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Queensland Competition Authority
GPO Box 2257
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Amendments to the Electricity Industry Code Customer Disconnection Provisions

Thank you for the opportunity to comment on the Queensland Competition Authority's (QCA's) Consultation Paper on the proposed amendments to the Electricity Industry Code Customer Disconnection Provisions.

Our comments focus on Energex's central proposal concerning clause 5.7.4 of the Electricity Industry Code (EIC). Simply Energy is very concerned about the proposed change and recommends that the QCA reject it. Customers pay for certain standards of service from Energex through Energex's regulated revenue as determined by the Australian Energy Regulator (AER). On the surface, the proposal appears to be attempting to reduce those service levels without any commensurate reduction in what customers pay through their network charges.

In Simply Energy's view, the proposed amendments to the EIC give the appearance of benefitting Energex from a convenience and cost saving perspective at the expense of customers and retailers. First, Simply Energy questions whether the proposed changes are potentially creating safety concerns for the consumer. Secondly, the proposed changes appear to ignore the needs of retailers who use fuse removal as a primary means of managing credit risk. It should be remembered that retailers carry this credit risk on behalf of distributors (and other sectors of the energy industry) who always receive the total network revenue they are due from retailers.

Safety concerns

Simply Energy has two primary concerns with the safety aspects of Energex's proposal. First, we question whether the use of an meter switch seal (MSS) increases the risk of electrocution should the customer tamper with the seal in an attempt to restore supply and whether the industry really wants to be encouraging customers to tamper with electrical equipment. When Energex uses the MSS method, this can allow the customer to freely peel their sticker off the meter and reconnect supply themselves by turning the meter back on without either Energex's or the retailer's knowledge. The QCA may wish to re-assure itself that customers tampering with the seal will not risk safety.

We also note that if a "remove fuse" disconnection is deemed unsafe, there is a suggestion that using the MSS method resolves the issue of unsafe metering and the service order can be considered complete. If this is the case, then we question whether the industry is fully delivering on the service levels that it should be providing to customers. For a distributor to simply apply a sticker, close off the service order as 'complete' and believe that this absolves them of responsibility does not appear appropriate to us. The consumer at the premise can decide to remove the sticker without any party's knowledge but with the consumer not knowing that the meter is unsafe.

Our second concern is that it is unclear from Energex's proposal how the safety of life support customers will be managed where seals are used in properties that have multiple premises. If applying the MSS means that the distributor must disconnect all premises at the location, then management of any life support customers at that location will need careful management.

Using fuse removal to manage credit risk

The QCA is correct when it highlights the increased credit risk that retailers may potentially carry with the use of MSS instead of fuse removal. Simply Energy's understanding of the proposal is that, under the proposed clause 5.7.4(b), if the distributor cannot access the connection to perform the disconnection, they would still categorise that service order as complete.

This does not appear an acceptable service level from a distributor that earns a regulated return based on a forecast of the services that it will be delivering to retailers and customers. If service levels decline, then we would expect to see a commensurate decline in the level of network tariffs charged by Energex.

Disconnection is a method for managing unbilled energy use after the new resident has moved in. One of the key financial risks that retailers have to manage is where the power has been left on at a property and the new resident moves in and starts using power but without contacting a retailer to organise a supply contract. This is quite a common occurrence in the energy industry where the customer moving out has not turned off the power at the switch board.

The situation of a move in customer using power without a supply contract in place has negative impacts for both the retailer and the customer. First, as a move-in customer with no contract in place, the retailer is required by customer protection arrangements to charge the customer the standing offer (or regulated) price for energy. The standing offer price is typically higher than a market offer price and thus the price at which the customer is building up debt is much higher than if they were on a market contract.

Second, the retailer is in the situation of having a growing liability to the market (both in terms network charges and wholesale energy costs) but no knowledge of who has moved into the premise and thus who should be receiving the bill for their use. While a retailer will attempt to make contact with the move-in customer, there is an incentive for the move-in customer to remain anonymous and continue to receive their supply free of charge. In this situation, the retailer will need to proceed to disconnection anyway in order to incentivise the move-in customer to make contact.[1]

Thus, the purpose of disconnecting a property on move-out is to ensure that the move-in customer contacts a retailer to organise a re-connection of supply. The benefit for the retailer is that they can sign the customer up to a supply contract at the same time. The benefit for the customer is that the contract will be a market contract and thus they will be paying a lower price for the energy that they are using.

We would anticipate significant growth in the number of unidentifiable move-in customers should retailers be prevented from disconnecting properties on the move out of customers. This has two potential consequences. First, retailers will still need to request disconnections where customers do not contact a retailer. As a result, despite a change in B2B processes in Queensland, there may not be any significant reduction in the number of disconnections required.

The second consequence is an increase in the level of bad debt write offs.

[1] Note move-in customers can often call alternative retailers from the one who has issued the disconnection notice. For example, *Retailer A* may have a move-in customer that they have not been able to successfully engage with and thus a disconnection warning is issued. In response, the customer may contact another retailer instead of *Retailer A* to organise a supply contract. As a result, *Retailer A* is left with a bad debt write off for the period of time the move-in customer was receiving supply from *Retailer A*.

In consideration of the above issues that have been raised Simply Energy does not support the proposed amendments of the EIC in the consultation paper.

Please contact me on (03) 8807 1132 if you wish to discuss this submission further.

Yours sincerely

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