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Thursday, 21 November 2019

Mr Lee Brown
Switching Review Project
Australian Energy Market Operator
PO Box 2008
Melbourne, VIC 3001

Dear Mr Brown

RE: Customer Switching - AEMO proposed changes contained within the Notice of First Stage of Consultation (proposed amendments to the Market Settlement and Transfer Solution (MSATS) Procedures and Meter Data File Format (MDFF) Specification NEM12 & NEM13 and Issues Paper)

ERM Power Retail Pty Ltd (ERM Power) welcomes the opportunity to respond to the Australian Energy Market Operator (AEMO) consultation on the proposed amendments to the MSATS CATS and MDFF Procedures (the Procedures) in relation to AEMO's proposed switching process as outlined in the NEM Customer Switching Issues Paper (Issue Paper).

About ERM Power Retail

ERM Power Retail Pty Ltd, which trades as ERM Power, is a subsidiary of ERM Power Limited, an Australian energy company operating electricity sales, generation and energy solutions businesses. Since launching in 2007, ERM Power has grown to become the second largest electricity provider to commercial businesses and industrials in Australia by load¹, with operations in every state and the Australian Capital Territory. ERM Power has increasing success in the small business market. www.ermpower.com.au

General Comments

ERM Power does not support most of the changes that have been proposed by AEMO. It is our strong view that any changes proposed should not progress in the absence of thorough quantitative analysis conducted by AEMO that identifies net benefits. The changes are too broad and complex and the investment in system and process changes are too costly for AEMO to simply dismiss a call for a quantitative evaluation. It is our strong view that unclear issue identification, a lack of investigation of the costs and benefits, and rushed implementation, will lead to a poor outcome for consumers from this reform.

We question the significance of transfer delays in driving this proposed considerable and costly overhaul of transfer systems, and the move to push estimated read based transfers for those customers that have do not have remotely read interval metering. This forces the outgoing retailer to generate a final bill based on an estimate reading without control of the outcome or costs imposed. We expect the industry will see an increase in estimated billing complaints stemming from these changes.

¹ Based on ERM Power analysis of latest published financial information.



Not only will significant system costs be required to unnecessarily modify transfers, billing and settlement processes, these reforms will distract our resources from other major projects that are currently underway, such as the changes to 5 minute and global settlements.

Consultation Process

AEMO's proposed transfer design has sought to broaden the scope of recommendation 9 of the Australian Competition and Consumer Commission (ACCC) Retail Electricity Pricing Inquiry (REPI) Final Report, without adequate evidence of market failure. We observe that the approach to this proposed reform has been conducted in a unique manner. Impacted participants have not been provided with a platform to question AEMO's High Level Design ('HDL') proposal. Specifically, whether the approach of dramatically altering the customer switching process to be within a two-day time period, irrespective of metering arrangements is workable, sound, and for estimated-based transfers, to be in the customer's best interests. Instead, retailers have been constrained to make comments on selecting technical options to effect the changes, and not on the merit of the proposed changes themselves.

It is our view, thorough and considered analysis should be undertaken and not be dismissed in favour of procedural and system changes which attempt to push reform through regardless of any cost benefit.

ERM Power questions the urgency placed on this project by AEMO, that has warranted a condensed consultation period and rushed changes. We are also concerned that participants were not provided with the minimum required consultation timeframes as per the National Energy Rules to adequately review the proposed Procedure changes. The changes to MSATs and CATs Procedures are significant, and they are the substantial matter under consideration for this consultation. Unfortunately, the Procedure changes were provided to participants on the 1st November, which is a mere 15 business days before the submissions due date.

We query the pressing urgency for this reform, given the perceived benefits are untested and are speculative in nature. Also, this is being rushed through at a time when the industry is under resource strain from the implementation of numerous other reforms that will have large system requirements, such as 5 minute and global settlements, and the raft of changes stemming from price reregulation and jurisdictional reforms.

The principles to meet the objective of improving customer transfers

ERM Power strongly contends that any amendments to the CATs and MSATs Procedures canvassed should seek to be implemented in a cautious and considered manner that ensures the long-term benefits to consumers consistent with the National Electricity Objective and Retail Objective upheld. Under the compressed timeframe, we have attempted to assess the Procedures, and consider the following to be of importance in determining whether these changes should progress:

1. Net benefit tests are critical and should be undertaken
2. The urgency and timeframe for implementation should consider the magnitude of issues and other projects currently underway
3. There should be no customer detriment
4. Parties to market settlement and other wholesale costs should not be subjected to negative financial impacts from the use of an estimated final read transaction
5. Changing Procedures that are currently working, for no added value, is a wasted cost
6. Aspirations to adopt international reform platforms should be tested for merit and be cognisant of local market structure and conditions



We wish to provide the following comments on the recommendations:

A full cost benefit analysis is crucial to test impacts

In the current environment, where retailers are burdened with numerous transformative rule changes and rising electricity costs have put pressure on many households and businesses, it has never been more important to ensure additional changes are quantitatively tested to be in the long term interests of consumers, meeting the National Electricity Objective, i.e. that the benefits should outweigh the costs. We are concerned that AEMO has dismissed the need to conduct a cost benefit check and deemed that it is not compelled to take one². Now is not the time to implement costly system changes based on AEMO's speculation of the outcome, absent of proper analysis.

It is hard to imagine significant, and untested, incremental cost being imposed on industry in this environment, but we can see that AEMO is proposing to do just that. We have separately provided our system cost and time estimates to AEMO with this submission and suggest that AEMO should apply a disciplined approach, quantitatively analysing its proposals to determine whether the changes produced a net benefit and therefore should progress.

The system change costs are significant. We have analysed the options and note these changes will divert our resources away from progressing the 5 minute and global settlement implementations. These changes will impact heavily on IT resources that would otherwise be dedicated to further expanding innovation, product development and improved service offerings to customers. Ultimately it is customers that are negatively impacted, through this and any additional costs passed through, including those from AEMO's system changes.

The case for urgent change is unconvincing

In the background of high implementation costs, we see the case for urgent change is weak. There is little supporting analysis or data in AEMO's HLD document to suggest that urgent reform is needed. Further, analysis around the need for urgent reform is absent in AEMO's Issues Paper. AEMOs' Issues Paper highlights the likely inconsequential impacts of some of the changes, for example with regards to the removal of objections for debt, only ~0.3% of transfers are currently objected to on this basis³. With respect to the concurrent appointment of MC, MP, and MDP with a customer transfer request, AEMO has provided insufficient evidence or data to support the argument that this is driving any significant issues in transfer delays, let alone an issue warranting immediate Procedure change.

Data on transfers⁴ and Ombudsman complaints surrounding transfer delay illustrates the lack of justification for the broad changes proposed. In its latest report for 2018/2019, EWON noted complaints surrounding transfer delays for both gas and electricity accounted for 375 complaints⁵. This is in the context of the approx. 730,000 small customer electricity transfers completed over this time in NSW. In its submission to the AEMC Reducing customers' switching times (retail) Rule Change, EWON noted that it had only received 1 complaint relating to MC objections, in the previous 3 months ending June 2019⁶. Similarly, of the approximately 346,000 completed electricity transfers that occurred over the same period in QLD, there were 12 complaints to all retailers relating to transfer delays and 3 complaints relating to objections raised by the retailer⁷. It appears transfer delays are not a pressing issue.

² See Customer Switching Workshop 21 August 2019 feedback notes page 7

³ AEMO Customer Switching in the NEM Issues Paper, October 2019 page 10

⁴ Data on transfers derived from AEMO retail statistical data on small customer transfers for each jurisdiction over the 2018/ 2019 year. See <https://www.aemo.com.au/Electricity/National-Electricity-Market-NEM/Data/Metering/Retail-Transfer-Statistical-Data> for small customer completed transfers July 2018 to Jun 2019

⁵ Energy & Water Ombudsman NSW Annual Report 2018-2019, page 29

⁶ EWON submission to AEMC Reference RRC0031 – Reducing customers' switching times (retail), 1 August 2019 page 1

⁷ Energy and Water Ombudsman of Queensland, Annual Report 2018 -19 page 47



We see that any benefits of this change are ever diminishing with the roll out of advanced metering which speeds up customer transfers. Further, gains to customer transfers will likely be made once the full benefits of advanced metering are realised in states that are yet to fully adopt remote services. If the NSW Government's current moratorium on remote meter de energisation and re energisation is lifted, and the Queensland Government commits to removing the legislative impediments to remote re-energisation as recommended in the recent Ministerial advice by the Queensland Competition Authority on the benefits of advanced digital metering, we expect benefits of advanced metering installation would provide greater incentives for roll outs and improvements to customer transfers.

Unintentional consequences will drive costs to retailers and will result in a poor consumer outcome

Prospective transfer of the FRMP role - Removal of the Next Scheduled Read type

ERM Power does not support the proposed restriction around the use of actual reads for transfer, particularly limiting the transfer time of prospective switches with the use of Read Required (RR) (unless a Special Read is selected in the case of manually read meters). AEMOs proposal will repurpose the use of the RR change type to facilitate the transfer as early as the next business day which will result in estimated read-based transfers for those customers that are not remotely read. This forces the outgoing retailer to generate a final bill based on an estimate reading without control of the outcome or costs imposed, and from the customers perspective, without consent. For manually read customers, prospective transfers will now likely occur at a cost to the customer, with either an estimate read or a special read. If these changes proceed, we expect unintentional consequences will eventuate, such as a dramatic increase in customer complaints surrounding estimated bills, given estimated bills are met with scepticism by customers and seen as inferior to actual reads. We believe the proposal will also lead to an increase in financial risk to retailers.

Through analysing issues of Ombudsman cases and retailer complaints, it is evident that customers value accurate bills over transferring within a condensed timeframe. For customers that value a condensed timeframe for transfer, the options of having a Special Read is available now. Note, we support the retention of this read type as a feasible option. It is our view the changes will have a perverse outcome of undermining confidence in the retail market due to additional risks, complexity and costs from the use of estimated reads to transfer.

Billing system changes and costs of adjustments and estimated reads

Our view is that there should be no detriment to the customer or retailers (both incoming and outgoing) in the estimated read transaction. In the case of errors or mistakes occurring, it is important to ensure that any resulting costs are not levied on innocent parties. We do not support AEMOs proposed changes as:

1. it leads to inaccurate billing:
 - i. Every final bill for manually read interval metered (MRIM) customers will need to be adjusted and reissued following the receipt of actual reads after the site is transferred.
 - ii. Final bills for basic meter customers who have one or more previously estimated bills will likely require an adjustment and a final bill to be reissued following the receipt of actual reads after the site is transferred.

2. it leads to operational inefficiencies and costs:
 - i. Additional transactions are required for the reissue of final bills
 - ii. Additional transactions for credit (collecting twice on a debt or refunding an overcharge). Further, recouping and crediting over and under-estimates is complicated, particularly when 2 retailers are involved, and a final bill has been issued. Where a customer's meter has been inaccessible for a long period and there have been several consecutive



estimated bills, the reissued final bill may require large adjustments, and for underestimations this will likely be a high bill. Tracking a customer to provide a credit or debit will add further to administration costs. The likelihood of the outgoing retailer recouping costs is remote. AEMO's proposal will increase the financial risk burden to smaller retailers in a competitive market.

- iii. Estimate read costs will exceed that of a scheduled read for manually read metered customers. Therefore, the costs of prospective transfers will likely increase to customers. It is likely that MDPs will charge for the provision of the estimated read to cover the costs involved. Many retailers such as ERM Power do not have systems that create estimates for billing. Our use of estimates is limited to when a read is not available; supplied by the MDP, who creates the estimate in accordance with Metrology Procedures and jurisdictional requirements. To create an independent calculation of estimates would be a very substantial change to our billing system and would also result in a final bill being issued on a different read to that used for NUOS and market settlement purposes (as explained below).
3. Estimated billing disputes will further add to operational costs when customers question reissued bills.
4. Demand tariffs and generation-based estimates can exacerbate these issues above, as the estimate may be less readily determined.

Even if a retailer chooses not to utilise an estimate read approach for a prospective switch (by selecting a special read), it will need to accommodate these costs for any customers that are lost to retailers that do use it. Manual workarounds to these transactions quickly become unsustainable and whilst these costs and risks may be minimal over a single customer, the risk is incremental over many customers transferring with an estimate. Retailers will need to pass these costs through to customers and loyal customers who do not transfer will be cross subsidising those that do. In our view, this proposal should not go ahead until a comprehensive cost benefit test is undertaken.

Any proposal to remove the visibility or access to the Next Schedule Read Date should not progress. According to the National Energy Retail Rule 25(m), 'contents of a bill', retailers are required to provide the estimated date of the next scheduled meter reading for those customers that have manually read meters. Removing this field would require significant change to billing systems and would place a retailer in breach of this obligation.

Impact to financial settlements

ERM Power strongly supports the concept that parties to market settlement and other wholesale costs should not be subjected to negative financial impacts from the use of an estimated final read transaction. Using estimated data for transfers will lead to a mismatch between billing, network use of system (NUOS) charges and market settlement. Analysis and the extent of the impact has been omitted from AEMO's Issues Paper and downplayed in AEMO's HLD document.

AEMO's proposal finalises the customer's bill on an estimate and in most cases will not allow for the accurate allocation of market acquisitions to align to the transfer date. The financial impact of this is unknown, and due to the lack of analysis presented by AEMO, we can only assume has not been modelled. We suggest that AEMO should fully explore this and in the context of the movement from settlement by differencing to global settlement.

For non-interval data, actual load is critical for determining financial responsibility of acquisitions and distribution costs accurately and is used in settlement calculations. Any estimations in the earlier versions of settlement are eventually replaced with actual data and by the revision 2 settlement, a more accurate allocation of settlement is achieved. This is applicable for all metering installation types. By revision 2, type 6 actual data is shaped by the Net System Load Profile. Actual data, retrieved from a special read, or next scheduled read feeds into settlement accuracy and when the read is taken on the date of transfer, the allocation of market acquisitions between retailers is aligned to actual data. Similarly, through the use of an actual read, NUOS allocation between participants aligns to transfer.



We believe that final bill estimated data should be treated similarly to final substituted data for the calculation of wholesale settlement and network costs. Further, any estimation used for transfer should be restricted to customers whose previous bill was based on an actual read, limiting the impact of data inaccuracy. We suggest that AEMO explore the use of the existing read types (final estimates) if the analysis of transferring a customer within 2 days shows a net benefit.

If the costs of Procedure and system changes are prohibitive to accommodate the alignment of final bill estimated data to wholesale settlement and NUOS data and allow the retailer to appropriately recoup imposed costs, it is ERM Power's strong view that that this Procedure change should not progress. It is unacceptable for AEMO to suggest that retailers should just unilaterally carry this risk.

Retrospective transfer of the FRMP role

It is our view any retrospective time threshold beyond 15 days, may have severe implications for a retailer's wholesale risk management. This is particularly the case for those retailers that are the outgoing retailer to large multi-site customers (comprising of hundreds of small business customer sites) and where load has been hedged.

We oppose the layering of costs on system changes that will not add value

We note that AEMO has proposed changes that are inconsequential to the initial ACCC recommendations 8 and 9, including reducing transfer time. We suggest at a time when costs pressures are felt across the industry, now is not the time for delivering zero value changes.

AEMO's proposed changes remove existing CRCs that are currently used without any issues such as read type 'Existing Interval' (EI). Removal of prospective transfer change codes such as EI (Existing Interval), which is used to facilitate large customers for transfers will achieve no added value but will add additional costs for retailers. We strongly oppose the removal of this change code.

Costly system changes should not be the go-to option for driving policy outcomes

The proposal to transfer customers on estimated data was put to a rule change test in 2017 (Using Estimated Reads for Customer Transfers Rule 2017). AEMC rejected the rule proposal noting that "the introduction of an additional transfer option using estimated reads is not likely to be in the long-term interest of consumers and will not contribute to the achievement of the national electricity objective"⁸. It is our view that the basis for the AEMC's findings remain, and that transferring customers on inferior data is not in the long-term interests of customers.

AEMO and the AEMC, in the recommendation to the COAG Energy Council Standing Committee of Officials, sought to overlook the AEMC's previous decision, which highlighted that the cost burden associated with estimated based transfers were likely to outweigh the benefits, complexity and risks, and was likely to result in a spike in complaints.⁹ None of these previously highlighted issues have been addressed in the HLD. Further, in its HLD document, AEMO has not established any evidence to show how transfer timeframes have deteriorated to the extent that it would warrant ignoring AEMC's previous decision.

We suggest transfer times have likely improved, with the increase in of advanced meter installations from the Power of Choice reforms, further negating the need for changes in this area. Thorough and careful analysis of impacts, particularly an assessment on changes in the market since the AEMC's decision, should not be discounted and bypassed, so that reform can be fast tacked through mandated system changes. This will lead to a poor outcome from the failure to address those issues that were highlighted in the 2017 Rule request.

⁸ AEMC 2017, Using estimated reads for customer transfers, Final Rule Determination, 2 February 2017, Sydney page i



Facilitating cooling-off reversal of a FRMP change

We do not support the proposed system changes to facilitate transfers during the cooling off, which would lead to retailers having to inefficiently raise further transactions to reverse the transfer should the customer wish to not proceed. Put simply, unravelling a transfer with additional transactions and accommodating for this with systems change is inefficient. We do not see any impediments or inefficiencies stemming from the existing approach to compliance with the cooling off provisions now, that would warrant the change. We question whether there will be a net benefit given the financial impact to the customer of moving within the small number of days will be negligible. The costs of the required system changes and operational resources to reverse the transfer is high. Even if a retailer chooses not to utilise a 'cooling off switch', it will need to accommodate these costs for any customers that are lost to retailers that use it. Manual workarounds to these transactions also come at an unsustainable cost. Ultimately these costs will be passed on to all customers.

This policy outcome of negating the impact of a lengthy cooling off period, through the bypassing of cooling off rights through the system (unless activated) is unwieldy, risky and costly. Reversing transfers for customers who wishes to cancel during the cooling off period layers in complexity and operational costs with system changes to accommodate new transactions and process additional volumes. These are currently not borne by the outgoing retailer. If AEMO is uncertain of the uptake of a 'cooling off switch' and suggest retailers use manual work around until uptake is material, this does not suggest a compelling drive for the change as benefits are unclear. It is our view AEMO should remove this proposal.

We suggest the core issue, the duration of the cooling off period should be explored by policy makers rather than AEMO. The AEMC and regulators should consider the length of cooling off rights for electricity contracts, given small customers are not penalised for contract cancellation (early termination fees) and the 10 day right far exceeds cooling off rights for other transactions with high financial costs, such as car and property purchases.

MC appointment objections and notification of a pending role change

AEMO proposes that notifications related to 1000 series CRs should be limited to the new retailer and parties provided with a right to object to a role change prior to the completion of the CR. It has also proposed to separate other role appointments from the transfer completion. This is to limit the potential for save behaviour and transfers being delayed due to role appointment objections.

ERM Power is concerned that the proposed changes cast aside and ignore steps to resolve the root cause of transfer delays and inefficiently push these problems to be dealt with after the transfer. At this stage, rectification of issues becomes complicated, costly and leads to a situation where innocent parties are unjustly bearing transaction costs.

AEMO has not sufficiently investigated the customer impact of a transfer with forthcoming issues with role appointment. Further, analysis has not been provided on the number or type of objections logged as the source of transfer delays, for example, those pertaining to faulty meters. Transferring customers with faulty meters is never an optimal outcome for the customer and places additional operational costs on affected retailers from rectifying the issue post-transfer. If the Procedure changes proceed, costs from reissuing final bills and collection compound. Alternatively, transferring customers with meters that have 'family failure' driven faults, not impacting data accuracy, may be acceptable.

Rather than the approach proposed, we suggest improvements may be achieved by reviewing and narrowing the objection types available. Objections such as 'family failure' meter faults should be flagged separately and not used as the basis of an objection to complete a transfer. We suggest AEMO needs to undertake a lot more analysis of the incidence of delays from role appointments and the impacts (including costs) of this change before pursuing it.

ERM Power fully supports the intent of eliminating save and win back activity and agrees that this activity has been damaging to the competitive market and has eroded customers confidence in retailers, particularly where customers are lured by offers only to find they are short lived. However, we note that previous MSATS Procedure



changes that introduced a reduction of the Objection Logging Period to one business day would have served to curtail this behaviour as much as if the notification be removed altogether.

We think the costs of implementing the removal of the notification of a pending customer switch are wasted costs. As described below, it is likely that any elimination in save behaviour will be nullified by win back behaviour. A better reform proposal would have been to ban both win back and save behaviour outright.

We also see the likelihood of an increase in erroneous transfers. Despite our inability currently to object, our operations teams can usually identify when a pending or required transfer of our customers has been raised in error. This is particularly the case with our large or multi-site customers who are under contract for all sites. ERM Power believes this change will lead to a costlier rectification of transfer error and a higher incidence of it. This is not a good outcome for ERM Power or our customers who will need to spend more time rectifying transfer errors with other retailers.

International reforms as an optimal benchmark to pursue requires actual analysis

AEMO points to adoptions of reforms in international markets as justification to drive reforms in the NEM. This reasoning is made without analysis as to whether the reforms were beneficial in those markets compared to markets prior to the changes, or whether policy outcomes were achieved. Existence of these reforms in other international markets alone do not prove merit for adoption here.

In our submission to the AEMC, Reducing Customers' Switching Times, Consultation paper, 4 July 2019 ERM Power noted the New Zealand Electricity Authority (Authority) has grappled with the persistent barrier to new entrant retailers due to saves and early win backs, suggesting a reduction in transfer times had little impact on this issue.

Recent analysis has been conducted on the impact of New Zealand's save protection scheme which prohibited the outgoing retailer from initiating contact until after the switch. The Authority found that whilst the number of saves fell, the number of win-backs increased as a result of the scheme¹⁰. This finding, that incumbent retailers moved from save activity pre-transfer, to win back activity post-transfer brings into question whether system changes around pre-transfer notification, including removing the information advantage of a pending transfer notification to the outgoing retailer, would have any effect in creating a more even playing field.

In our submission to the AEMC, given overseas experience, we noted that an outright ban on save activity itself, coupled with a time restriction on the commencement of win back activity may have more of an effect in achieving the policy intent of reducing save activity. It is interesting to note that in the last few weeks New Zealand appears to be moving to do just that, with the Government endorsing a plan to outlaw win back offers, given its previous reforms were ineffective.

In the United Kingdom, switching based on estimated billing have not always brought positive outcomes to consumers. Final bills have been delayed, and bill estimation continues to plague the reforms. In consideration of these reforms, it should be noted that the Ofgem's switching reforms of next day transfers were planned to be in parallel to a mandated roll out of smart meters. In its reform proposal Ofgem noted that:

“Energy suppliers must take all reasonable steps to roll out smart meters to domestic consumers and small business customers by the end of 2020. The smart meter rollout is already under way and, as at 30 June 2017, more than 7.5 million smart and advanced meters were operating across Great Britain. This means that most consumers will already have smart meters installed when the Switching Programme changes would come into effect.”¹¹

¹⁰ Electricity Authority Final report on Post Implementation review of saves and winbacks, 29 August 2017, page ii

¹¹ Ofgem Delivering Faster and More Reliable Switching: proposed new switching arrangements, 21 September 2017 page 13



The NEM is a very different market, and existence of market reforms internationally does not preordain that adoption of those reforms in the NEM will bring positive outcomes. Proper analysis must be undertaken.

Implementation timeframes

AEMO proposed changes are extensive and must be considered in the context of other system changes that are absorbing significant IT resources. As mentioned earlier, we have provided AEMO with time and costs estimates of our systems changes to accommodate AEMO's preferred options. The required IT development for this reform will have a cascading impact on the various other reforms already in the pipeline and will compete and have impact on the availability of resources for the 5 minute and global settlement project.

Please contact me if you would like to discuss this submission further.

Yours sincerely,

[signed]

Libby Hawker

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