



**Application by
Energy One Pty Ltd
for a Retail Electricity Licence in Victoria**

November 2005

I General Information

Energy One Pty Limited is a registered company under the Corporations Act 2001 and is registered and domiciled in Australia.

ABN 37 075 583 018

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Australian Financial Service License 247139

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Energy One (formerly Ferrier Hodgson Electricity Pty Ltd) was incorporated to retail electricity in Australia, initially with a focus in New South Wales, the Australian Capital Territory and Queensland with the potential to expand into other States according to deregulation timetables and the business achieving certain milestones and ongoing profitability.

Due to the on-going success of the business, Energy One now seeks a Victorian retail electricity license to service customers in the state of Victoria. Following the granting of the license, it is anticipated that Energy One will commence retail activities in Victoria during the first quarter of 2006.

Energy One seeks to leverage its current operations that support the retailing of electricity in other states to facilitate its entry into Victoria.

This application to retail electricity is made pursuant to Section 18 of the Electricity Industry Act 2000 (Victoria) in accordance with the guidance notes and technical capacity criteria published by the Essential Services Commission.

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

Energy One currently retail's electricity in New South Wales, the Australian Capital Territory and Queensland. Originally established in 1996 as Ferrier Hodgson Electricity Pty Ltd the business has three licenses to retail electricity:

- Obtained NSW retail license June 1997
- Obtained ACT retail license in February 1998
- Obtained QLD retail license February 2000

Energy One is a niche electricity retailer and does not have any other business activities.

Energy One currently complies with all of its existing license obligations within New South Wales, the Australian Capital Territory and the Queensland electricity markets.

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

Energy One wishes to expand its existing operations into new markets primarily in order to service existing customers who have businesses not only in New South Wales and Queensland but also in Victoria.

Energy One has numerous customers with operations in multiple states. Whilst supplying these customers in New South Wales, Queensland and the Australian Capital Territory Energy One cannot supply these customers electricity in Victoria as it does not hold the applicable license.

Expansion into Victoria offers several benefits. These include the pro-competitive provisions of the ESC legislation, and its early adoption of full retail contestability. Given Energy One retails in other states we believe we will add to the competitive environment that already exists providing Victorian customers with even greater choice.

2 The Essential Services Commission's objectives

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

To promote the development of full retail competition.

Energy One's inclusion as a participant will enhance competition in the Victorian retail market.

Energy One was one of the first independent electricity retailers to establish in Australia upon the deregulation of the National Electricity Market. As such it has considerable experience retailing electricity in other states which, has enhanced the competitiveness of these markets.

Protect the long-term interests of Victorian consumers.

Adherence to the guidelines related to electricity marketing and customer switching will underpin the relationship between Victorian consumers and Energy One.

Energy One supports the objective to protect the interests of consumers, offering electricity under sustainable tariffs with the necessary customer support to deliver choice, energy efficiency and real savings to customers over the long-term.

Energy One's existing systems will ensure the timely transfer of, and the protection of customer information from unauthorised release or misuse.

2.1 (i) Facilitate efficiency in regulated industries and the incentive for efficient long term investment.

The introduction of an additional electricity retailer into the Victorian economy will facilitate efficient market outcomes due to increased customer choice and competition. Energy One is a pure electricity retailer having no interests in generation or distribution assets. Efficiency in investment decisions is expected to occur amongst consumers and also amongst competing electricity retailers.

Energy One seeks to expand the opportunities for customer choice and seeks to promote, not only in Victoria, but Australian wide, market efficiency by supplying electricity to customers operating in multiple states.

Energy One has displayed, through its long term involvement in the Australian National Electricity Market, its commitment to long term efficient investment.

Given Energy One's considered approach to operating in the NEM, first by gaining a licence in New South Wales then Queensland, increasing the scale of its business and expanding into other states only as and when it's financially practical to do so, displays a prudent approach to efficient long term investment in the electricity market.

By granting a license to Energy One the ESC will be promoting efficient long term investment in regulated industries through recognition of Energy One's long term measured approach to investment.

2.2 (ii) Facilitate the financial viability of regulated industries.

Energy One's Financial viability is demonstrated by its ongoing operation in three other states of Australia.

The addition of another financially viable retailer will not only add greater diversity to the Victorian market but over time will also ensure its long term financial viability.

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

By granting a licence to Energy One to retail electricity in Victoria the ECS will be increasing the number of financially viable participants in the market. The

more participants in a market place the less likelihood there will be of monopolies developing. Having new entrants such as Energy One will add to the diversity of suppliers which reduces the dominance and ability of participants that might seek to use a dominant position for anti-competitive outcomes.

Being a pure retailer of electricity ensures the retail segment in the electricity market remains competitive in an environment of increasing vertical integration. Energy One, having no generation or distribution assets, complies with Part 3 of the Electricity Industry Act.

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

Whilst Energy One is a small electricity retailer it has been effective in promoting competition in the other states in which it participates. Gaining a licence in Victoria will allow Energy One to increase its customer base making it a more competitive retailer not only in Victoria but also Australian wide. Energy One will bring to the Victorian electricity market its experience gained over a number of years operating in other states as a small niche retailer.

There will be many Victorian electricity customers with business operations in New South Wales and Queensland who would like the convenience offered by utilizing one electricity retailer. By granting Energy One a Licence to retail electricity in Victoria the ECS will be providing Victorian customers greater choice when selecting an electricity retailer. Given certain Victorian customers will be able to tender a greater load on a national basis they will be able to make greater savings. By granting a retailing license to an operator who retails in a number of states the ECS will also be promoting price competition for Victorian customers.

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

Energy One complies with all relevant health, safety, environmental and social legislation applying to the retailing of electricity on a State and or National level as required.

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

The tariff structures and targeted service levels are intended to provide competitive benefits over and above those of the current retail participants. Energy One aims to provide real savings to the customers it supplies.

Energy One has procedures in place to provide assistance and payment plans for customers who may get into difficulty. Energy One also caters for the various state assistance programs and we will refer customers or assist customers in liaising with the appropriate bodies.

2.7 (vii) To promote consistency in regulation between States and on a National basis.

Being an active participant in three other states gives Energy One a unique understanding and knowledge not only in the operational but also the procedural realities of the regulatory environment and policies of the various states.

This knowledge can be used to promote consistency in the future. Energy One already works cooperatively with a number of electricity retailers throughout Australia, including Victoria, in an attempt to promote regulatory consistency between the states.

Granting a license to a retailer with operations in other Australian States would be consistent with the commissions' objectives.

3 Technical Capacity

3.1 Experience in and knowledge of the electricity industry.

Energy One has operated in the deregulated Australian electricity industry for eight years. Over this time the company and its personnel have built considerable experience and developed robust systems to ensure the company has the technical and financial capacity to comply with its license conditions in the states of New South Wales, The Australian Capital Territory and Queensland. Energy One would like to leverage its experience and knowledge gained in the electricity industry in other states of Australia to facilitate its entry into the State of Victoria.

The Senior Management and Board have demonstrated first hand experience in starting, developing and operating a retail business in NSW, QLD and the ACT. While the regulatory frameworks differ in many ways from jurisdiction to jurisdiction there is a capacity to transfer knowledge and skills between each given the overarching and common approach to retailing electricity in these markets.

3.2 Summary of the skills and experience of the Directors and senior managers and their relevance to meeting the requirements of the licence.

Energy One has proven its technical capacity to run a successful retail electricity business in Australia. The business currently complies with the conditions of its retail licenses, associated codes, guidelines and legislation.

Energy One's Directors and Senior Management team provide electricity industry expertise and direct retail business experience that will enable Energy One to operate an effective and competitive business in the State of Victoria. The expertise and experience comes from:

- First hand experience in both founding and operating an electricity retail business in a fully contestable market,
- Having the necessary disciplines required to grow an existing business operating in multiple states governed by numerous regulators, varying legislative requirements and a diverse array of stakeholders.
- Energy One has prior experience in implementing policies, processes and systems, including those necessary to deliver retail electricity to

domestic and commercial customers in a deregulated environment in the NEM,

- Operational knowledge of the customer service systems required to service competitive retail markets within Australia.

Ian Ferrier

The Managing Director of Energy One has overseen the business in the capacity of Managing Director since its inception in 1996. Ian's knowledge of the Australian electricity industry has been gained over the last eight years via his involvement in Energy One. Ian Ferrier holds directorships in a number of publicly listed Australian companies including:

- McGuigan Simeon Wines Ltd (MGW) – Director
- Macquarie Goodman Management Ltd (MGM) – Director
- Reckon Ltd (RKN) – Director
- Invocare Pty Ltd (IVC) – Chairman
- Port Douglas Reef Resorts Ltd (PDR)- Chairman
- Australian Oil Company Ltd - Chairman

Ian established Ferrier Hodgson (the accounting and corporate recovery firm) in 1976 having spent the previous 15 years specialising in his field. Ian has over 40 years experience in the corporate recovery and turnaround practice. Since 1996 Ian has been responsible for the firm's expansion into Asia with offices in Tokyo, Singapore, Hong Kong, Indonesia and Malaysia.

Some major administrations handled by Ian Ferrier in Australia include:

- Bond Corporation Holdings Ltd Conglomerate
- Compass Airlines Pty Ltd Airline
- Frances Creek Iron Ore Mining Ltd Iron Ore
- International Brewing Holdings Pty Ltd Brewers (which held a controlling interest in Fosters Brewing Group)

Ian's skills as a company director and insolvency professional ensure legislative requirements are adhered to at all times and that corporate governance is a prominent feature of the company. Ian's knowledge of operating a small electricity retailer in the NEM for eight years will prove invaluable as the company grows and expands into other states.

Joe Mulcahy

Joe is a director and shareholder of Energy One. Joe has been involved with the business for the last five years and has a wealth of experience in the electrical industry being the owner of an electrical engineering and design firm employing approximately 100 employees. Joe is a director of a number of local and international companies.

Vaughan Busby

The Chief Executive Officer. Vaughan has headed Energy One for eighteen months. Vaughan's experience is in the turnaround and restructuring of companies with emphasis on financial risk management and corporate finance. Vaughan has an MBA from one of the worlds top business schools, IMD in Switzerland.

Paul Gramenz

The National Sales Manager. Paul holds an Honours Degree in Electrical Engineering and has over 20 years experience in the electricity Industry. Paul has worked for Origin Energy, Powercor and AGL in roles covering Energy trading, business development and sales and marketing. Paul is a Fellow of the Australian Institute of Energy.

Richard Brys

The Operations Manager has been with Energy One for two and a half years. During that time Richard has been responsible for managing all supplier contracts including energy purchases, network and metering services. Richard's experience in the power industry extends to the UK where he worked for Powergen in a corporate finance role. Richard has also worked for Logica developing energy trading systems for various European markets.

John Anderson

The Queensland Manager has 20 years experience in the electricity industry including heading the energy management unit for the CSIRO. John has been with Energy One for over five years.

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

Energy One has reviewed the licence conditions that are likely to be imposed on its operations. We note those conditions, anticipate and accept that they will form part of Energy One's licence.

Energy One currently has established systems for:

- customer transfers,
- billing,
- customer service,
- participation in the wholesale market,
- metering processes,
- utilising distribution network services,
- financial settlements
- dispute resolution; and
- electricity supply.

Energy One is not aware of any significant impediment or obstacles that would prevent it obtaining the necessary regulatory licences.

Energy One has established the necessary infrastructure to effectively deliver retail electricity in a competitive market place.

Technical Capacity Summary

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

3.4 If the applicant is to rely on another entity to provide staff and resources.

Energy One currently does not sub contract out any of its services to other providers. The exception being distribution networks and metering services as required by the relevant legislation.

3.5 Compliance with Regulatory Requirements

Energy One is familiar with the operation and structure of the Victoria electricity supply industry.

Energy One is familiar with the Electricity Retail Code, Customer Transfer Code and Marketing Code of Conduct and agrees to abide by them.

As a co-requirement, the need to comply with the requirements of Guideline #10 (confidentiality and explicit informed consent) forms part of the sales process with customer entering into supply contracts with Energy One.

In addition to the industry specific codes provided by the ESC, Energy One is also aware of its obligations under the legislative framework that includes:

- 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

Related to the legislative compliance, Energy One acknowledges that the Retail Licence requires membership of a dispute resolution scheme. Prior to commencing retail operations in Victoria, Energy One will become a member of the Energy and Water Ombudsman Scheme of Victoria, EWOV.

Retail Guidelines

Given its experience in operating in the deregulated electricity market Energy One understands the importance of adhering to the retail guidelines with respect to the sales and marketing functions. Training of the sales and customer service personnel ensure that requirements of the ESC guidelines for marketing electricity are met and exceeded.

Customer confidentiality is maintained at all times when dealing with other market participants.

Wholesale Market – NEMMCO

Energy One is currently a market participant in the National Electricity Market. As a market participant, Energy One is well aware of the requirements and obligations of participating in the NEM. This includes recognition of the requirements under the National Electricity Code Administrator and the operating requirements of the NEM.

AEMC/AER/NEMMCO Rules

Energy One acknowledges the requirements of and agrees to abide by the rules and procedures of AEMC and NEMMCO. Energy One currently complies with all the rules and regulations laid down by the AEMC and the AER and NEMMCO. Compliance with the rules and regulations is of utmost importance and as such is given due consideration.

Settlement of Electricity Purchases and Network Service Charges

Energy One currently utilises a billing system that it has developed in house over a number of years through its experience as a market participant. The billing system correctly settles and reconciles all electricity and network purchases.

Being a market participant Energy One utilises AusraClear for the real time cash settlement system required by NEMMCO.

Distributors – Use of System Agreements

Energy One has reviewed the default use of system agreements offered by the five distribution companies operating in Victoria. We have met, or are in the process of meeting, with each distribution company to determine their approach on several of the issues related to service provision and operation of their default agreements. Given our experience in other states, the UoSA arrangements are largely similar. At this time Energy One sees no impediment to the execution of the default agreements and treats a properly executed agreement between the parties as a condition precedent before commencing trading on any network.

Sales & Marketing Energy One is familiar with the Fair Trading Act and the Marketing Code of Conduct and agrees to abide by it.

Energy One will treat customer information confidential and we require explicit informed consent before transferring customers to our supply contracts.

Customer Transfers/Switching Energy One is familiar with the Electricity Customer Transfer Code and the industry requirements regarding customer transfer protocols including CATS, MDMS and MSATS. Energy One currently transfers customers in other states on the above systems.

Customer Establishment

Associated with the customer transfer process is the establishment of a customer account. This includes the recording and retention of customer information in a secure information management system. On becoming the financially responsible retailer for a customer, Energy One will confirm the change to the relevant Distributor to allow for the correct allocation of network charges. This will also allow for the transfer of information for a customer under the B2B protocols for events such as a final meter read (contract termination, or account closure). Energy One has an obvious incentive to advise the Distributor when it ceases to be the retailer to a customer, and this links back to the settlement of supplier accounts and the reconciliation of invoices.

Customer Communications

The requirements of the Retail, Marketing and Customer Transfer codes set the minimum requirements relating to the marketing, sale and treatment of customers including confidentiality of information supplied and the gaining of consent. In addition to these are the requirements under corporations law and the fair trading act. Energy One has noted these requirements in its processes and endeavours to exceed these requirements in its dealings with current and prospective customers. As a customer focused business, Energy One recognises not only the importance of good products and services to maintain

an enduring customer relationship but also its importance in providing value and a point of differentiation in a competitive market.

Call Centre/Customer Services

Energy One has its own call centre for dealing with customer inquiries and to support the sales process as required under the marketing code.

The call centre at Energy One currently receives calls relating to general inquiries, marketing activity and associated inquiries, changes in supply requirements, assistance with or changes to payment arrangements, customer problems, complaints and escalation procedures in the event the matter can not be resolved immediately. Associated with the operation of a telephone based support and service centre is the ability and procedures necessary to handle written correspondence, collection of performance measures, and audit of those measures.

Line faults are handled directly by the network distributor who can be contacted directly by the customer or transferred by Energy One.

Meter Reading and Data Services

In addition to arrangements with incumbent network operators Energy One has contracted with a national MDA and MPA to ensure we have access to all customers.

The metering processes are particularly important as the information is used by the NEM for electricity settlements, distributors for network charging and Energy One for customer invoicing. Therefore, the systems utilized by Energy One with respect to this data are particularly robust and provide for tracking and audit functions.

Customer Billing/Systems

Energy One has developed its own proprietary billing system software which it currently uses to bill customers in Queensland, New South Wales and the Australian Capital Territory. The system has proven to be robust and flexible. It handles all aspects in relation to the billing of energy, networks, ancillary charges and the various levies imposed by State Governments.

Energy One continues to develop and improve its billing system to cater for changes in technology, customer requests, additional legislative requirements, and as part of our on going quality audit procedures.

Customer Collections

All payment options prescribed in the Retail Code are offered by Energy One. Where customers request we also provide monthly payment options using historical estimates. Before billing based on historical estimates Energy One requires explicit informed consent from the customer.

Energy One has implemented procedures to deal with late payments and payment difficulties. We provide assistance and payment plans for customers who get into difficulty. Energy One also caters for the various state assistance programs and we will refer customers or assist customers in dealing with the appropriate bodies.

Management Reporting

Senior Management provides regular monthly updates to the Board of Directors. Reports are based on information that is extracted from a variety of sources, including customer information and billing systems, statistics that are recorded in the customer service centre and statistics compiled by authorized sales teams. The senior management team meets on a weekly basis as does the customer service team to discuss performance and related issues. Accordingly, a strong discipline of reporting performance indicators and relevant items at both the senior management and board level is both necessary and available.

When convened the Audit committee receives reports that address Energy One's compliance obligations and the degree to which those obligations have been met. Where compliance issues have been raised, the Audit Committee is responsible for ensuring that any issues are resolved in a timely and professional manner in order that Energy One continues to comply with its obligations.

Management Systems

As Energy One is focused on retailing electricity, it is important that the billing system efficiently integrates with the other systems used to support the operation of the business. At a basic level this allows the billing system to provide information for the tracking of creditors and debtors. In addition, this links to the tracking of operational cost centres and assists with providing the necessary information for not only compliance but also legal obligations.

The key management systems include:

- Electronic Billing Management System –to generate invoices and track all customer related details, including payment details;
- Settlement and Verification System – settlements and verification module allows the Business to verify customers, networks, energy and metering from external sources; and
- MYOB – financial system to record all high level business accounting through to customer details and debtor management.

4 Financial Viability

Energy One is able to demonstrate its ability to operate a financially viable electricity retail operation. This is demonstrated by its eight years of operating history in the Australian electricity industry and its participation in the National Electricity Market (NEM) since its inception in December 1999.

Energy One has continued throughout its history to meet its prudential requirements as stipulated by the National Electricity Market Management Company (NEMMCO).

Energy One would not consider undertaking an entry into the Victorian electricity market without the necessary funding to support an ongoing profitable operation.

Accordingly, the company has the financial resources to meet the cash commitments not only to support ongoing operations but also to support its

prudential requirements as a NEM participant should it be granted a license allowing it to expand into the Victorian market.

Strategic Partner:

Investec Bank of Australia currently provides finance facilities to Energy One as part of an ongoing strategic relationship.

Earnings History:

Operating since 1996 Energy One has a sound earnings history which will be further enhanced with its entry into the Victorian market.

Balance Sheet Structure:

Energy One is a privately held company and is 100% Australian owned. The company currently has no long term debt on its balance sheet and it does not expect to incur any long term liabilities in the foreseeable future.

Short-term Cash flow: Energy One is a profitable business and produces a positive cash flow. No significant capital expenditure is planned or envisaged in the next 12-24 months. All free cash flows produced by the business are subsequently reinvested into the business to facilitate controlled organic growth of the company.

Medium-term Cash flow/Funding Arrangements:

Energy One has sufficient funding in place to see its growth continue for the next five years.

Energy One takes a prudent approach to the management of its business and as such it does not incur liabilities or engage in business activities that will place unnecessary financial risk on the business.

Risk Management Strategy:

In addition to an Audit Committee Energy One also has a Risk Management committee which is appointed by the board of directors. These two committees review the company's policies and procedures on a regular and ongoing basis to assess, monitor and manage both financial and non financial business risks as well as internal compliance and control systems.

At least once a year the committee obtains a report from an independent external auditor which describes the overall scope and extent of the external audit, including risk areas identified and any additional procedures that may be required.

In addition Energy One's AFSL requires the business certify and establish by way of evidence that it has established, and will maintain adequate risk management systems that take into account among other things the nature scale and complexity of its business.

Management experience and depth:

Refer to the section above on directors/senior management.

Management controls:

Vaughan Busby has considerable management experience and given his background in the turnaround and management of troubled companies and has the requisite skill for implementing stringent management controls.

Ian Ferrier's expertise as a director for a number of publicly listed companies ensures the highest level of corporate governance is maintained not only on the Board of Directors but also in the day to day management and operations of the company.

Energy One's Board of Directors meets on a monthly basis.

5 Incorporation Details

Energy One Energy PTY Limited was incorporated on the 28th of November, 1996. Australian Company Number 076 583 018.

6 Cross-Ownership

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

Cross-Subsidisation and Ring fencing

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

7 Licence Conditions

Energy One is not seeking any non-standard licence conditions.

8 Confidentiality

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