



Australian Power&Gas

Retail Licence Application

Public Document

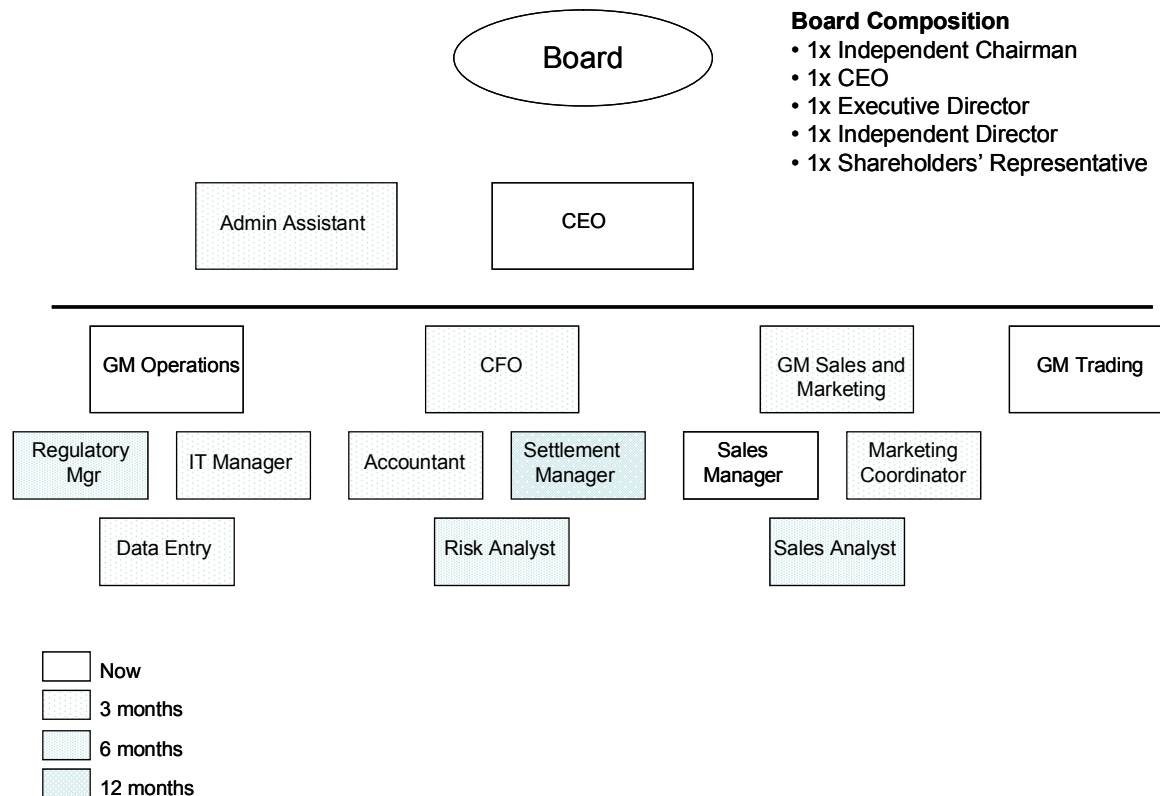
August 2006

The Applicant

Australia Power and Gas Pty Ltd (APG) ABN 26 118 609 813 is a registered company under the Corporations Act 2001 and is registered in **New South Wales**. APG has its Registered Office at **Level 7, 280 George Street, Sydney NSW 2000**. APG was incorporated on **8th March 2006** specifically to retail energy in Australia.

Accordingly, APG has not prepared any annual returns or audited accounts to date.

APG is a fully owned subsidiary of Microview Limited (MVL) www.microview.com.au – an Australian publicly listed company. The organisational structure is as follows:



Executive Management Team

The company has been formed by a core team of experienced professionals who have engaged in and around the development of the national energy market and understand the opportunities, risks and functional requirements in operating a successful Retail business. This combined with a Board of Directors experienced in both Energy and Telecommunications markets both locally and internationally, establishes a unique and formidable team able to deliver the business plan with appropriate risk and optimal returns. A summary of the appointed executive team is detailed below.

James Myatt: CEO

James has more than 20 years experience in the Australian Energy industry across a diverse set of roles and organisations. His technical capabilities span wholesale and retail operations coupled with a number of strategic Executive Management positions.

In recent times James held the position of Strategic Sales Director for Energy Australia; a company with over 1.5M customers and \$2.4B p.a. in revenues coupled with outsourced business operations for its Victorian and South Australian businesses.

James holds a Masters Degree in Marketing and has engaged a number of Directorships in addition to the Chairmanship of the SEAGas joint venture pipeline during construction.

Andrew Butler: General Manager - Sales and Marketing

Andrew Butler, an experienced services marketing professional has more than 10 years senior marketing experience with some of Australia's largest infrastructure organisations. Andrew has held a number of senior management positions including most recently Marketing & Public Relations Manager – Lane Cove Tunnel Company, Marketing Manager – Transurban Citylink, Manager Residential & Small Business Marketing – CitiPower and Manager Product Marketing – Australian Gas Light Company (AGL)

This experience combined with a Graduate Diploma in Marketing Management from MGSM provides Andrew with a demonstrated Marketing & Public Relations capability to the executive management team.

Executive Team and Key Appointments

The Chief Executive Officer and Executive team are undertaking an extensive search and selection program to secure personnel for key executive positions. All appointments will be made with due consideration for the significant responsibilities of these positions.

External Resources

Wholesale Supply Contracts

APG will become an active participant in the wholesale OTC as well as exchange based electricity markets. APG is currently in the process of negotiating trading and clearing agreements to gain access to these markets.

Use of System Agreements

APG is in detailed discussions with all 5 Victorian distributors. In particular, APG has addressed the Credit Support requirement under the published UoS Agreements and has proposed appropriate guarantees to support its forecasted Use of System risk. All five distributors have indicated that they in principal agree with APG's proposal and have submitted the proposed amounts to their internal credit committee's for review.

NEMMCO

APG has entered into discussions with NEMMCO. APG is familiar with the terms of the Use of System Agreements and is making considerable progress towards execution of these.

Upon receipt of its Licence APG will finalise NEMMCO arrangements. APG will not undertake Retail Electricity Sales until its Licence has been approved.

Back Office

At the heart of the business is the process of transferring customers to APG, measuring energy use, billing in accordance with contracted terms and ensuring timely collection of revenues. The business model proposed is based on a variable cost structure, where back office services are provided through outsourcing arrangements.

APG has selected Serviceworks Management Pty Ltd (www.serviceworks.com.au) as its service provider for these critical services.

Serviceworks has been operating successfully delivering services to retail energy clients since 1999 and has a dedicated team to ensure effective, compliant business services and solutions.

Serviceworks will deliver to APG a complete service combining best of breed specialist providers and its own expertise to provide a seamless service for APG and its customers.

In addition, the Serviceworks outsourcing function will be supported through the use of an established Customer Information System that has proven capability both within the domestic and overseas utilities markets.

Energy Water Ombudsman of Victoria

APG have commenced discussions with the Energy and Water Ombudsman Victoria (EWOV) with the view towards becoming a registered participant. Further the constitution has also been reviewed accordingly.

Department of Human Services

APG is aware of the various concession arrangements (Winter Energy, Life Support, MS, URGS, Group Homes Winter Energy etc) in place through the Department of Human Services (DHS) and intends to be fully compliant with all of these schemes.

Codes, Guidelines and Licence Obligations

APG is aware of the various obligations with regards to Codes and Guidelines within the industry and intends to fully comply with them. These include but are not limited to:

- Electricity Distribution Code
- Electricity Customer Metering Code
- Electricity Customer Transfer Code
- Energy Retail Code
- Code of Conduct for Marketing Retail Energy in Victoria
- National Electricity Code
- Electricity Industry Act 2000 (VIC)
- Essential Services Commission Act 2001 (VIC)
- Trade Practices Act 1974 (Commonwealth)
- Fair Trading Act 1999 (Commonwealth)
- Privacy Act 1988 (Commonwealth)
- Corporations Act 2001 (Commonwealth)
- Financial Services Reform Act 2001 (Commonwealth)

This will be supported by a dedicated Regulatory business unit and personnel as outlined in the Organisational structure section of this document.

Customer Charter

A Customer Charter will be developed and provided to the customers of APG.

Relevant Company Information

APG has provided Commercial in Confidence information to the Commission regarding its Incorporation details.

The Commission's Objectives

The Directors and Executive of APG have reviewed and considered the objectives of the Commission under section 10 of the Electricity Industry Act 2000. Specifically APG provide the following information in response

- a. To the extent that it is efficient and practicable to do so, to promote a consistent regulatory approach between the electricity industry and the gas industry;*

Australian Power and Gas is preparing to be a national retailer of Electricity and Gas, with a key plank of its business strategy being the provision of best cost services to the Australian Retail Energy market. In striving towards this goal APG is strategically aligning itself to key competitive operators and service providers in the market as well as positioning itself amongst the various working groups, regulatory forums and review committees that have been established to further support a consistent regulatory approach for both Gas and Electricity

- b. To promote the development of full retail competition.*

APG is of the view that its application demonstrates support for full retail competition, and will provide increased opportunity to small retail customers to participate in the contestable energy market.

Further the Directors of APG are of the belief that this application satisfies sections 8(1) and 8(2) of the Essential Services Commission Act and provide the following in specific responses to the Objectives of the Commission.

- a. In performing its functions and exercising its powers, the primary objective of the Commission is to protect the long term interests of Victorian consumers with regard to the price, quality and reliability of essential services.*

APG's mission is to be a low cost, fast and efficient and primarily outsourced retailer of energy products to the mass market within the States of Australia where full retail competition is in place.

APG believe that further market competition will continue to protect the long term interests of Victorian Customers with respect to Retailer performance. As competitive tension further drives operational and commercial efficiencies within the market place, market dynamics allow Retail businesses to continue to deliver a greater variety of product offerings to the market, improved quality and service capabilities to customers, whilst maintaining, improving and passing through the benefits of Retail Competition. In addition improved retailer strength and capability further drives new opportunities with Distribution businesses to promote improved reliability via metering, asset management, and continuous performance improvement.

- b. To facilitate efficiency in regulated industries and the incentive for efficient long-term investment*

As noted above, Retail licence opportunities reduce monopolistic market activity. Further as new entrants commence operations, they are compelled to plan, deliver and maintain competitive and pragmatic market offers to a now well educated and informed market.

Requisite of effective market delivery is appropriate investment strategies that mitigate business risk, whilst suitably assuring planned commercial outcomes. APG's entry to the Australian Retail Energy Market is based on a number of medium to long term plans that will further provide local investment coupled with the introduction of a new competitive dynamic through outsourced services, management and delivery.

- c. To facilitate the financial viability of regulated industries;*

The Directors of APG are of the view that a successful application for a Retail Electricity Licence in Victoria will further promote the financial viability of the Victorian Energy Industry.

APG believe that further competition will enhance returns to customers and offer greater value through a wider variety of product offerings. It will drive the development of improved technologies

and stimulate new service outcomes available to customers. In addition as competitive activity is generated it will continue to further encourage incumbent operators to review, develop and deliver strategies to reduce the risk of reducing market share and customer loyalty, in turn creating further competitive tension and customer choice.

d. To ensure that the misuse of monopoly or non-transitory market Power is prevented;

APG understands and supports the fundamental principles upon which market competition in Victoria has been based, including the intent to reduce and marginalise the opportunity for inappropriate monopolistic market activities and behaviour.

The approval of a Retail Licence to APG will further reduce the risk of concentrated market control and as noted above, encourage greater opportunity for competitive activity to drive and freely direct market opportunity.

e. To facilitate effective competition and promote competitive market conduct

APG is of the view that its entry to the Victorian Energy market will drive and further enhance competition. APG's strategic partner (The Cobra Group) is well known for its considerable success and capabilities in delivering offers to the market through face to face and telesales channels, coupled with substantial experience and capabilities both internally and externally via its preferred suppliers.

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

The Directors of APG are committed to providing a safe workplace that is committed to the sustainability of the environment and the wellbeing of its employees and customers.

All employees and suppliers will have similar values and operate with a compliance culture and focus.

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

APG have reviewed and paid particular attention to Part 3 Credit Management and Part 4 Disconnection of the Energy Retail Code V2 February 2006.

APG acknowledges the importance of all customers being able to access the benefits of competition and market efficiency through a wider choice of more appropriate product offerings that deliver greater value. Further, APG supports continued regulation and public policy management with respect to Wrongful Disconnection and Retailer specific obligations in providing fair, equitable and reasonable payment arrangements to low-income and vulnerable customer groups.

h. To promote consistency in regulation between States and on a national basis.

APG supports consistency in regulation between States and on a national basis. As noted APG intends to make application to all contestable States of the Australian Energy Market and as such acknowledges to the Commission a vested interest in supporting and assisting where practicable in this endeavor.

Financial viability

APG has provided Commercial in Confidence information to the Commission on its financial viability. APG's business plan and underlying infrastructure ensure that it will have adequate capital at its disposal to fulfill its financial obligations. In addition to this, APG will fully be able to satisfy the credit support obligations outlined in the Use of System Agreements that will be in place with all relevant distributors.

Technical capacity

a. Capacity to operate a business

APG confirm that the Company's Directors have the necessary experience to run a Retail Energy Business.

In addition to the Directors significant Commercial, Operational and Regulatory experience, further teams, service providers and suppliers will be engaged to support the APG business.

b. Audit & Risk Management Committee

APG's board and executive recognises the importance of putting in place an appropriate structure of review and authorisation designed to ensure the truthful and factual presentation of the company's position.

The Board has established an Audit & Risk Management Committee, comprising of two non executive directors to support and ensure this key strategic directive.

c. Risk management policy and program

The APG Board and executive is aware of the material risks that affect Retail Energy Companies, as a result APG has established a formal risk program based on Standards Australia's AS/NZS 4360:2004 (Risk Management).

This program is supported by APG's Risk Management Policy, which has been endorsed by the Board on the recommendation of the CEO and the Audit & Risk Management Committee.

Further APG will acquire and develop adequate management systems and infrastructure for its retail operation, and will in the course of the development of its business take due care that the management systems and infrastructure are constantly updated and improved so as to always guarantee diligent management of its operation.

d. Managing customer contracts

The Directors of APG have significant experience in marketing energy products to customers in Victoria and other Australian jurisdictions, in addition to a working knowledge of the laws, guidelines and codes that govern the customer contracts. Further, coupled with the significant sales and marketing experience of The Cobra Group and Customer Service and Back Office capability of Serviceworks Management, APG are well positioned to ensure customer contracts are compliant and equitable.

APG is fully aware and experienced in the detail and requirements of the Code of Conduct for Marketing Retail Energy in Victoria and the Energy Retail Code.

e. Customer account establishment & management

As noted, APG will use the services of Serviceworks to establish and manage customer accounts. Serviceworks will have the relevant systems in place to ensure that APG have the capability to:

- Verification – Audit and Service Control
- Transfer customers
- Perform credit checks where necessary
- Establish and close customer accounts;
- Advise distributors of account establishment and closure;
- Record customer history; and
- Arrange meter reads and bill, including final billing customers.

f. Customer service provision

Serviceworks will provide to APG a range of customer contact services. Its employees will undergo extensive regulatory training to ensure that all appropriate guidelines, codes and obligations are met.

Serviceworks will provide to APG under the terms of its commercial agreement;

- A contact centre to handle inbound contacts from customers across the range of services provided
- Outbound Collection and payment management activities
- A service to handle customer correspondence
- The ability to collect information for performance measurement purposes that are aligned to the services provided; and
- The ability to handle complaints and resolve disputes in line with Compliance requirements (eg. EWOV scheme). APG will fully participate in the Energy & Water Ombudsman Scheme prior to commencing sales.

g. Billing and collection

Serviceworks will provide APG billing and collection services. Services will include;

- Generation of bills from meter readings or estimations where appropriate;
- The delivery of a bill print file to APG's nominated service provider for printing and sending of bills to customers;
- Receipt of payments received and management of late payments;
- Reconnection of supply where applicable;
- The management of payment difficulties; and
- The recovery of unpaid debts.