



14 February 2013

Review of Electricity Customer Switching

Australian Energy Market Commission

ATT: Victoria Mollard

Submitted online:

<http://www.aemc.gov.au/About-Us/Contact-Us/Lodge-A-Submission.html?MarketReview=EPR0038>

Dear Sir/Madam,

RE: Options Paper- Review of Electricity Customer Switching

Red Energy welcomes the opportunity to provide comment on the AEMC's Review of Electricity Customer Switching Options Paper (the Options Paper).

Red Energy is a 100% Australian owned and operated subsidiary of Snowy Hydro Ltd. Red Energy currently retails electricity in Victoria, NSW, and South Australia and is one of the larger second tier retailers in the National Electricity Market (NEM).

In reviewing the Options Paper, Red Energy has focused on a number of key options it feels are of particular benefit or detriment to the market overall. This advice is based on our experience as a current retail market participant.

Introduction

As a general principle, Red Energy agrees that any move to minimise delays in customer transfers throughout the NEM would be beneficial to all participants. In saying this, it is important that any significant changes to the process of switching do not take away from the current requirements and protections regulated in the market.

Red Energy agrees that as any transaction costs are borne by the winning retailer, the process for securing a new customer needs to be as unencumbered and straightforward as

possible so as to minimise these costs which may form a barrier to competition and new entry¹.

Red Energy further notes that it is important that all parties to the transfer maintain an incentive to achieve that transfer with high efficiency. Leaving the majority of the onus, and therefore the risk, on the winning retailer who has little or no control over the main processes to the transfer presents a concern that other less invested participants without that risk could adversely impact the switching process.

Key options to be discussed

From the Options Paper, Red Energy believes the following options need to be more closely considered:

1. A1- Reduce the maximum prospective timeframe for customer transfer requests
2. A2- Allow customer transfers to occur on the basis of estimated reads
3. B1- Cleanse the MSATS data that is used in the customer transfer process

Option A1- Reduce the maximum prospective timeframe for customer transfer requests

Red Energy does not believe that reducing the maximum timeframe allowed for a transfer request to be completed on its own will create any greater efficiency in the transfer process, but rather simply increase the regulatory burden without any process improvements.

Red Energy has concerns that whilst a reduction in the time allowed to transfer is positive in theory, in reality the actual transfer time will continue to depend on the efficiency of the processes involved.

We do however support that it would be beneficial to target a lower timeframe by minimising inefficiencies in the switching process. Further to this, it may be possible to additionally reduce the switching time by increasing the incentives for all participants to encourage that efficiency, without the need for an additional regulatory burden for retailers of a shorter time frame for transfer.

Option A2- Allow customer transfers to occur on the basis of estimated reads

Red Energy theoretically could support the ability of a customer desiring a shortened transfer timeframe to transfer a site on the basis of an estimated read. However, it has serious concerns surrounding the practical implications of such a change.

Red Energy agrees with the position in the Options Paper that there is no settlement risk between the wholesale and retail markets given the same estimate will be used for both the

¹ See AEMC, Options Paper- Review of Electricity Customer Switching, p.13

losing and winning retailer, it does raise the question as to what may occur should the site transfer on an estimated reading that is in fact higher than the actual read confirmed at the next scheduled read date received by the winning retailer.

For example:

1. Customer signs with retailer B
2. Retailer B submits for transfer on an estimate for 25 February 2014
3. MDP provides estimate of 2500kW for transfer read and customer is transferred from Retailer A to Retailer B on that read with no objections received
4. At customers next scheduled reading on 1 April 2014, MDP provides actual reading of 2400kW, 100kW lower than the transfer reading

In this scenario, the customer would be 100kW "in credit" with Retailer B based on their final bill payment to Retailer A. Would Retailer B be expected to provide the customer with a refund at its retail rate for the additional 100kW they paid to Retailer A?

The above example poses a significant question as to the practical application of this process. Red Energy notes that while the majority of transfers on estimates would be completed without the above scenario occurring, there would likely be a not insignificant number of customers who do transfer on a higher estimated reading than their next actual.

As such, Red Energy believes more serious consideration needs to be undertaken before any move towards transferring customers on estimated reads. If this issue could be resolved however, we do believe that this would enable a winning retailer to transfer a customer significantly sooner than it otherwise would have.

Option B1- Cleanse the MSATS data that is used in the customer transfer process

Red Energy agrees that one of the major issues impacting the efficiency of the transfer process to be that of inaccurate data in MSATS.

Improving the data quality in MSATS should minimise delays in transfer, however more importantly improve the accuracy of the transfer.

While we believe all participants in the market would support such a review, it is unclear if this review into switching is the appropriate forum for such an in depth process. Given the tight timeframes required for the AEMC to submit the Final Report to SCER, Red Energy believes a separate review into the accuracy of data in MSATS would better serve the market.

There remain a number of questions to be answered regarding how the actual process would occur. In the current market, the process to change an address in MSATS requires a

retailer submitting appropriate proof, usually in the form of a council rates notice, to the relevant distributor to consequently update MSATS. What needs to be determined in developing an appropriate market wide review framework is what, if any, proof would be required from a customer to notify a market participant that an address in MSATS is incorrect.

A pivotal focus of a potential review, be it in the form of an industry working group aiming to cleanse 5% annually or another yet to be determined option, is how this will realistically take place with minimal impact in the market, both to participants and customers alike. At this stage, Red Energy does not believe the current alternatives discussed in the Options Paper meet these objectives. Given the impact to the market overall, Red Energy believes this review would be better served at a later date.

Conclusion

To conclude, Red Energy agrees with the overarching benefits of improving the speed and efficiency of the customer transfer process. The process to do this however as yet seems unclear.

Red Energy agrees with the position of the ERAA that an extension would enable the AEMC and industry to look further into some of the options presented so as to achieve the desired goals of the Final Report to be submitted to SCER. Without adequate investigation into the mechanics of the potential changes, we risk an inefficient development of the market which is unlikely to achieve the goals of the terms of reference for this review.

If you have any further comments or queries in relation to this submission please don't hesitate to contact me directly on 03 9425 0496, or Ben Barnes on 03 9425 0530.

Yours sincerely



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Red Energy Pty Ltd