



Victoria Electricity

21 May 2002

Dr John Tamblyn
Regulator-General
The Essential Services Commission
1st Floor
35 Spring Street
MELBOURNE VIC 3000

Dear Sir,

Retail Electricity Licence Application

Please find enclosed an application from Victoria Electricity Pty Ltd (VEL) ACN 100 528 327 for a retail electricity licence to sell electricity in Victoria.

VEL acknowledges that certain parts of this application will be made public as part of the application process. The attached schedules relating to VEL's financial viability and technical capacity are to be treated by the ESC as commercial in confidence and should not be disclosed to any other party without the prior written consent of VEL.

Should you have any questions regarding this application please do not hesitate to contact me on 64 9 6308041 or 64 21 464 604.

Any correspondence may be forwarded to:

Donald Cheesman
10A Hillside Cres
Mt Eden
Auckland
New Zealand

Yours sincerely

Donald Cheesman
Managing Director

Cc Andrew McAlister
Manager Competition & Licensing

Luci Marsh
Regulatory Analyst

Application for a Retail Electricity Licence in Victoria

General Information

Victoria Electricity Pty Ltd (VEL) ACN 100 528 327 is a registered company under the Corporations Act 2001 and is registered in Victoria. It has its head office at Level 25, 1 Eagle St, Waterfront Place, GPO Box 1242, Brisbane, QLD 4001.

VEL was incorporated on 12 May 2002 specifically to retail electricity in Australia. Accordingly, VEL has not prepared any annual returns or audited accounts to date.

VEL's ownership structure is as follows:

Infratil Advisory Ltd	50%
Donald Cheesman	20%
Stephen Eskrigge	20%
Steve Aken	10%

The ESC's objectives

The provision of a retail electricity licence to VEL and its operation in the Victorian electricity market is consistent with the objectives of the ESC under the Electricity Act 2000.

VEL's inclusion as a participant will actively promote competition in the Victorian retail market. Although VEL is a new company our expertise and senior management's proven track record in deregulated electricity markets with Energy Online in New Zealand will both protect and promote customer interests with respect to pricing and enhanced levels of customer service. VEL's industry experience and corporate disciplines via its major shareholder will facilitate the maintenance of a financially viable electricity supply industry.

Technical Capacity

VEL has the technical capacity to comply with the conditions of the licence and associated codes and guidelines.

VEL's owners and directors provide the industry expertise and direct experience to enable VEL to operate a retail business. The directors and management have first hand experience in both founding and operating an electricity retail business in a fully contestable market. Additionally the major shareholder brings both industry expertise and the corporate disciplines required to operate a viable retail business.

• Infratil Limited

Infratil is a company listed on the New Zealand Stock Exchange.

As at 21 March 2002 the market capitalisation of its shares, warrants and bonds was A\$430million.

Infratil was established in 1994 to invest in New Zealand infrastructure and has subsequently also invested offshore. Infratil's current investment portfolio includes:

- **TrustPower Limited.** An integrated generation retailing company based in the North Island of New Zealand. TrustPower generates approximately 5% of New Zealand's electricity from its network of hydro and wind power stations. It has about 12% of the retail market by customer numbers. Infratil owns 28% with a market value of approximately \$180million. Infratil and its investment partner, the US energy company Alliant Energy, appoint 3 of TrustPower's 6 directors.
- **Wellington International Airport Limited.** The airport of Wellington. Infratil owns 66% with Wellington City Council being the 34% shareholder. The Airport services approximately 4 million passengers a year and is the second busiest in New Zealand.
- **Port Of Tauranga Limited.** New Zealand's largest port by volume. Infratil owns 20%.
- **Glasgow Prestwick Airport.** Infratil acquired a 67% stake in early 2001.

- **Donald Cheesman**

Managing Director

Donald Cheesman was a founder and Managing Director of Energy Online, a start up independent electricity retailer in New Zealand. Energy Online was formed in 1999 and now has 20,000 customers and annualised revenues exceeding \$25M. Prior to founding Energy Online, Donald Cheesman had 12 years experience in the electricity industry, which included senior management roles at Power New Zealand where he was responsible for the non-domestic customer base of 25,000 and Power New Zealand's wholesale energy purchases of approximately \$170 million per annum.

- **Steve Eskrigge**

Chief Operating Officer

Steve Eskrigge was a founder of Energy Online and was the company's General Manager Marketing and Operations. Prior to founding Energy Online, Steve Eskrigge had 10 years experience in the energy industry, with roles at Enerco NZ, Integral Energy Australia and Power New Zealand. Preceding his involvement with Energy Online, Steve Eskrigge was Sales and Marketing Manager for Power New Zealand.

- **Steve Aken**

National Sales Manager

Steve Aken's previous role was National Sales Manager for Energy Online from April 2000 to May 2002. He also has more than 15 years sales experience in the finance and vehicle industries in various roles including working for Natwest Plc of London and Holden New Zealand.

Industry Expertise And Experience

VEL's Management has already demonstrated the ability to operate an electricity retail business in a fully contestable environment. Donald Cheesman and Steve Eskrigge were founders and operational managers of Energy Online, an independent electricity retailer in New Zealand. Energy Online has grown to annual revenues exceeding \$25M and has 20,000 customers.

Energy Online has a good reputation in the New Zealand market with customers and suppliers alike. Energy Online has low customer churn rates, excellent customer call statistics, and ISO 9001 quality procedures for market reporting. Operating in a fully contestable environment for 3 years has honed the processes and procedures required to operate a successful retail business.

Compliance With Regulatory Requirements

VEL is familiar with the operation of the Victoria electricity supply industry and agrees to comply with the National Electricity Code. Additionally, as part of the application to NEMMCO for registration as a market participant, VEL will agree to be bound by the National Electricity Code and the financial and procedural commitments of NEMMCO.

VEL is familiar with the Electricity Retail Code, Customer Charter and Marketing Code of Conduct and agrees to abide by them.

Wholesale – NEMMCO

VEL has already begun dialogue with NEMMCO regarding registering with NEMMCO. VEL understands both the operational and financial obligations regarding being a registered market participant with NEMMCO and agrees to abide by its rules and procedures.

Distributors – Use Of System Agreements

VEL has entered into discussions and met with all 5 Victorian Distributors. VEL is familiar with the terms of the Use of System Agreements of the Distributors and will sign an agreement with all 5 Distributors. VEL has expressed its views to all 5 Distributors and to the ESC on Clause 7.10 of the Standard Deemed Use of System Agreement. VEL is able to meet the conditions of this clause but it places a major financial obligation on VEL and as such is seeking to negotiate a compromise position. VEL understands that this matter can be revisited once the ESC has published its guidance on the issue.

Additionally VEL has sought clarification on communication channels and understands rights and responsibilities regarding key tasks including:

- Meter reading
- Network outages and customer communications
- Disconnection's/reconnections
- Capacity upgrades/downgrades
- New connections
- Power factor
- Customer obligations to the distributor
- Payments to Distributors for distribution charges

Sales & Marketing

VEL is familiar with the Fair Trading Act and the Marketing Code of Conduct and agrees to abide by it.

Customer Transfers/Switching

VEL is familiar with the Electricity Customer Transfer Code and the industry requirements regarding customer transfer protocols including CATS and MSATS.

VEL is in the process of building the interfaces to its CMS/Billing system to deal with the required file formats for transferring NMI's (customers). VEL's Management has experience in dealing with similar customer transfer issues in New Zealand via Energy Online.

Customer Communications

VEL has standard processes in place to deal with communicating with the customer regarding the transfer process. VEL customers will receive a letter acknowledging the customers wish to transfer to VEL and the process that is involved along with marketing material confirming details of the offer to the customer. A 2nd welcome letter upon receiving a confirmed switching date from the customer's previous retailer/distributor will follow the 1st acknowledgement letter.

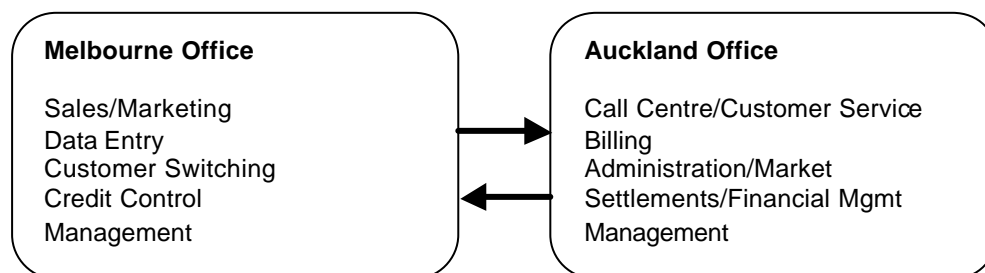
Call Centre/Customer Services

VEL will employ it's own Call Centre and Customer Service Representatives (CSR's) to operate out of Energy Online's facility in Auckland, New Zealand. This allows VEL to delay decisions on capital items such as PABX's, servers etc... until VEL is firmly established in the Victorian market. Additionally this also has the ability to provide overflow staff for any peak customer calling periods. The cost of telecommunications is only marginally higher to operate out of Auckland rather than Melbourne. This additional telecommunications cost will be borne by VEL by providing a free calling 1800 number for customers, which is directed through to Auckland.

A full training programme regarding the Victorian market and administrative procedures will be implemented. Call Centre hours will need to be extended to cover time zone differences. Faults are handled by the Distributor on a 24x7 basis. Additionally, Managing Director, Donald Cheesman will be based in Auckland to oversee the operations.

Established customer dispute resolution processes are in place with known lines of escalation for all CSR's.

VEL's Location and Operations



Meter Reading

VEL will access meter readings from the local Distributors. VEL is in the process of building interfaces to automatically upload meter readings from the meter file formats provided by the Distributors. VEL's CRM/Billing System has already built interfaces with various meter reading providers in New Zealand, each of them with their own file formatting requirements.

VEL's Customer Management System has standard reports in place to track whether or not customers are receiving regular readings and to send reports to Meter Data Providers. Additionally, using pre set criteria that triggers a standard message to be printed on a customers bill, VEL is able to inform and alert the customer to the fact that they may be overdue for a reading and there may be a problem regarding access to their premises.

Customer Billing/Systems

VEL has a software licence to a Customer Management System (CMS) that has already been proven in the New Zealand electricity market. This system already successfully bills 20,000 small commercial and residential customers each month for Energy Online. Additionally Energy Online has a few large industrial customers that are also billed out of CMS. The CMS operates on a MS Sequel Server operating platform. This system is also being used in the telecommunications industry in New Zealand, Singapore and Fiji.

The CMS currently interfaces with the wholesale market and 7 different distributors in New Zealand all with their own file formatting and reporting requirements. The system is an excellent Call Centre management tool as it allows call notes with full audit trails of Customer Service Representatives (CSR's) and time stamping to be added against each customer with any actions to be assigned to a relevant person or department for actioning. Additionally all correspondence including bills are stored in soft copy against the customer so that the CSR has all relevant customer information allowing queries to be resolved at the first point of contact.

VEL's bills will be produced in New Zealand. The bills will be produced in PDF format on to a CD 9or via the Internet), which will in turn be transferred to a Mail House in Melbourne where they will be printed and posted.

VEL is more than happy to provide a physical working demonstration of the CMS to the Essential Services Commission to provide additional comfort of the technical capacity of the system if required.

Customer Collections

VEL will offer customers several payment options that will include:

- Over the counter at Australia Post
- Credit Card
- Direct Debit
- Automatic Payment
- Mail/cheque remittance

- Internet
- Telephone
- Payment in advance

VEL will bill all customers on a monthly basis. VEL will seek each customer's explicit informed consent to the reduced billing cycle. Additionally, VEL will offer all customers a discount for payment by the due date to encourage customers to pay on time. This will assist VEL with its working capital requirements for dealing with timing delays between receiving money from customers and payment to generators and distributors.

VEL has established credit control procedures gained via Energy Online to deal with late payment and establishing and managing payment plans. VEL will employ a credit control team to manage this process. VEL is also aware of the requirements of the Retail Code when dealing with customer credit issues.

Management Reporting

VEL's CMS provides standard management reports for key items such as customer margins, volume, sales, overdue meter readings etc. Additionally CMS has relational database facilities through its segment management module that enables the user to quickly build SQL queries to retrieve ad hoc reports through on virtually any criteria requested. This allows VEL to respond quickly to any issue in the industry. For example VEL could retrieve all VEL customers who live in Williamstown and pay their account by direct debit and who spend more than \$100/month on electricity and send them a letter that same day.

Infratil provides the corporate discipline to ensure the sound and responsible management of VEL. As such, tight management controls are in place to ensure the responsible financial and operational management of VEL.

Technical Capacity Summary

VEL has the management expertise, operational skills, established processes, proven IT systems and financial backing to operate a financially sound and competent electricity retail business.

Further information relating to VEL's technical capacity is provided in Schedule 2 marked Commercial-In-Confidence.

Financial Viability

VEL is able to demonstrate its ability to operate a financially viable electricity retail operation. Detailed information on VEL's financial standing is provided in Schedule 1 marked Commercial-In-Confidence.

Incorporation

A copy of VEL's Certificate of Incorporation is attached. (A hard copy of the certificate can be view at the Commission on level 2, 35 Spring St Melbourne 3000).

Cross-Ownership

VEL does not have a controlling or substantial interest in any licensee who has been granted a licence under the Act. VEL agrees to comply with any cross-ownership provisions contained in section 68 of the Electricity Industry Act 2000.

Cross-Subsidisation and Ringfencing

VEL has no intention of cross-subsidising its retail operation in Victoria. VEL has no ownership or relationship with a 3rd party that would enable the cross-subsidisation of its retail operation. VEL intends to attribute services and resources incurred by the retail business and account for these items in its retail business conducted in Victoria.

Licence Conditions

VEL is not seeking any non-standard licence conditions.

Confidentiality

VEL agrees to this application being made publicly available except for the information provided in the attached schedules that provides detailed information regarding VEL's financial viability and technical capacity to operate a retail business.

Should you have any questions or require further information for the purpose of assessing this application, please contact Donald Cheesman, Managing Director, on 64 9 630 8041 or 64 21 624 020 or Steve Eskrigge, Chief Operating Officer on 64 21 624 020.