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9 June 2016

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

Submitted electronically

Dear Mr Pierce,

Re: ERC0196 – Using estimated reads for customer transfers

Red Energy (Red) and Lumo Energy (Lumo) welcome the opportunity to respond to the Australian Energy Market Commission (the Commission) on National Electricity Amendment (using estimated reads for customer transfers) Rule 2016 Consultation Paper (the Consultation Paper).

Red and Lumo are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria and New South Wales and electricity in South Australia and Queensland to approximately 1 million customers.

Red and Lumo oppose this Rule change. We do not believe the circumstances and scenarios put forward by the COAG Energy Council (the Proponents) are significantly material so as to warrant such a change at this time. As noted by the Proponents¹, delayed transfers ceases to be an issue when remotely read metering is in place. With the implementation of the Metering Contestability Rule Change on 1 December 2017, we believe the market will work to provide a solution to mitigate any concerns consumers may have with elongated switching times in the short to medium term. Implementing this complex Rule when there is a clear and foreseeable limit for its usefulness does not meet the National Electricity Objective (NEO) or the National Energy Retail Objective (NERO).

The Proposed Rule

Red and Lumo consider that the Rule proposed may reduce the time required to transfer retailers for some small customers. In basic scenarios, the Rule would allow the outgoing retailer to final bill the customer on an estimate reading, with any inaccuracy in this estimate being largely immaterial to both the customer and retailer given the restrictions set out in the proposed Rule.

Red and Lumo foresee no fundamental issues with the concept of transferring customers on estimate reads could it be assured that only the simplest of customer scenarios would occur.

¹ COAG Energy Council, Improving the timing of the electricity customer transfer process Rule Change Request, Rule Change Request, October 2015, p10.

It is the less common, yet very probable scenarios that cause concern. A customer that transfers on an estimate yet doesn't then receive an actual reading for some time, or transfers on an estimate that is higher than the actual reading taken at the next read date are just two examples that would potentially result in confusion amongst customers and participants alike. Similarly, a customer on a more complex tariff structure such as a demand or time of use tariff (or potentially a retail tariff that doesn't specifically take into account the customer's meter read at all) would make it more difficult to reconcile a single estimate reading with who was the Financially Responsible Market Participant at the relevant time.

If enacted, the proposed Rule will require energy retailers to modify their systems to ensure they only allow transfers to complete on estimate readings in limited circumstances. Depending on any other complexities that may arise out of this Consultation, further development may be required to allow these systems to interact with more market participants than they currently do. The final scope of any amended Rule will ultimately determine the potential cost of this implementation.

While we agree that the proposed restrictions on transfers on estimates are appropriate, we are concerned by the practicalities that will arise out of implementation of the proposed Rule. This is highlighted by the fact that it is likely the incoming retailer will obtain consent from the customer without knowing the quality of the previous meter reading. This will likely result in the customer believing the site will transfer on an estimate, without it being possible. We consider that a customer encouraged to believe a transfer will eventuate sooner than in reality will be more disenfranchised with the process than a customer who expects to transfer on their next actual meter read.

Classes of customers impacted by this change

Red and Lumo note that the Proponents propose to limit the application of the Rule to customers with a manually read meter, with the Consultation Paper stating that these customers make up approximately two thirds of the customers in the National Electricity Market. We support the Commission not considering the inclusion of remotely read meters in this proposal.

The group of manually read customers must be further separated into two categories; those with a basic accumulation meter (a type 6 meter), and those with a manually read interval meter (a type 5 meter). While Red and Lumo can see how the proposed Rule could work for type 6 metered customers, as discussed below we do not believe this same solution will work for type 5 metered customers. This further limits the number of potential customers that may benefit from the proposed Rule.

Type 5 meters

A type 5 meter records consumption in 30 minute intervals, similar to that of a type 1-4 meter, however does not have remote functionality. The meter does not accumulate consumption in the same manner as a type 6 meter, and as such the proposal to provide an estimate reading to both the winning and outgoing retailer for the transfer to occur would be ineffective.

Red and Lumo understand that the Commission is looking at alternative options not discussed in the Consultation Paper to resolve issues caused by type 5 meters. These options include the outgoing retailer issuing a final bill on an estimate and then

receiving the actual data when it is next obtained to re-issue the final bill on this actual data, or the outgoing retailer delaying issuing the final bill until the actual read is obtained, despite losing the customer at an earlier date.

Neither of these potential alternatives are acceptable as the negative outcomes for customers outweigh the positive outcomes achieved by the faster transfer. We also do not consider it valuable to preclude type 5 meters from the proposed Rule altogether. We believe that customers will not properly understand the difference in their metering, so to preclude this group will likely increase confusion amongst consumers regarding the Rule, and mitigate the competitive benefits it aims to achieve.

Explicit Informed Consent

Red and Lumo are comfortable with the proposed requirement to obtain explicit informed consent (EIC) prior to a transfer taking place on an estimate read, however are concerned with the process proposed for handling this in the Consultation Paper. While the winning retailer is expected to obtain the EIC, it is the outgoing retailer who must rely on that consent to issue a final bill on an estimate reading. This results in a significant imbalance between the party responsible for ensuring compliance (the outgoing retailer) and the party responsible for gaining and recording the information required to allow compliance to be achieved (the winning retailer). We do not believe this arrangement to be tenable in a competitive market.

An alternative arrangement may be to require the customer to give EIC directly to the outgoing retailer intending to final bill the customer on an estimate. We believe this type of requirement would be confusing to consumers, and will likely result in consumers consenting to the winning retailer and expecting the transfer to occur on an estimate, however not consenting to the outgoing retailer. This may result in a scenario where the outgoing retailer does not have an actual read on which to final bill the customer, however be unable to issue that bill on an estimate due to insufficient consent. This does not represent an efficient outcome.

Access Issues

The Consultation Paper suggests that a significant driver for transfer delays is the difficulties caused by access issues on obtaining actual meter readings. This is highlighted by the fact that approximately 26 percent of transfer objections were due to meter access issues between 2013 and 2015².

We agree with this view, however do not believe that the proposed Rule will resolve the issue. The Proponents specifically restrict transfers on estimates to scenarios in which the immediately prior meter reading was an actual meter reading. In our experience, the vast majority of access issues are not a once off, and as such should an access issue arise at the time of transfer it is highly likely an access issue will have similarly arisen at the previous meter read. For the meter access objections figure to be representative of a group of customers that could be assisted by this rule change, it would need to be determined how many meter access objections occurred when the preceding read was actual.

² AEMC 2016, Using estimated reads for customer transfers, Consultation Paper, 28 April 2016, Sydney, p8

The National Electricity Retail Objective

Red and Lumo do not consider that the proposed Rule meets the NERO. We are concerned that making significant investments to amend retail systems that will only be useful for a finite period of time is not in the long term interests of consumers. These costs are further exacerbated by the number of participants likely to be impacted by this change. Meter Data Providers and Local Network Service Providers will also require changes to market systems to implement this Rule, ultimately increasing the costs consumers pay for these services.

For these reasons, we believe that increasing the cost of energy for all consumers, without a long term consequential benefit fails the consumer protection test under the National Energy Retail Law.

The Consultation Paper also discusses the impacts on competition arising out of the current transfer process, and presents a view that should the transfer time be reduced, consumers will be more likely to engage in the market. Red and Lumo do not share this view. While it may be preferable for a faster transfer to occur, given that approximately half of customers outside of Victoria currently transfer within 30 calendar days, we consider that the vast majority of customers will not see a significant enough benefit resulting from the proposed Rule to encourage a vastly different perception amongst consumers of the ease of transferring retailers. The special read process remains an easy and relatively cost effective means of ensuring a timely retail transfer should the customer or retailer determine an early switch is in their best interests.

Red and Lumo thank the Commission for the opportunity to respond to this consultation. Should you have any further enquiries regarding this submission, please call Ben Barnes, Regulatory Manager on 03 9425 0530.

Yours sincerely

A handwritten signature in black ink, appearing to be "Ramy Soussou". The signature is fluid and cursive, with a long horizontal line extending to the right.

Ramy Soussou
General Manager Regulatory Affairs & Stakeholder Relations
Red Energy Pty Ltd
Lumo Energy Australia Pty Ltd