

Draft

**Application for a Retail Electricity Licence in Victoria**  
**May 2005**

**Our Neighbourhood Energy Pty Ltd**  
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## 1 General Information

Our Neighbourhood Energy Pty Limited (ON energy) ACN 109 118 578 is a registered company under the Corporations Act 2001 and is registered in Australia.

*ON energy* was incorporated on May 30, 2004 to retail electricity in Australia, initially with a focus on Victoria with the potential to expand into other States.

*ON energy* is in the final stages of negotiations and when a licence is granted will be able to finalise the supply arrangements with electricity generators for supply, distribution network owners for access and system integration so that we are in a position to commence retail activities during the final quarter of 2004.

*ON energy* will initially supply electricity to domestic consumers only.

### **1.1 Information about existing activities, both within and external to the electricity industry.**

ON energy has been specifically created to retail electricity and does not have any other business activities outside of electricity retailing. To date, the company has focused on conducting the necessary research into the electricity industry environment, proving the validity of its assumptions on the market and its likely success, and putting in place a number of important components related to the creation of a functioning participant in the national electricity market.

### **1.2 Why the applicant intends to participate in the Victorian electricity industry and the nature of that participation.**

On the basis of the research performed by *ON energy* it was determined that the Victorian market offered several benefits over the other States. These included:

- the legal environment (including the pro-competitive provisions of the ESC legislation),
- the lack of participation in the generation/retail sectors by Government, and
- the early adoption of full retail contestability.

Also, the barriers to entry into the Victorian electricity market are generally low, with default arrangements for many of the key services and operational aspects.

Further, our assessment of the existing retail tariff structures indicates that *ON energy* is able to offer enhanced service and product offerings to end-use customers.

## 2 The ESC's objectives:

The objectives of the ESC Commission under section 10 of the EI Act are:

- a) To the extent that it is efficient and practicable to do so, promote a consistent regulatory approach, between the electricity industry and gas industry; and
- b) To promote the development of full retail competition.

*ON energy* has been developed to support the objectives of the ESC under section 10 of the EI Act and translate the core, competitive objectives as listed under section 8 of the ESC Act into a viable business proposition.

The provision of a retail electricity licence to *ON energy* and its operation in the Victorian electricity market is consistent with the primary objective of the ESC under the Electricity Act 2000.

**2.1 *To protect the long-term interests of Victorian consumers with regard to the price, quality and reliability of essential services.***

*ON energy* will strive to meet this stated objective by ensuring a competitive market place where Victorian domestic consumers are able to access the same reliable network service and quality of supply at a price which serves the long term interests of Victorians.

As Australian citizens and Victorian residents our Directors have a stake in the community and the viability of the local economy.

*ON energy* is a local company, with Australian Owners and Directors and our goal is to combine electricity sales with some benefit to the community so that we give something back to our customers, the Victorian Community.

**2.2 *ON energy will support the ESC in achieving their primary objective through meeting the following the objectives.***

**2.2.(i) To facilitate efficiency in regulated industries and incentives for efficient investment.**

With the Victorian electricity market largely dominated by national and international companies focused solely on their own growth the introduction of an additional electricity retailer into the Victorian economy will facilitate efficient market outcomes due to increased customer choice and competition.

To enter and survive in the Victorian market *ON energy* must overcome any barriers which might exist to protect the vested interests of incumbent market participants.

*ON energy* will seek to reduce costs through innovation and by challenging the regulated parts of the industry to develop evermore efficient systems and processes.

**2.2.(ii) To facilitate the financial viability of regulated industries.**

*ON energy* will endeavour to drive the regulated parts of the industry to reduce costs through continuous improvement of their systems and processes. As with any business these gains in efficiency will lead to improved financial viability thus reducing the costs to the consumer which is aligned with our objective of delivering better value to the Victorian community.

**2.2.(iii) To ensure that the misuse of monopoly or non-transitory market power is prevented.**

Increasing the customers' choice of supplier can best achieve prevention of the misuse of monopoly or non-transitory market power. The admission of *ON energy* to the Victorian energy market adds to this choice and reduces the ability of any entity to dominate.

**2.2.(iv) To facilitate effective competition and promote competitive market conduct.**

The entry of *ON energy* into the Victorian market will facilitate effective competition by increasing customer choice. Our activities in winning business off our competitors will promote competitive market conduct.

**2.2.(v) To ensure that regulatory decision-making has regard to the relevant health, safety, environmental and social legislation applying to the regulated industry.**

*ON energy* will participate in formal regulatory forums and informal meetings as required by the ESC to provide feedback from our experiences as a start up company and as a retailer in the domestic market so that regulatory decisions made by the ESC are commercially sound as well as fair and reasonable to the domestic consumers of Victoria.

**2.2.(vi) To ensure that users and consumers (including low-income or vulnerable customers) benefit from the gains available from competition and efficiency.**

We believe that the combination of our innovative approach to marketing, our simple tariff structures and our commitment to customer service will benefit not only our customers but also Victorians as a whole.

*ON energy* will bring an innovative and unique approach to the Victorian retail market. Unencumbered by legacy systems and the demands of overseas shareholders *ON energy* will provide domestic customers with a truly different style of retailer.

Our management teams relevant experience is derived from our direct involvement in the Australian National Electricity Market since inception.

**2.2.(vii) To promote consistency in regulation between States and on a national basis.**

At this stage *ON energy* will be focused on the Victorian electricity market however it is in our interest to ensure consistent regulation across the NEM. To this end we will actively participate in appropriate industry forums such as the National Retailers Forum, the B2B Management Group.

### **3 Technical Capacity, Industry Expertise And Experience**

*ON energy* can demonstrate that it has the technical capacity, industry expertise and experience to run a successful retail electricity business.

The Directors, Associates and Business Partners of *ON energy* have an unrivalled proven track record in the Victorian electricity industry. Specifically this comes from:

- First hand experience in starting up both a wholesale and retail electricity trading business in Victoria since the inception of the National Electricity Market.
- Creating the strategies to grow the business and translating these objectives into a viable retail electricity business
- Developing and operating the appropriate business processes and procedures that enabled us to minimise the risk inherent in retailing electricity in Victoria.
- Our business partners are already operating a customer service system in the Victorian Electricity Market.

#### **3.1 Details of experience in and knowledge of the electricity industry.**

The Directors of *ON energy* have combined international electricity industry experience of over 50 years covering a range of technical, managerial and commercial positions across the NEM with broad experience across Network, Generation and Retail businesses. This includes over 10 years experience operating directly in the Victorian electricity market.

*ON energy* is based on a unique company structure which has been designed to create a competitive edge by minimising the operational costs thereby reducing the cost to serve and maximising the benefit to the customer.

#### **3.2 Summary of skills and experience of the Directors/Senior management and their relevance to meeting the requirements of the licence.**

As stated in clause 3.1 the Directors of *ON energy* have extensive electricity industry experience in the UK and Australia with a range of technical, managerial and commercial positions in Network, Generation and Retail businesses. Both Directors were instrumental in developing the AusPower retail business for Yallourn Energy. Since deregulation AusPower, under our guidance, successfully won and serviced accounts with most national C&I customers across the NEM.

This experience of the Executive Directors is summarised below:

**John Shires (Executive Director and Public Officer)** has spent the last 8 years at Yallourn Energy where he developed and managed the Wholesale Trading desk and went on to create the structured products and Relationship deals accounting for 40% of the powerstations output. Later, John went into the Product Development role where his skills and talents were utilised creating innovative pricing structures for Yallourns' largest customers. John has been in the electricity industry all of his working life and has national and international experience.

John graduated from the University of Aston in Birmingham with a BSc Hons Energy Technology and is an Associate Member of the Institution of Engineers.

**Jeffrey Donley (Executive Director and Company Secretary)** graduated from the University of Western Sydney as a Master of Business Administration (MBA) in 1997 having spent 20 years designing and constructing electrical networks prior to his transition into marketing at Integral Energy.

Just after the NEM deregulated Jeff joined Yallourn Energy to take up the challenge of developing Yallourn Energy into a national retailer by opening an office in Sydney to service NSW, ACT & Qld. This enabled Yallourn to diversify their risk by introducing a channel strategy. In just 3 years Yallourn Energy, trading as AusPower, was selling more electricity into NSW then Victoria and Jeff was promoted to National Retail Manager. Under his guidance and leadership AusPower doubled in size and became the dominant retailer in the >4GWh C&I tranche.

### **3.3 Evidence the applicant has the capacity to comply with the licence conditions, codes and guidelines relevant to its application.**

The Directors of *ON energy* have reviewed, with the ESC, the licence conditions, codes and guidelines that are likely to be imposed on its operations. We have determined that we already have access to all the resources that will enable us to comply.

Specifically this includes:

#### **3.3.(i) Managing Supplier Contracts**

On energy has already entered into negotiations with a generator for a supply contract and this will be completed after a licence has been granted.

*ON energy* has reviewed the default use of system agreements offered by the five distribution companies operating in Victoria. We have met with each distribution company to determine their approach on several of the issues related to service provision and operation of their default agreements and determined their position regarding new entrants.

Whilst we have some issues with the default UoS Agreement we understand the position each company has taken. The operational clauses which typically relate to the interface of operational processes may need some minor variations but these are not critical and will not prevent us entering into an agreement.

Of special interest is the fact that the requirement to provide prudential support to the distributors through clause 7.10 (credit support) of the agreements is an impediment to growth. After discussing a number of options that were available related to alternative credit support arrangements, and gaining an understanding of the issues being faced by the different Distribution companies, *ON energy* has determined that its obligations can be best met by supplying bank guarantees. *ON energy* is not anticipating any particular issue with this part of the distribution contracts and intends to meet its obligations in full.

#### **3.3.(ii) Managing Customer Contracts**

On Energy will be dealing with sub 160MWh relevant customers and all service offerings will either comply with the Electricity Retail Code or clear statements of

the differences will be provided. All contracts will clearly set out the customers and retailers rights and obligations and will comply with the requirements of the Fair Trading legislation.

**3.3.(iii) Customer Account Establishment & Management**

A process for establishing and managing customer accounts has been established and each customer will:

- need to satisfy a check to establish creditworthiness;
- be registered on our CIS which will interface with the B2B industry standard and MSATS.
- Be able to terminate his contract, close the account and have a final bill created within 36 hours of notification of intention to move premises.

**3.3.(iv) Customer Service Provision**

A Call Centre has been engaged to handle all correspondence from customers. The Call Centre is able to resolve minor issues however all larger complaints will be processed in-house. On energy will participate in the Energy and Water Ombudsman Scheme prior to the first sale.

**3.3.(v) Billing and Collection**

Invoicing will be done on a monthly basis using the estimation method. Invoices will be available on the webpage and payment will be automated electronically. Customers facing difficulties will be contacted and arrangements will be negotiated.

**3.3.(vi) Appropriate Management Systems**

General Ledger, payables and receivables will be integrated with the billing and settlement system.

The business model we are using relies upon the outsourcing of all non-core business functions. *On energy* provides the infrastructure from which Associates and Partners provide all non-core activities. Each procedure and process has been developed, mapped and documented. Contracts with our trading partners will be finalised subject to receiving a licence. Each of our suppliers has experience in the Victorian electricity retail market and are well positioned to service our needs.

## **4 Compliance With Regulatory Requirements**

The Directors of *ON energy* are familiar with the operation and structure of the Victoria electricity supply industry, the Electricity Retail Code, Customer Transfer Code and Marketing Code of Conduct and agrees to abide by them.



Further to the industry specific codes provided by the ESC, *ON energy* will also comply with its obligations under the legislative framework that includes the:

Electricity Industry Act (1993 and 2000)

Essential Services Commission Act (2001)

Fair Trading Act

Financial Services Reform Act (2001)

Payment Systems and Netting Act (1998)

Trade and Practices Act and Corporations Law

#### **4.1 Provision of information to distributor**

Initially On energy will be focused on the domestic market and will provide minimal planning information to the distributor with the exception of fault information. This information and tracking will be available through the call centre.

#### **4.2 Meter Reading**

On energy has the systems in place to receive meter data from any meter provider in the NEM and are well positioned for smart meters in the event they are introduced to the domestic market.

#### **4.3 Provision of information to customers**

All information relating to the provision of services will be available through our web page. Specifically, this information will cover:

- Customer obligations
- Supplier obligations
- Pricing information and options
- Customer charter (including minimum service standards)
- Contract terms
- Meter estimation arrangements
- Details of billing
- Billing error handling
- Payment terms, method of payment, advance & late payments, instalments and concessions)
- Complaints handling and dispute resolution
- Termination of supply procedure
- Reconnection of supply (obligations and charges)

#### **4.4 Privacy and Confidentiality Management**

The confidentiality of our customer data will be maintained in accordance with the provisions of the Electricity Customer Metering Code and other Codes, guidelines and legislation.

#### **4.5 Customer information management system**

The life and history of the customer will be tracked and recorded on our CMS System which will track:

- Contact details
- Terms
- Payment history
- Record of complaints
- Consumption history
- Billing history
- Previous suppliers
- Contact notes
- Requests for no marketing information.

#### **4.6 Management and compliance systems**

General Ledger, payables and receivables will be integrated with the billing and settlement system and will have the capacity to undertake compliance audits as required by the commission.

### **5 Financial Viability**

*ON energy* is able to demonstrate its ability to operate a financially viable electricity retail operation however *On energy* is applying for a conditional licence requiring compliance with the National Electricity Code and the prudential requirements of the Code (section 19(3) Electricity Industry Act 2000).

*ON energy* would not consider undertaking an entry into the Victorian electricity market without the necessary funding to support it through to its profitable operation. Accordingly, the company will be capitalised to meet the cash commitments for the build of the company infrastructure and we will be providing prudential security requirements of the distribution companies and the electricity market.

### **6 Incorporation**

Our Neighbourhood Energy Pty Ltd is incorporated in Victoria. A copy of *On energy's* Certificate of Registration has been appended to this application (Annex A).

## **7 Cross-ownership**

*On energy* does not have a substantial or controlling interest in any licensee who has been granted a licence under the EI Act. *On energy* agrees to comply with the cross ownership provisions contained in Section 68 of the Act.

## **8 Licence conditions**

*On energy* does not seek any non-standard licence conditions.

## **9 Confidentiality**

*On energy* agrees to the contents of this licence application being made publicly available, with the exception of the additional information set out in the confidential annexures.