

19 December 2013

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

Dear Mr Pierce,

RE: Review of Electricity Customer Switching – Issues Paper (Reference EPR0038)

The NSW Distribution Network Service Providers, Ausgrid, Endeavour Energy and Essential Energy (the NSW DNSPs) are pleased to respond to the AEMC's Issues Paper on the Review of Electricity Customer Switching.

It is our understanding that this review is aimed at investigating current arrangements for customer switching to determine whether they are efficient and support the timely transfer of customers. The NSW DNSPs support this intent and recognise the importance of switching arrangements being easy for customers to engage in, and timely. The NSW DNSPs agree with the AEMC that accessible, administratively simple, and timely switching arrangements are likely to be beneficial, as they are likely to facilitate customer choice by empowering customers to actively switch retailers to obtain product offerings that best meet their needs and perceptions of value.

Whilst the NSW DNSPs support the aim of the review, we consider:

- the issue of maximum timeframes creating a barrier to customer switching is overstated and unsupported;
- more effective improvements aimed at encouraging greater levels of customer switching could be achieved by examining more pertinent issues, such as contract issues (e.g. variation and fees) and transfers without consent;
- the review mistakenly infers that timeframes for completing customer switching is a material issue and identifies metering technology and the timeliness of meter data reads as the primary cause of this issue; and
- the AEMC's perceived solution for improving the timeliness of customer switching is likely to result in suboptimal outcomes and increase the costs associated with customer switching.

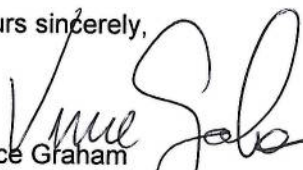
The NSW DNSP's submission focuses on highlighting these issues rather than providing responses to the specific questions raised in the Issues Paper. In addition, we have also sought to provide alternative suggestions for how timeframes for customer switching could be improved.

The NSW DNSPs note that the consultation timeframe afforded to stakeholders to provide feedback on this policy issue (3 weeks) is extremely short and allows very little time for stakeholders to undertake thorough analysis of the issues. This is particularly concerning given that the AEMC has indicated that there may not be any further consultation prior to it providing its Final Report to the Standing Council on Energy and Resources (SCER).

The NSW DNSPs consider that further consultation on this review is necessary and strongly urge the AEMC to undertake further consultation prior to publishing its Final Report. We believe that this is necessary in order to prevent suboptimal review outcomes.

The NSW DNSPs would be happy to meet with the AEMC to discuss our concerns further, particularly in relation to issues surrounding the use of estimate meter reads. If you have any further queries or would like to arrange a meeting please contact Mr Mike Martinson, Group Manager Regulation at Networks NSW on (02) 9230 3120 or michael.martinson@endeavourenergy.com.au

Yours sincerely,


Vince Graham
Chief Executive Officer
Ausgrid, Endeavour and Essential Energy

19/12/13

1. Introduction

The NSW DNSPs support measures aimed at facilitating greater levels of customer choice. We believe it is important that regulatory and market arrangements support consumer choice as this is essential to enabling customers to make more informed choices about the way they use electricity.

Our submission is not aimed at providing detailed comments in relation to the questions raised in the Issues Paper. Rather, it is focused on highlighting key issues raised by the review and suggesting alternative options for improving customer switching arrangements. Specifically, we have structured our submission around the following key areas:

- **Perceived issues with the efficiency of current switching arrangements** – this section examines the validity of the AEMC's Power of Choice (POC) finding that maximum timeframes act as a barrier to customer switching.
- **The materiality of timeliness as a barrier to customer switching** – this section examines whether the timeliness of customer switching is a material issue and whether addressing other issues relating to customer switching would have a more effective impact on switching levels.
- **Metering technology and the timeliness of accurate meter data reads** – this section looks at the impact of metering technology and timeliness of meter data reads on timeframes for switching and seeks to identify possible areas for improving current timeframes.
- **Solutions for reducing maximum timeframes for customer switching** – this section seeks to highlight key concerns raised by adopting estimated meter data reads, qualifies the ability of smart metering to address issues of timeliness and accuracy of meter reads and highlights possible negative impacts on customer switching from introducing competition to metering services

Each of these issues is discussed in further detail below.

2. Efficiency of current switching arrangements

The NSW DNSPs note that the impetus for this review is based on findings from the AEMC's Final Report on the Power of Choice Review (POC), which indicated that the maximum timeframe for transferring customers in the National Electricity Market (NEM) (65 business days) lagged significantly behind other countries, whose typical maximum timeframes for switching ranged between 10 and 20 business days. This finding has subsequently sparked concern by the Standing Council on Energy and Resources (SCER) that current timeframes for switching may create a barrier to greater levels of customer switching in the NEM.

The NSW DNSPs are concerned by the inferences drawn from the POC Final Report. Namely we are concerned by the AEMC's attempt to compare Australia's 65 business day maximum timeframe for switching with the switching timeframes of other countries. Specifically, we are concerned that the data used by the AEMC to support its POC conclusion that Australia's timeframes for switching lag significantly behind other countries, is subject to a number of variances that need to be qualified. For instance:

- It is unclear whether the source data findings refer to maximum timeframes or average timeframes for switching;¹
- Timeframes for switching are also not calculated on a consistent basis and can differ significantly between European countries;
- Timeframes for switching can vary significantly depending on the channel of switching, ability to make objections and type of meter reading used to finalise the account.

Consequently as acknowledged by the AEMC, it is not straightforward to conclude from the Council of European Energy Regulator (CEER) Status Review of Customer and Retail Market Provisions (CEER Review) that Australia lags significantly behind other countries in its switching times.² For example, if

¹ AEMC 2013, Review of Electricity Customer Switching, Issues Paper, 3 December 2013, Sydney p 2.

² Ibid, p 3.

the CEER Review data includes average timeframes in calculating its statistics then Australia is relatively on par with other countries, as its average switching times are around 20-30 business days.³

Further, of the 26 European countries from which the CEER Review data is based, only 15 of those countries actually meet the six week timeframe (30 business days) for completing customer switching.⁴ Subsequently, even if the CEER Review data did not capture average timeframes, there is evidence to infer that Australia's maximum timeframe of 65 business days may not lag significantly from other countries; given that only half the countries actually meet the required 30 business day timeframe for switching, while the remaining 11 countries either did not comply or did not answer whether they were compliant.⁵

In addition, the NSW DNSPs note that comparing timeframes between Australia and other European countries may also not be meaningful given that timeframes for switching can be calculated differently. For example in Austria, the time period for switching does not actually commence until the winning retailer informs the distributor about the customer's wish to switch.⁶ Consequently, any time which elapses prior to the winning retailer notifying the distributor, is not counted towards the switching timeframe, whereas in Australia this time is included within the maximum timeframe.

Similarly in Bulgaria specific time periods for switching customers do not apply (i.e. time is not taken to elapse) until the contract has legally entered into force (i.e. the cooling off period expires), whereas Australia's maximum timeframes encompass the cooling off period.⁷

Consequently, the NSW DNSPs question the validity of the AEMC's POC finding that Australia's customer switching timeframes lag significantly behind other countries. Rather, we consider that there is sufficient evidence to suggest that current switching arrangements have been operating effectively and efficiently. This view is supported by:

- 1) the high levels of customer switching in the NEM, which the AEMC notes is high compared to other countries and industries;⁸ and
- 2) average switching times, which are generally around 20-30 business days (this is significantly less than 65 business days).⁹

3. Materiality of customer timeframes as a barrier to customer switching

This section of our submission seeks to demonstrate that:

- Switching timeframes in the NEM are generally efficient and do not pose a material barrier to customer switching;
- Customers are generally happy with the existing transfer process and do not perceive timeliness to be a pertinent issue; and
- More effective improvements to customer switching arrangements could be achieved by investigating more material sources of customer complaints relating to the transfer process such as contract issues (e.g. variation and fees) and transfers without consent as possible means rather than focusing solely on the timeliness of the transfer process.

3.1 Evidence to support the efficiency of switching timeframes in the NEM

The NSW DNSPs do not consider that existing maximum timeframes represent a material barrier to customer switching. Rather, we note that data extracted from Market Settlement and Transfer Solutions (MSTATS) generally indicates that the volume of switching completed in NSW has steadily increased since 2009, as depicted by Figure 1.¹⁰

³ Ibid.

⁴ CEER, *CEER Status Review of Customer and Retail Market Provisions from 3rd Package as of January 2012*, Ref: C12-CEM-55-04, 7 November 2012, p.19.

⁵ Ibid.

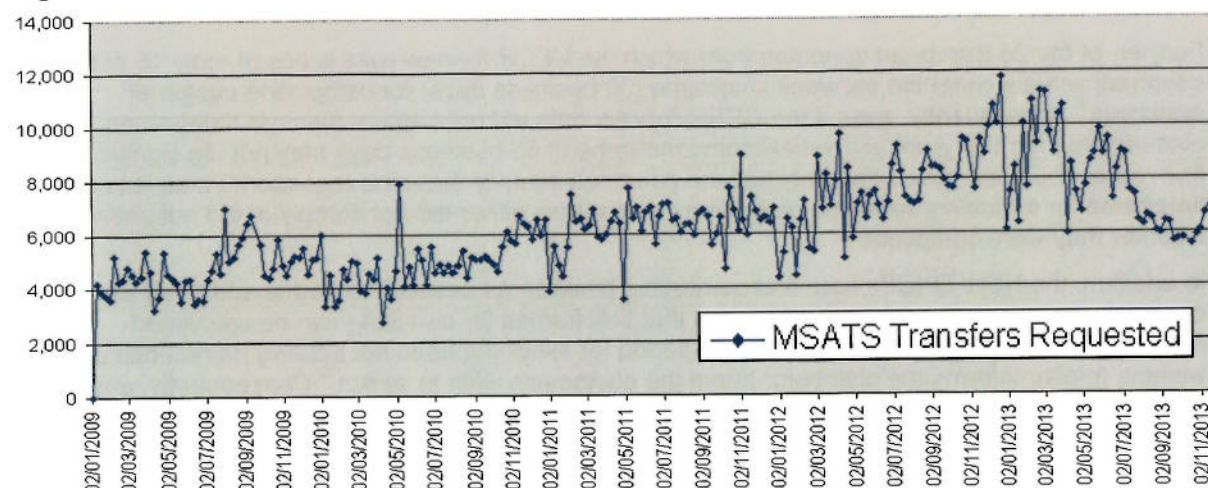
⁶ Ibid, p 18.

⁷ Ibid, p 17.

⁸ AEMC 2013, *Review of Electricity Customer Switching*, Issues Paper, 3 December 2013, Sydney, p. 4.

⁹ Ibid pp 2-3. The NSW DNSPs note that the AEMC considers average switching times to be a more relevant indicator of the timeliness of switching arrangements than maximum timeframes.

¹⁰ Note, Figure 1 is based on requested customer switches within Ausgrid's network.

Figure 1 –MSTATS Transfer Requests

Note the above data is based on MSTATS information relating to Ausgrid's distribution network.

The NSW DNSPs note that the AEMC has undertaken analysis of switching timeframes across the jurisdictions in Appendix A of its Issues Paper. We are concerned that some of the analysis in this section may be misleading, as it refers to timeframes in calendar days (i.e. 7 days) rather than business days (i.e. 5 days). It is important to distinguish this discrepancy, as business days and not calendar days is the relevant measurement for calculating switching timeframes.

We are concerned that as the data in Appendix A of the Issues Paper is not presented in terms of business days, it may give rise to the perception that a considerable portion of customer switching is being completed close to or greater than the maximum timeframe for switching. However, it is important to note that when the data in Appendix A is viewed in light of the appropriate equivalent maximum timeframes (i.e. approximately 91 calendar days or 13 weeks), current timeframes for completing customer transfers are actually significantly less than the maximum timeframes.

Consequently, we consider a more appropriate way of interpreting the data in Appendix A is to convert the calendar days into weeks to provide a more comparable and meaningful basis for assessing the efficiency of current switching timeframes.

Table 1 – Comparison of completed switching timeframes against maximum timeframes¹¹

% of completed switching	Jurisdiction					
	NSW	QLD	ACT	Tasmania	South Australia	Victoria
less than 4 weeks	37.9	55.2	45.3	43.3	45.3	63.7
4-8 weeks	32.2	25.1	34.9	33.7	26.5	21
greater than 8 weeks	29.8	19.7	19.8	23	24.1	15.3

It is evident from Table 1 that the vast majority of switches are completed in less than 8 weeks. For instance switches undertaken in less than 8 weeks amounted to approximately:

- 70% in NSW;
- 80% in QLD and ACT;
- 77% in Tasmania;
- 72% in South Australia; and
- 85% in Victoria.

Given that the relative maximum timeframe for switching is 13 weeks rather than 8, the above data indicates that switching arrangements in the NEM are operating relatively efficiently.

¹¹ Information contained in the Table 1 has been extracted from the AEMC's Issues Paper, Appendix A and p 56. The NSW DNSPs have converted calendar days used to make comparisons to weeks to provide a more meaningful basis for comparison.

It is important to note that the data taken from Appendix A does not provide an accurate reflection of the number of switches that exceeds 13 weeks (i.e. the 65 business day maximum). The data only indicates the percentage of switching completed within a timeframe greater than 8 weeks, which means the percentage of switches that have been completed close to the maximum timeframe or greater than could be significantly less than the percentages reflected in the last row of Table 1.

We note that the data in Table 1 further supports the NSW DNSPs' assertion that the AEMC's finding in its POC Final Report that Australia's timeframes lag significantly behind other countries is unsupported. As noted in section 2, only just over half of the European countries that participated in the CEER Review completed customer switches within 6 weeks. Given that the majority of switches in Australia are completed between 4 to 8 weeks, the NSW DNSPs consider that this is relatively on par with international switching timeframes and does not represent a material source of concern.

The NSW DNSPs would also like to highlight that whilst the timeliness of customer switching is a useful indicator, it does not provide a direct correlation with switching rates. For example, whilst NSW has a much lower percentage of switches completed in less than 4 weeks (relative to other jurisdictions) volume wise, it completes the second highest number of switches within this timeframe in the NEM (0.5 million).¹² Consequently, the NSW DNSPs caution against relying solely on the timeliness as an indicator in determining the efficiency of current switching arrangements.

3.2 Customers' perceptions of the timeliness of switching arrangements

The NSW DNSPs note that in addition to the data provided in Figure 1 and Table 1, which indicates that current timeframes for switching are efficient and do not pose a barrier to customer switching, research undertaken by Roy Morgan Research also supports this conclusion.

In testing the "ease of switching" the results from the Roy Morgan research revealed that 81% of electricity customer respondents found the switching process "easy" with only 10% finding the current process difficult.¹³ Further, the results from the survey also show that 74 % of respondents were generally happy with timeliness of the switching process with 20% (of the 74%) noting that the switching process took less time than expected.¹⁴

3.3 Materiality of transfer delays in customer switching

The NSW DNSPs note that the Issues Paper seeks to highlight that customer transfer related customer complaints have risen significantly in recent years based. Whilst the AEMC identifies that customer complaints relating to transfers have increased, it fails to make the correlation that of those complaints delays to the transfer process account for a very minor proportion of total complaints (approximately 10%).¹⁵ When compared to other complaint issues relating to customer switching, such as contract issues (31% of complaints) and transfers being made without the customer consent (21% of complaints), the NSW DNSPs note that complaints relating to delays are relatively minor.¹⁶

Further, when comparing the number of complaints arising from delays to the transfer process to previous data collected by the NSW Energy Ombudsman, it would appear that there has been only a marginal increase in complaints relating to transfer delays (2%), as a percentage of total complaints relating to customer transfers since 2010.¹⁷ This figure seems largely inconsequential, particularly in light of the significant increase in the volume of customer switching over this timeframe.

The NSW DNSPs consider that evidence from the NSW Energy Ombudsman annual report strongly suggests that delay to the transfer process is not a material issue. Rather, evidence from the NSW Energy Ombudsman indicates that contract issues and transfers without consent represent more pertinent areas of concern than the timeliness of transfers. The NSW DNSPs suggest that more effective improvements to customer engagement and switching levels in the NEM would be achieved

¹² AEMC 2013, Review of Electricity Customer Switching, Issues Paper, 3 December 2013, Sydney, p. 70.

¹³ Roy Morgan Research, Retail competition in NSW electricity and natural gas markets: focus groups with residential and small business consumers, 28 February 2013, p 25.

¹⁴ Ibid, p 26.

¹⁵ The percentage is calculated based on data taken from the Energy and Water Ombudsman NSW Annual Report 2012-13, 2013, p 22.

¹⁶ Ibid.

¹⁷ Refer to Energy and Water Ombudsman NSW Annual Report 2010-11, 2010, p 21, which shows that complaints relating to customer delays amounted to approximately 8%; Energy and Water Ombudsman NSW Annual Report 2011-12, 2011, p 20, which shows customer delays amounted to approximately 10% of complaints.

by focusing on resolving these issues. We suggest that there would be material benefit in investigating these issues further as part of the AEMC review of customer switching arrangements.

Overall, the NSW DNSPs consider that there is overwhelming evidence to support the conclusion that current delays in customer transfer process do not pose a material barrier to customer switching. Rather, the evidence indicates that timeframes for customer switching are generally efficient¹⁸ and that the majority of customers are generally happy with the timeliness of the switching process.¹⁹

4. Metering technology and the timeliness of meter reads

This section is aimed at:

- Clarifying inferences that Local Network Service Provider (LNSP) may be behaving disingenuously and obstruct market processes for customer transfers; and
- Clarifying the assumption that LNSPs lack incentive to undertake timely and accurate meter reads; and
- Examining the materiality of metering technology and meter data reads as a source delay to customer transfers;

4.1 The impact of LNSP's on customer switching timeframes

The NSW DNSPs note that the AEMC has identified metering technology and meter data reads as the key cause of delay in customer transfers, based on data taken from MSTATS on the number of objections made to retailer transfer requests.

The NSW DNSPs are concerned by some of the inferences drawn by the AEMC's Issues Paper and note the potential for people without industry knowledge to misinterpret this as the LNSP obstructing the market process. The NSW DNSPs note that primary reasons LNSPs often object to transfers is when winning retailers have incorrectly entered a wrong meter reading type, date or party within a transaction or where there are issues relating to accessing to the customer's meter to do a final meter read.

Further the NSW DNSPs note that the MSTATS data used by the AEMC on delays caused by different objection codes may not be useful. Whilst the data provides a breakdown of numbers by objection code it does not capture or report the timeframe to resolve the objection. For instance, while Figure 5.12 in the Issues Paper indicates that no access accounts for a high proportion of total objections, the data does not indicate whether this objection is often resolved relatively quickly. If access problems are able to be resolved relatively quickly then the NSW DNSPs consider that this issue does not have a material impact on timeliness.

We also note that another shortcoming of MSTATS data is that there is currently no mechanism for capturing requests made by retailers which are illogical and require validation by the LNSP. Consequently, this issue goes largely unreported despite it representing a potential material source of delay.

The NSW DNSPs suggest that these should be referred to AEMO, in particular the B2B and MSTATS Reference Group (BMRG), to canvas participant concerns, and where appropriate determine procedural changes to address these concerns/issues.

4.2 Incentives for DNSPs to provide timely and accurate meter reads

The NSW DNSP's note that the Issues Paper seems to infer that impact of poor meter data rests solely with the retailer and therefore, DNSPs lack sufficient appropriate incentives to comply with their obligation to provide accurate meter reads in a timely fashion.²⁰

The NSW DNSPs strongly disagree with this conclusion, noting that Network Use of System (NUoS) represents approximately 95% of DNSP's revenues. Consequently, DNSPs have a very strong incentive to provide timely and accurate meter reads as their revenue depends on this.

¹⁸ Refer to NSW DNSPs commentary on Figure 1 and Table 1 of this submission.

¹⁹ Refer to findings from Roy Morgan Research, Retail competition in NSW electricity and natural gas markets: focus groups with residential and small business consumers, 28 February 2013 and the breakdown of customer complaints relating to transfer by issue contained in the Energy and Water Ombudsman NSW *Annual Report 2012-13*, 2013.

²⁰ AEMC 2013, Review of Electricity Customer Switching, Issues Paper, 3 December 2013, Sydney, p. 16.

Whilst the NSW DNSPs do not perceive this to be a pertinent issue in NSW, we understand that retailers can be frustrated by delays in meter reads and inaccurate data. We consider that this could be addressed by improving B2B and metrology processes and reviewing the effectiveness of current enforcement mechanisms.

The NSW DNSPs do not consider that new obligations are required to incentivise DNSPs to comply with their market and regulatory obligations to deliver timely and accurate data. Rather, we consider that perhaps there is a need to examine existing enforcement mechanisms to determine why they are not being utilised more widely to address this perceived issue.

4.3 Materiality of metering technology and meter reads on customer switching timeframes

The Issues Paper infers that a key source of delay to customer switching timeframes is meter technology and meter reads. This inference is based on comparison of meter read times in Victoria which have smart meters which are able to be remotely read and customer accounts settled based on estimate meter reads.

The NSW DNSPs note that data from Table 1 of the submission demonstrates that a substantial portion of customer switches outside of Victoria are completed within 4 weeks (or approximately 30 calendar days) and the vast majority within 8 weeks, with existing meter technology (predominately type 5 and 6 metering). Whilst Victoria may be the fastest jurisdiction for transferring customers, as noted in section 3.2 and 3.3, customers do not appear to perceive the timeliness of the transfer process to be a significant concern in other jurisdictions.

Whilst timeframes in jurisdictions which do not have a predominance of smart or interval read meters can be reduced under existing arrangements by electing for a special meter read, the NSW DNSPs note that there appears to be a reluctance to utilise this option as it entails an extra cost. Similarly, we note that timeframes for meter reads could be reduced by switching to monthly meter read cycles for accumulation meters, however again, we note that this would represent an increase in costs to customers, and as opposed to the special meter read, this cost would be borne by all of the DNSP's customer base rather than the person benefiting from the switch.

The NSW DNSPs suggest that rather than focusing on reducing timeframes for switching, greater focus should be given to better informing and educating customers on different energy products and providing customers with the option of switching faster using special meter data reads. We note that such an approach promotes informed customer decision making and empowers customers to choose to transfer quicker based on their willingness to pay for a faster transfer. Given customer price sensitivities and general satisfaction with current switching timeframes, we consider this to be a more appropriate approach to facilitating customer switching and consider that such an approach also results in the efficient allocation of resources.

5. Concerns with proposed solutions to reduce customer switching timeframes

This section is aimed at highlighting concerns with the following solutions for reducing customer timeframes inferred by the AEMC's Issues Paper:

- Adopting estimate reads;
- Competitive roll-out of smart or interval meters; and
- Moving to a 30 calendar day as a maximum timeframe

5.1 Issues associated with estimated reads

The Issue Paper infers that customer switching timeframes could be significantly reduced (to 30 calendar days) if a more Victorian based model to customer switching was adopted in the NEM. That is, smart meters or remote read interval meters with customer accounts finalised based on remote meter reads or via estimated meter reads.

The NSW DNSPs consider it important that the benefits of estimate reads are heavily qualified so that recommendations to SCER are not made that are likely to result in suboptimal outcomes.

Estimate reads are able to work effectively and efficiently in Victoria as it is supported by metering technology that allows for estimates to be made accurately. The same does not hold true for jurisdictions which predominately have accumulation meters. If these jurisdictions were to adopt

estimate reads, transfers would be completed in less time, however they are likely to be subject to more errors and require final bills to be re-issued.

The NSW DNSPs note that this view is consistent with the analysis undertaken by the Industry Consulting Working Group (ICWG) on the feasibility of introducing transfers on estimates, which found that adopting such an approach gave rise to the risk of “rollover consumption” issues. This issue occurs as a result of a customer transferring on an estimate read which turns out to be greater than the next actual read. Due to the market and settlement billing impact, the estimated read must be amended, requiring the customer to be re-billed by the losing retailer.

Consequently, the NSW DNSPs consider that transfers on estimate reads with accumulation meters results in undesirable outcomes both operationally and from a customer impact perspective. In order for estimate transfers to potentially work with accumulation meters, the losing and winning retailer would need to agree on the estimate. However, we note that customers may be reluctant to have their bills settled on estimates as opposed to their actual consumption; and further, that this approach may lead to an increase in disputes, which will delay rather than streamline the customer transfer process.

Therefore, based on the issues raised above, the NSW DNSP’s believe that the AEMC should be cautious against recommending the adoption of estimate reads to settle accounts without undertaking further analysis.

5.2 Competitive roll out of smart meters

We note that the Issues Paper seems to infer that a competitive lead roll-out of interval meters is likely to achieve reductions in timeframes for customers switching. Whilst this premise holds true in Victoria where there is a universal and ubiquitous roll out of smart meters it is unlikely to apply under a competitive market based approach. This is because under a competitive market lead roll-out smart meter penetration may only reach a proportion of sites. This consequently results in differing service levels across different metering technology, which in turn adds inconsistency to the timing of metering data.

A contrasting smart meter roll out model described in the Issues Paper is the Swedish metering model which, rather than introducing a competitive roll-out, the Regulator specified an obligation for the distributor to undertake more regular (monthly) meter reading, which prompted distributors to undertake a universal roll-out of smart meters. We note that it is the universal roll out of smart meters that is a primary contributor for switching to be completed within Sweden’s 14 day switching timeframe.

5.3 Moving to 30 calendar days as a maximum timeframe for switching

The NSW DNSPs note that the AEMC is considering recommending that maximum timeframes be reduced to 30 calendar days. This is a significant reduction to current maximum timeframes (65 business days or 91 calendar days), which seems unwarranted and impractical.

As noted by our analysis in section 3 of the submission, there is substantive evidence to indicate that maximum timeframes for switching are operating effectively and efficiently. Further, they seem relatively comparable to other countries.

Given that current maximum timeframes do not pose any material issue with customer switching, we question whether such a drastic reduction in the maximum timeframe is appropriate or proportionate response.

The NSW DNSPs note that whilst a 30 calendar day maximum timeframe for switching may be appropriate in Victoria where there is smart metering, such a timeframe is not realistically achievable in other jurisdictions which do not have the same metering technology.

Therefore, if the AEMC were to adopt 30 calendar days as the new maximum timeframe for customer switching it is likely to:

- significantly increase the cost of switching to customers due to the increased cost to DNSPs in complying with this obligation; or
- result in higher levels of non-compliance with this obligation.