

12 September 2006

Mr. Richard Bunting
Manager, Licensing
Essential Services Commission
Level 2, 35 Spring Street
Melbourne, Victoria, 3000

Dear Mr. Bunting,

Application for a Victorian Retail Gas Licence

Enclosed is an application for the issue of a licence to sell gas in Victoria in accordance with section 25 of the *Gas Industry Act 2001 (Vic)*. The applicant for the licence is Red Energy Pty Limited (ABN 60 107 479 372), a wholly owned subsidiary of Snowy Hydro Limited.

We request that Attachments 1,2,3 and 8 be treated as confidential and not be disclosed to any other party without our prior written consent.

Should you have any questions regarding this application, please contact Stephen Roberts on (03) 9425 0454.

Yours sincerely,

Iain Graham
Chief Executive Officer
Red Energy Pty Limited

Red Energy's Victorian Gas Licence Application

1. General Information

Red Energy Pty Limited is a Victorian electricity retailer supplying both domestic and business customers which commenced operations in June 2004. Red Energy was originally owned by Contact Energy Limited (**Contact**), New Zealand's largest energy company with 600,000 customers and third largest company listed on the New Zealand stock exchange. During 2004, a majority ownership stake in Contact was sold by Edison Mission Energy, a Californian based global energy company, to Origin Energy Limited. Following the change in majority ownership, Contact decided to exit the Australian retail sector and sold Red Energy to its current owners, Snowy Hydro Limited.

Since November 2004, Red Energy has been a wholly owned subsidiary of Snowy Hydro Limited. Snowy Hydro is a self-supporting corporation jointly owned by the Commonwealth (13%), New South Wales (58%) and Victorian (29%) Governments. Snowy Hydro operates and maintains the Snowy Mountains Scheme, an integrated water and hydroelectric power project located in Australia's Southern Alps. An overview of Red Energy's retail operations is provided in Attachment 1 of this application.

1.1 Red Energy's Company Details

Applicant's Legal Name:	Red Energy Pty Limited
Applicant's ACN:	ACN 107 479 372
Type of Legal Entity:	Australian Proprietary Company limited by shares
Registered Address:	Level 25, Norwich House 6-10 O'Connell Street Sydney New South Wales 2000
Postal address:	2 William Street East Richmond Victoria 3121

1.2 Reasons why Red Energy intends to enter the Victorian gas market

Red Energy is currently supplying electricity to both domestic and business customers in Victoria and would like to offer its customers the option of purchasing gas from us as well. As a relatively new entrant to the Victorian energy market, we believe that our entry into gas is a natural progression to remain competitive and continue our solid growth.

Red Energy considers the current market favourable for the establishment of a new gas retailer in Victoria and we are confident that we can deliver competitive prices to Victorian consumers. Red Energy intends to supply gas to both residential and business customers. From our prior experience, we understand how to effectively manage the business risks in securing a supply of gas. Red Energy will operate its gas business from its existing premises located in East Richmond. Sales and service for the supply of gas will be integrated with our existing sales and service processes.

Please refer to Attachment 2 for a copy of Red Energy's business plan.

2. The Commission's Objectives

Red Energy understands that the Commission's primary objective is to protect the long term interests of Victorian consumers with regard to price, quality and reliability of essential services. Red Energy believes that the granting of a gas retail licence would be consistent with the Commission's objectives as set out in Section 8 of the *Essential Services Commission Act 2001* (Vic). Our ability to operate a successful electricity retail business in Victoria is evidence of a number of factors which we believe are consistent with the Commission's objectives:

- Red Energy's commitment to energy retailing as a core business activity
- Red Energy's ability to participate successfully in a competitive retail market
- Red Energy's technical capacity to build and integrate systems required to support a significant retail business
- Red Energy's ability to comply with comprehensive regulatory codes
- Red Energy's capacity and willingness to make the financial commitment required to build and sustain a large retail business.

Specifically, in relation to the Commission's facilitating objectives under the *Essential Services Commission Act 2001* (Vic), we comment as follows:

2.1 To facilitate efficiency in regulated industries and the incentive for efficient long-term investment

The granting of a gas retail licence to Red Energy would further facilitate efficiency in regulated industries by enabling Red Energy to offer new and existing customers the option to purchase both gas and electricity from the one retailer. The efficiency obtained by being able to offer both forms of energy will help Red Energy offer competitive pricing to customers, benefiting Victorian consumers. To offer Victorian consumers the option of gas will require a significant investment in new business systems and staff. Red Energy will not make such an investment without a long-term intention to retail gas to Victorian consumers to ensure a reasonable return on its investment. Therefore, growth and employment in the utility services industry would be a natural consequence of Red Energy's investment in the retail gas market.

2.2 To facilitate the financial viability of regulated industries

Red Energy's financial obligations are guaranteed by its parent company Snowy Hydro Limited through a cross company guarantee dated 27 June 2005. Snowy Hydro is a substantial and creditworthy entity with a long-term credit rating of BBB+ from Standard and Poor's. The financial strength of Red Energy's parent company will directly contribute to the financial viability of Red Energy as a participant in the Victorian energy sector and to the industry as a whole.

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

The entry of another gas retailer in the Victorian market would only serve to reduce the potential risk of monopoly or non-transitory market power arising.

2.4 To facilitate effective competition and promote competitive conduct

The entry of another experienced and financially sound energy retailer to the Victorian retail gas market will directly facilitate greater consumer choice and promote further competition between retailers. Given the homogeneous nature of the product, retailers will need to focus on delivering the most attractive combination of price and service in order to attract and retain customers.

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

Red Energy is a responsible corporate citizen that will comply with all relevant health, safety, environmental and social legislation required of it as a Victorian gas retailer. Red Energy's track record as an electricity retailer in Victorian provides the Commission with evidence of our ability to deliver on this undertaking.

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

Red Energy's entry into the Victorian gas market will directly benefit consumers, including low income and vulnerable customers. The long term interests of all Victorian consumers will be best served by robust but sustainable competition between retailers with a long-term commitment to the market.

2.7 *To promote consistency in regulation between States and on a national basis*

Red Energy has plans to become a national energy retailer and advocates for consistent regulation across the various jurisdictions. Red Energy undertakes to maintain open dialogue with all regulators when inefficiencies can be attributed to inconsistent regulations.

3. Technical Capacity

3.1 *Red Energy's experience in the gas industry*

The skills and experience of the 170+ staff at Red Energy are directly relevant to the establishment of a retail gas business in Victoria. Red Energy will be leveraging this extensive experience and knowledge base to ensure we fully meet customer expectations and comply with all relevant laws and licence conditions. The management team at Red Energy has first hand experience in both establishing and operating an electricity retail business in a fully contestable market.

As previously mentioned, Red Energy was originally owned by Contact Energy Limited (Contact) before being sold to Snowy Hydro in November 2004. During this change of ownership from Contact to Snowy Hydro, Red Energy successfully managed to retain the services of numerous experienced employees who had previously worked for Contact. Due to the significant proportion of ex-Contact employees occupying key managerial positions, a brief description of Contact's history is appropriate to demonstrate Red Energy's gas industry experience.

Contact was established in 1996 when it acquired a portfolio of electricity generation and gas assets from the state owned Electricity Commission of New Zealand (ECNZ). In 1998, the New Zealand Government also commenced restructuring the retail and distribution sector of the electricity industry. Over the next 2 years, Contact purchased 10 separate retail businesses. In 1999, Contact also acquired Enerco's retail gas business with a customer base of 106,000. Following the acquisition of these businesses, Contact successfully undertook the consolidation of the separate retail entities into a single business unit. Contact is now New Zealand's leading integrated energy company, focusing on the generation of electricity and the retailing of electricity and gas with over half a million gas and electricity customers and is the largest wholesaler and retailer of natural gas in New Zealand.

Prior to 2004, Contact's investment in Australia had been confined to generation asset ownership and operation. Having developed a substantial retail presence and skill base in New Zealand, Contact was seeking to invest in new markets where it believed it could effectively manage its risk whilst earning an appropriate return on capital. After careful examination, Victoria was chosen by Contact to be their first investment off shore. When a majority ownership interest in Contact was sold by Edison to Origin Energy Limited in October 2004, Contact reassessed their investment strategy in Australia and decided to sell Red Energy to Snowy Hydro Limited, Red Energy's energy supplier. Following the sale, Red Energy retained a significant number of employees who have direct gas and electricity retail industry experience.

3.2 A summary of the skills and experience of the directors and senior managers, and their relevance to meeting the requirements of the licence.

The following is a summary of the senior management team at Red Energy. The following profiles demonstrate that Red Energy has the appropriate personal with the right skills and experience to successfully operate a retail gas business in Victoria.

Iain Graham - Chief Executive Officer

Iain joined Contact Energy in 1996 to establish the information technology infrastructure and businesses processes for Contact and was appointed General Manager Information Management in 2000. He has 20 years experience in the information technology industry in New Zealand, Australia and Brazil and has held senior roles including general management positions in the telecommunications, insurance and banking sectors.

Iain took a lead role in the integration of the separate retail energy businesses acquired by Contact in New Zealand in 1998 and has gained a wealth of experience in all aspects of electricity and gas retail operations. In 2003, Iain's achievements were recognised by being awarded New Zealand's Chief Information Officer of the Year. He was the project manager responsible for the establishment of Red Energy and played an instrumental role in negotiating the sale of Red Energy from Contact to Snowy Hydro whilst still managing to achieve business targets during the transition of ownership.

Marcus Kohn Taylor - Marketing & Sales

Prior to his current role, Marcus was General Manager – Empower Residential for Empower Ltd, which was acquired by Contact in 2000. Empower is regarded as one of the most successful start-up ventures in the New Zealand retail energy sector and Marcus was responsible for developing the strategies to deliver significant residential customer growth over the first three years of Empower's operations.

Managing 25 staff and 65 sales agents, Marcus played a pivotal role in developing the successful residential sales model and supporting sales and customer switching systems. He also managed the integration of Empower's operational business functions into Contact following the acquisition by Contact in 2000. Marcus has been part of the original project team responsible for the establishment of Red Energy.

Murray Bullock – Customer Management

Murray has held various senior management roles within the banking, finance and IT industries in New Zealand and the United Kingdom. These include a number of positions with EDS undertaking major projects for the New Zealand government including the management of up to 250 staff. In 2001 Murray was responsible for Contact's New Zealand retail processing operations. This role involved the management of all back office functions including enquiries, customer transfer, billing and payments and involved the management of 55 staff.

Murray was one of the senior members of the project team that successfully set up Red Energy business in Australia. He is responsible for managing over 50 staff covering call centre and back office functions including customer enquiries, transfer, billing, payments and credit.

Paul Frazer - Corporate Services

Paul is responsible for managing the financial, legal and regulatory needs of the business. He was instrumental in establishing Red Energy under the ownership of Contact and moved to Red Energy when it was sold to Snowy Hydro.

Prior to joining Red Energy, Paul was a consultant to Contact Energy for six years and acted for them on a variety of sale and purchase assignments in the Australian electricity sector. He also spent thirteen years in investment banking with a focus on financial advisory and debt arranging assignments in the electricity industry and eight years in commercial and chartered accounting.

Lynda Bryers – Human Resources

Since completing qualifications in psychology and commerce and postgraduate degrees in commerce, Lynda's practical experience in HR has been heavily weighted towards call centres in the retail electricity industry. Since March 2004, Lynda has worked as part of the project team that developed Red Energy. Lynda has been responsible for implementing key HR policies and procedures, developing organisational structures, remuneration strategies and performance management practices for the company and is also directly involved with many broader aspects of the business.

Lucy Aston – Technology & Development

Lucy joined Contact Energy in 1999 as a project manager involved in the integration of the separate retail energy businesses. She subsequently held several positions within the Information Management team primarily responsible for aligning technology to the strategic goals of the retail business. Prior to joining Contact, Lucy worked in a variety of management roles involved in the deregulation of both the telecommunications and gas industries within New Zealand. Since late 2003 she has been involved in development of Red Energy. Her responsibilities include information technology and learning & development aspects of the business.

Martin Exelby – Strategy & Pricing

Martin has held various commercial roles in the electricity industry since 1991. He joined the business development team at Contact in 1996 from Powergen where he worked during the time of deregulation of the UK electricity industry in areas of both market rules development and supply contract pricing for on-site cogeneration projects.

At Contact Martin worked on the commercial appraisal of a range of business development initiatives and acquisitions in New Zealand and Australia before joining the senior management team as Strategic Planning Manager. He was employed as an energy consultant from 2002 to 2005 and was responsible for the commercial appraisal of Red Energy's business case for Contact, and for the creation of Red Energy's retail electricity plans and pricing.

Red Energy Directors

Terry Charlton: Managing Director and Chief Executive Officer, Snowy Hydro Ltd

Terry is Chief Executive Officer and Managing Director of Snowy Hydro Limited. Formerly he was the Commissioner of Snowy Mountains Hydro-electric Authority, and Chief Executive Officer of Snowy Hydro Trading Pty Ltd from 1999 to 2002. Previous experience in energy and utilities includes President of Edison Mission Energy, United Kingdom, Europe, Middle East, Africa, and Group General Manager, Tubemakers of Australia Limited – Water, Oil and Gas Division.

Nenad Tufegdžic, Executive Officer Portfolio Risk Management and Product Development, Snowy Hydro Ltd

Nenad has been with Snowy Hydro Limited for 9 years during which time he has held various trading, portfolio, risk management and product development roles. In his current role he is responsible for portfolio, trading risk management and product development.

Glen Dewing, Company Secretary, Snowy Hydro Ltd

Glen has over 20 years experience in auditing, finance and governance-related roles, 17 years of which have been spent with the Company and its legal predecessor. Glen was admitted as a Chartered Secretary in 1995

Iain Graham (see details above)

3.3 Red Energy's Compliance Plan

Compliance with both the spirit and letter of all regulatory requirements is considered fundamental to Red Energy's success. Red Energy has developed a compliance policy based on the Australian Standard 3806-2006. Red Energy has also developed a Compliance Manual in conjunction with its lawyers, Freehills, which contains all of its compliance obligations as a Victorian electricity retailer. This Manual will be updated to reflect all additional obligations required as a gas retailer. Please refer to Attachment 3 for a copy of Red Energy's Compliance Policy.

Red Energy's ability to operate a successful electricity retail business in Victoria is evidence of its ability to comply with similar licensing and regulatory obligations required to operate a gas retail business. Red Energy will leverage off its established Victorian business to provide the necessary business functions and expertise to ensure that full compliance is met.

Red Energy will run its Victorian gas operations from its existing premises in Melbourne. Sales will be generated through in-bound and out-bound telephone channels, and a dedicated field sales team will be specifically trained to sell both electricity and gas. Red Energy currently has in place all of the staff and systems to enable it to:

- Provide service to customers in accordance with all applicable Victorian gas industry and consumer protection codes
- Establish and maintain contractual relationships and B2B communications with the Distribution Gas Networks, VENCORP, GasNet and other market participants.
- Purchase gas to meet its customer loads and manage the associated risks
- Recruit and train marketing and operational staff to ensure our ongoing compliance with all applicable Victorian gas and electricity industry codes. Please refer to Attachment 1 for further information regarding staff training in compliance processes.
- Continue to effectively deal with customer complaints and interact with the Energy and Water Ombudsman of Victoria (EWOV).
- Continue to provide information to the Essential Services Commission and other industry parties as required under all applicable codes and guidelines.

Specifically, Red Energy will comply with all of its gas licence obligations whilst operating a retail gas business in Victoria in the following manner.

Registration with VENCORP

Red Energy is currently in the process of arranging registration with VENCORP as required under the Market and System Operations Rules (MSO Rules). Red Energy has held discussions with VENCORP and has been sent the required information and registrations forms. Red Energy agrees to be bound by the financial and procedural commitments of VENCORP and will not participate in the Victorian gas market until such registration is obtained.

Risk Management Policy

Red Energy has in place effective risk management practices that are appropriate for a business of its size and nature of operations. Red Energy does not require a separate compliance and risk management committee as it comes under its parent company's risk management strategy that was developed by Snowy Hydro and is based on the Australian Standard AS/NZS 4360:1999. Snowy Hydro recognises that managing risk is fundamental to achieving its business goals and aims to use world's best risk

management practices in all areas of the company. Its risk management strategy was developed to enable Snowy Hydro to adopt an approach that ensures risks are consistent with corporate strategy, are understood by management and the board and are prudent in the context of risk to the business. This risk management framework developed by Snowy Hydro applies to all aspects of the business, including energy trading and treasury areas, energy production activities and energy retailing conducted by Red Energy.

The Board of Snowy Hydro has established four sub-committees to assist the Board to meet its risk management responsibilities. Non-executive directors chair each sub-committee and the Board Chairman attends all meetings. The Audit and Compliance Sub-committee is responsible for reviewing the performance of the external auditor on an annual basis. The Charter of the Sub-committee is subject to annual review with any changes requiring approval by the Board.

The Trading Risk Sub-committee provides advice to the Board regarding the discharge of the Board's responsibilities in respect of managing the risk pertaining to the Company's energy trading activities (including credit risk management), treasury functions, trading operations and corporate and strategic activities.

The Operational Risk, Safety and Environment Sub-committee provides advice to the Board regarding the discharge of the Board's responsibilities in respect of risk pertaining to the operations of the generation, hydraulic and communication assets of the Company, workplace health and safety and environmental practices, including water release obligations.

The Remuneration and Human Resources Sub-committee provides advice to the Board regarding the discharge of the Board's responsibilities in respect of the Company's human resources. In particular, the Committee advises the Board on the remuneration and performance measurement policy, organisational development practices, succession planning and the remuneration of the Chief Executive Officer.

At Red Energy the CEO is accountable to the Board of Directors for the implementation of the risk management process and is ultimately responsible for the management of risks faced by the business. Risks are systematically identified and managed at an operational level by the appropriate accountable senior managers who seek the optimum trade-off between risk and reward. However, on a day-to day basis, all employees are responsible for managing risks in their own work areas. This risk-based organisational culture encourages competency, empowerment and information sharing and is appropriate for Red Energy's ongoing capacity to provide safe, reliable, efficient and high quality utility services at reasonable prices, and with regard to the interests of consumers.

Gas price and volume risk

A significant risk faced by gas retailers is associated with the fluctuating price of gas on the open market. This risk is well understood by Red Energy who has adopted low-risk strategies for managing its principal business risks. As a new gas retailer in the Victorian market, Red Energy will not be able to forecast its load with the same degree of accuracy as an established retailer. Initially, Red Energy will purchase their gas supply on the spot market as their customer numbers and volume will be relatively low. However, when customer numbers and volume increase overtime, Red Energy will put in place long-term hedging arrangements to manage its supply side risks within acceptable limits.

Funding and interest rate risk

Red Energy's funding is provided by Snowy Hydro which guarantees all of Red Energy's financial obligations to third parties under a cross company guarantee dated 27 June 2005. Interest rate risks associated with this funding are managed by Snowy Hydro as part of its overall funding risk management program.

Marketing Code of Conduct

As a current Victorian electricity retailer, Red Energy is fully aware of its obligations under the Marketing Code of Conduct and undertakes to the Commission that it will continue to adhere to these requirements when it enters the retail gas market. All marketing staff at Red Energy undergo thorough training before they are permitted to have any contact with consumers. This training is conducted in-house by dedicated trainers and covers their role and obligations under relevant laws and this code. Our current training program will be amended to incorporate all additional requirements required to market gas in Victoria. All training material is signed off by external counsel to ensure it meets all regulatory requirements. Please refer to Attachment 1 for further details relating to Red Energy's in-house training program.

Energy Retail Code

Red Energy is fully aware of its obligations under the Energy Retail Code and will continue to adhere to all requirements in the retailing of both electricity and gas in Victoria.

Operation Procedure Compensation for Wrongful Disconnection

Red Energy is fully aware of its obligations with respect to wrongful disconnection and will continue to comply with all requirements in relation to gas and electricity customers.

Distributor Use of System Agreements

Red Energy is aware that it is required to enter into the Use of System Agreements with the three Victorian Gas Distributors before commencing gas retailing. Red Energy has sourced the standard Use of System Agreements and is currently reviewing their terms and conditions. Red Energy is confident that an Agreement will be reached with all three Distributors covering such matters as meter reading, network outages and customer communications, disconnection and reconnections, customer obligations to the Distributor, and the payments to Distributors for distribution charges.

Being a party to the various electricity distribution Network Use of System Agreements, Red Energy has direct experience in the implementation and administration of similar agreements and understands the obligations required of it under such agreements. Red Energy will leverage this experience and enter into Use of System Agreements before trading commences.

Red Energy also expects to be able to satisfy any minimum credit requirement imposed by the Use of System Agreements without the need for additional credit support as its guarantor, Snowy Hydro, is rated BBB+ by Standard and Poors.

Gas Safety Case

Red Energy is aware that it is required to complete a Gas Safety Case before retailing gas in Victoria as per Section 37 of the *Gas Safety Act (Vic) 1997*. Red Energy is in the process of preparing its Gas Safety Case to ensure that all requirements are met and are fully understood by our staff. Red Energy agrees not to commence selling gas until its Gas Safety Case is accepted by Energy Safe Victoria. Red Energy will comply with its Gas Safety Case and will ensure it is kept updated once it is accepted by Energy Safe Victoria.

Community Services Agreement

As a licensed Victorian electricity retailer, Red Energy is currently a party to a Community Services Agreement with the Department of Human Services (DHS). As such, Red Energy is fully aware of its obligations in relation to this Agreement and will hold discussions with DHS to ensure that all eligible customers receive their full entitlements in relation to their gas consumption. The provision of all community services will be on terms determined or agreed in accordance with Section 49 of the *Gas Industry Act (Vic) 2001*.

Energy & Water Ombudsman of Victoria

Red Energy is currently a member of the Energy & Water Ombudsman Scheme in Victoria (EWOV) and understands the obligations associated with membership. Red Energy's Customer Care Manager is our main point of contact with EWOV and will continue to have responsibility for dealing with customer electricity and gas complaints. The Customer Care Manager's responsibility is to resolve consumer complaints quickly and equitably and in accordance with the Australian Standard AS 4269-1995. Red Energy will continue to address any consumer complaint in Victoria in accordance with all applicable obligations.

3.4 Arrangements with related entities (Snowy Hydro)

Red Energy has the following arrangements in place with Snowy Hydro:

- Red Energy has in place a financial swap agreement with Snowy Hydro to protect Red Energy from fluctuations in the price of electricity on the open market. This agreement was negotiated before the sale of Red Energy from Contact Energy to Snowy Hydro.
- Snowy Hydro guarantees Red Energy's financial obligations to the five Network companies in Victoria under 'Use of System Agreements'.
- Snowy Hydro guarantees all of Red Energy's financial obligations to third parties under a guarantee dated 27 June 2005.
- Snowy Hydro performs a number of Red Energy's finance functions including accounts payable, maintaining our general ledger system, source of working capital and preparation and filing of GST and income tax returns.
- Snowy Hydro provides Red Energy with all funding required to finance its business operations so that Red Energy has the necessary resources to make a long-term investment in the Victorian retail energy market. More details on Red Energy's source of working capital are provided under the heading 'Financial Stability'.
- Regular monthly Board Meetings with Red Energy management reporting to the Red Energy board and the Snowy Hydro executive.

4. Financial Stability

Red Energy has the necessary financial resources to successfully operate a gas and electricity retail business in Victoria. As previously mentioned, Red Energy's funding is provided by Snowy Hydro which guarantees all of Red Energy's financial obligations to third parties under a cross company guarantee registered with ASIC. This should satisfy the credit requirements with the Gas Distributors as Snowy Hydro has a long-term credit rating of BBB+ from Standard and Poor's. Please refer to the following Attachments that demonstrate that Red Energy's has the financial resources to operate a successful retail business in Victoria.

Please refer to Attachment 4 for a copy of the cross company guarantee between Red Energy and Snowy Hydro.

Please refer to Attachment 5 for a copy of Snowy Hydro's audited financial statements for the financial year ending June 2005.

Please refer to Attachment 6 for a copy of Snowy Hydro's long term credit rating of BBB+ by Standard and Poor's.

5. Incorporation Details

Please refer to Attachment 7 for a copy of Red Energy's certificate of registration with ASIC.

Information about Red Energy's parent company, Snowy Hydro, has been provided throughout this application. If further information is required, the Commission can obtain further information from Snowy Hydro's website: www.snowyhydro.com.au or contact Stephen Roberts at Red Energy who will provide the requested information.