer when an actual read is taken by the winning retailer. That is, ultimately the customer is only billed for the energy they have consumed between two actual meter reads. The extent to which a customer may be financially affected, would depend on the difference in the customer's retail tariff under the losing retailer, compared to the winning retailer. This is likely to be small.
- Since explicit informed consent is required by the customer in order to permit a transfer to occur on the basis of an estimated read, only those customers that would value a faster transfer are likely to opt for this approach.

9. Stakeholder consultation

This rule change request was developed by Commonwealth, state and territory officials and approved by the COAG Energy Council. AEMO and the AEMC were consulted as part of the development of this proposal.

The AEMC's Customer Switching Review forms the basis of the arguments put forward in this proposal. As part of its Review, the AEMC undertook various rounds of consultation. That is, the AEMC published an Issues Paper for the Review on 3 December 2013 seeking stakeholders' initial views on the causes and materiality of issues in the current customer transfer process. The AEMC received submissions from 20 stakeholders including retailers, distributors, energy industry associations, jurisdictional energy ombudsmen and consumer groups.

On 23 January 2014, the AEMC published an Options Paper for consultation that built on the material issues that were identified in, and in response to, the Issues Paper. A number of possible options were set out to improve the effectiveness and efficiency of the customer transfer process, along with further questions for stakeholder comment. The AEMC received submissions from 24 stakeholders including retailers, distributors, energy industry associations, jurisdictional energy ombudsmen, consumer groups and industry bodies.

The AEMC also met with a number of key stakeholders (including retailers, metering data providers, energy ombudsmen and consumer groups) throughout the development of the review to discuss the customer transfer process.

10. Draft Rules

[Note: the numbering of rules below has been suggested in accordance with current versions of the National Electricity Rules and National Energy Retail Rules and may need to be revised in light of any future amendments.]

National Energy Retail Rules

Part 1 Preliminary

Division 1 Introduction and definitions

[...]

3 Definitions

metrology procedure has the same meaning as in the NER.

Part 2 Customer retail contracts

...

Division 4 Customer retail contracts—billing

...

21 Estimation as basis for bills (SRC and MRC)

- (1) A retailer may base a small customer's bill on an estimation of the customer's consumption of energy where:
 - (a) the customer consents to the use of estimation by the retailer; or
 - (b) the retailer is not able to reasonably or reliably base the bill on an actual *meter* reading; or
 - (c) *metering data* is not provided to the retailer by the *responsible person*; or
 - (d) the retailer is issuing a final bill for a transferring customer in accordance with rule 57A.
- (2) Where estimations are permitted to be used as the basis for a small customer's bill, the estimations may be based on:
 - (a) the customer's reading of the relevant *meter*; or
 - (b) historical *metering data* for the customer reasonably available to the retailer; or
 - (c) the average usage of energy by a comparable customer over the corresponding period, if there is no historical *metering data* for the customer.
- (2A) Estimations made for the purposes of issuing a final bill for a transferring customer under rule 57A must be made in accordance with the relevant *metrology procedure*.
- (2B) Where rule 21 (2A) applies, rules 21 (2) and 21 (4) do not apply.
- (3) The retailer must inform the small customer, on the bill, that the bill is based on an estimation.
- (4) Without affecting rule 20 (2), if the retailer has issued the small customer with a bill based on an estimation and the retailer subsequently issues the customer with a bill that is based on an actual *meter* reading or on *metering data*:
 - (a) the retailer must include an adjustment on the later bill to take account of any overcharging of the customer that has occurred; and

- (b) unless the actual *meter* reading or *metering data* could not be obtained as a result of an act or omission by the customer, the retailer must, if requested to do so by the customer, offer the customer time to pay any undercharged amount by agreed instalments, over a period being no longer than:
 - (i) the period during which an actual *meter* reading or *metering data* was not obtained, where that period is less than 12 months; or
 - (ii) in any other case, 12 months.

Note:

This subrule is a civil penalty provision for the purposes of the Law. (See the National Regulations, clause 6 and Schedule 1.)

...

(6) Application of this rule to standard retail contracts

This rule applies in relation to standard retail contracts.

(7) Application of this rule to market retail contracts

- (a) This rule applies in relation to market retail contracts for electricity (other than prepayment *meter* market retail contracts).
- (b) This rule applies in relation to market retail contracts for gas (other than prepayment *meter* market retail contracts), but only to the extent (if any) a contract provides for estimation as the basis for the small customer's bill.

...

Division 9 Other retailer obligations

...

57A Final bill for transferring small customer may be based on estimation (electricity only)

- (1) This rule only applies in relation to electricity.
- (2) A retailer must base a small customer's final bill on an estimation of the customer's consumption of energy where:
 - (a) the customer is transferring from a retailer (the **original retailer**) to another retailer (the **new retailer**); and
 - (b) the customer is remaining at the same premises; and
 - (c) either the original retailer or the new retailer has obtained *explicit informed consent* from the customer to the final bill being based on an estimation; and
 - (d) the meter at the customer's premises is a manually read meter; and
 - (e) the immediately prior meter reading was an actual meter reading.
- (3) Estimations made for the purposes of issuing a final bill for a transferring customer in accordance with rule 57A must be made in accordance with the relevant *metrology procedure*.
- (4) The original retailer and the new retailer must use the same estimation for the purposes of final and ongoing billing.
- (5) A retailer is not required to replace the estimation with an actual meter reading.
- (6) A retailer may only dispute an estimation made for the purposes of this rule:
 - (a) if the retailer would suffer significant financial consequences; and
 - (b) in accordance with the relevant *metrology procedure*.
- (7) **Application of this rule to standard retail contracts**

This rule applies in relation to standard retail contracts.

(8) Application of this rule to market retail contracts

This rule applies in relation to market retail contracts.

Schedule 1 Model terms and conditions for standard retail contracts

9.3 Estimating the energy usage

- (a) We may estimate the amount of energy consumed at your premises if your *meter* cannot be read, if your *metering data* is not obtained (for example, if access to the *meter* is not given or the *meter* breaks down or is faulty), or if you otherwise consent.
- (b) If we estimate the amount of energy consumed at your premises to calculate a bill, we must:
 - (i) clearly state on the bill that it is based on an estimation; and
 - (ii) subject to paragraph (e), when your *meter* is later read, adjust your bill for the difference between the estimate and the energy actually used.
- (c) If the later *meter* read shows that you have been undercharged, we will allow you to pay the undercharged amount in instalments, over the same period of time during which the *meter* was not read (if less than 12 months), or otherwise over 12 months.
- (d) If the *meter* has not been read due to your actions, and you request us to replace the estimated bill with a bill based on an actual reading of the *meter*, we will comply with your request but may charge you any cost we incur in doing so.
- e) If you are remaining at the same premises and transferring to a new retailer and we estimate the amount of energy consumed at your premises for your final bill, we will not replace that estimate with an actual meter reading. This term only applies to standard retail contracts for electricity.

Schedule 3: Savings and Transitional Rules

Part 5 Transitional rules consequential on the making of the National Energy Retail Amendment (Improving the Timing of the Electricity Customer Transfer Process) Rule 2015

1 Definitions

In this Part:

amending rule means the National Energy Retail Amendment (Improving the Timing of the Electricity Customer Transfer Process) Rule 2015.

start date means the date when amending rule comes into operation.

2 Final bill for transferring customer may be based on estimation

- (1) Regulated entities must vary their forms of standard retail contract for electricity in accordance with the amending rule.

National Electricity Rules

Chapter 7 Metering

...

7.14 Metrology and service level procedures

7.14.1 Requirements of the metrology procedure

- (a) *AEMO* must establish, maintain and *publish* the *metrology procedure* that will apply to *metering installations* in accordance with this rule 7.14 and this Chapter 7.
- (b) The *metrology procedure* must include a minimum period of 3 months between the date when the *metrology procedure* is *published* and the date the *metrology procedure* commences unless the change is made under clause 7.1.4(e) in which case the effective date may be the same date as the date of *publication*.
- (c) The *metrology procedure* must include:
 - (1) information on the devices and processes that are to be used to:
 - (i) measure, or determine by means other than a device, the flow of electricity in a power conductor;
 - (ii) convey the measured or determined data under subparagraph (i) to other devices;
 - (iii) prepare the data using devices or algorithms to form *metering data*; and
 - (iv) provide access to the *metering data* from a *telecommunications network*;
 - (2) the requirements for the provision, installation and maintenance of *metering installations*;
 - (3) the obligations of *responsible persons, financially responsible Market Participants, Local Network Service Providers, Metering Providers, Metering Data Providers and Retailers*;
 - (4) details on:
 - (i) the parameters that determine the circumstances when *metering data* must be delivered to *AEMO* for the purposes of Chapter 3 and such parameters must include, but are not limited to, the volume limit per annum below which *AEMO* will not require *metering data* for those purposes;
 - (ii) the timeframe obligations for the delivery of *metering data* relating to a *metering installation* for the purpose of *settlements*; and
 - (iii) the performance standards for *metering data* required for the purpose of *settlements*;
 - (5) subject to clause 7.14.2(d)(2), zero MWh as the specification for the type 5 *accumulation boundary*;
 - (6) procedures for:
 - (i) the validation and substitution of *metering data*;
 - (ii) the estimation of *metering data*, including for the purposes of preparing a final bill for a transferring retail customer.
 - (iii) the method:
 - (A) by which accumulated *metering data* is to be converted by *AEMO* into *trading interval metering data*; and
 - (B) of managing the *first-tier load metering data* that is necessary to enable the conversion referred to in subparagraph (A) to take place; and

- (6A) a dispute resolution process for disputes between a *retailer* and a *metering data provider* arising from the use of an estimation in a final bill for a transferring retail customer.
- (7) other matters in the *Rules* required to be included in the *metrology procedure*.

Chapter 11 Savings and Transitional Rules

Part ZZI Improving the Timing of the Customer Transfer Process

11.81 Rules consequential on the making of the National Electricity Amendment (Improving the Timing of the Customer Transfer Process) Rule 2015

11.81.1 Definitions

For the purposes of this rule 11.81:

Amending Rule means the National Electricity Amendment (Improving the Timing of the Customer Transfer Process) Rule 2015.

Commencement Date means the date the Amending Rule commences.

11.81.2 Amendments to the *metrology procedure* dealing with the estimation of metering data for transferring retail customers

- (a) As soon as practicable after the Commencement Date, *AEMO* must develop and *publish* amendments to the relevant *metrology procedure* that set out a procedure for the estimation of metering data for the purposes of preparing a final bill for a transferring retail customer.
- (b) In doing so, *AEMO* must have regard to:
 - (i) the accuracy of the procedure;
 - (ii) the cost of the procedure; and
 - (iii) consistency with the *metrology procedure* and *Market Settlement and Transfer Solution Procedures*.
- (c) The amendments to the relevant *metrology procedure* made under rule 11.81.2(a) must require the *metering data provider* to validate the estimation of metering data prior to entering the validated estimation into the MSATS system for the retailers involved in the customer transfer process.
- (d) In developing amendments to the *metrology procedure* under this rule 11.81.2, *AEMO* must act in accordance with the *Rules consultation procedures*.

11.81.3 Amendments to the *metrology procedure* dealing with disputes arising from the estimation of metering data for transferring retail customers

- (a) As soon as practicable after the Commencement Date, *AEMO* must develop and *publish* amendments to the relevant *metrology procedure* that set out a dispute resolution process for disputes between a retailer and a metering data provider arising from the use of an estimation of metering data in a final bill for a transferring retail customer.
- (b) In doing so, *AEMO* must have regard to:
 - (i) the cost of the procedure; and
 - (ii) consistency with the *metrology procedure* and *Market Settlement and Transfer Solution Procedures*.
- (c) The procedure must specify the circumstances in which a retailer is permitted to dispute an estimation of metering data.
- (d) In developing amendments to the *metrology procedure* under this rule 11.81.3, *AEMO* must act in accordance with the *Rules consultation procedures*.

11.81.4 Amendments to the Market Settlement and Transfer Solutions Procedures dealing with the customer transfer process

- (a) As soon as practicable after the Commencement Date, *AEMO* must consider whether any consequential amendments to the *Market Settlement and Transfer Solution Procedures* are necessary as a result of the Amending Rule.
- (b) If *AEMO* considers that any such consequential amendments are necessary, it must develop and *publish* the amendments.
- (c) In developing amendments under paragraph (b), *AEMO* is not required to act in accordance with the *Rules consultation procedures*.