



Victoria Electricity

04 December 2003

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

Dear Sir,

**Retail Gas Licence Application**

Please find enclosed an application from Victoria Electricity Pty Ltd (VEL) ABN 69 100 528 327 for a retail gas licence to sell gas in Victoria.

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

VEL's application makes reference to VEL's Customer Management System (CMS). VEL is more than happy to provide a physical working demonstration of the CMS to the ESC to provide additional comfort of the technical capacity of the system if required.

Should you have any questions regarding this application please do not hesitate to contact me on 03 9841 0194 or 0425 740 338.

Any correspondence may be forwarded to:

Steve Eskrigge  
9 St James Crt  
Doncaster East  
VIC 3109

Yours sincerely

Steve Eskrigge  
Director

Cc Richard Bunting  
Manager, Licensing

## **Application for a Retail Gas Licence in Victoria**

### **1.0 General Information**

Victoria Electricity Pty Ltd (VEL) ABN 69 100 528 327 is a registered company under the Corporations Act 2001 and is registered in Victoria. It has its head office at Level 25, 1 Eagle St, Waterfront Place, GPO Box 1242, Brisbane, QLD 4001.

VEL was incorporated on 12 May 2002 specifically to retail energy in Australia. VEL was granted an electricity retail licence by the Essential Services Commission on the 21<sup>st</sup> of August 2002. VEL has not yet commenced operations. A copy of VEL's Certificate of Incorporation has been attached to this document.

VEL's Directors are Bruce Harker, Paul Ridley-Smith, Roger Crawford, Donald Cheesman and Steve Eskrigge.

VEL's majority shareholder is Infratil Securities Ltd a 100% subsidiary of Infratil Ltd, which is listed on the New Zealand Stock Exchange. As at 6 October 2003, the market capitalisation of Infratil Ltd's shares, warrants and bonds was approximately A\$450million.

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

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

### **2.0 The ESC's objectives**

VEL is aware of its obligations as a retailer in accordance with the codes and guidelines as published by the ESC and detailed in this application.

VEL understands that The Essential Services Commission Act 2001 (the Act) establishes clear objectives that the Commission is required to pursue in performing its functions. Its primary objective is to protect the long-term interests of Victorian consumers with regard to the price, quality and reliability of essential services.

The Commission's facilitating objectives include:

- facilitating efficiency in regulated industries
- facilitating incentives for efficient long-term investment in regulated industries
- facilitating the financial viability of regulated industries
- preventing the misuse of monopoly or non-transitory market power
- ensuring decisions account for the relevant health, safety, environmental and social legislation in each regulated industry
- ensuring customers and users (including low income and vulnerable customers) benefit from competition and efficiency gains
- promoting consistency in regulation across states and nationally

VEL's inclusion as a participant will meet the ESC's objectives as outlined above by actively promoting competition in the Victorian retail market while having the necessary experience, financial resources and systems to operate a technically competent and financially viable gas and electricity retail business.

### **3.0 Experience of VEL in the Gas Industry**

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

VEL is able to leverage and transfer the skills and experience of VEL's management having previously demonstrated the ability to operate an energy retail business in a fully contestable environment. Donald Cheesman and Steve Eskrigge co-founded and managed Energy Online, an independent electricity retailer in New Zealand. Energy Online developed an excellent reputation in the New Zealand market with customers and suppliers alike. Energy Online was the only retail operation in New Zealand to achieve full ISO 9001 quality procedures for the entire retail operation.

Energy Online was founded in May 1999 and by December 2002 had grown to annual revenues exceeding \$30M and 25,000 customers when it was purchased by Genesis Power, New Zealand's largest electricity and gas retail and electricity Generation Company. Genesis is owned by the New Zealand government and continues to operate Energy Online as a stand-alone business in recognition of the quality retail processes and its positive market and industry reputation.

VEL's Management having successfully operated a retail energy business in a fully contestable environment for 4 years has honed the processes and procedures required to operate a successful retail business in Victoria. This will protect and promote customer interests with respect to pricing, safety and enhanced levels of customer service. Additionally, VEL's industry experience and corporate disciplines via its major shareholder, Infratil, will facilitate the maintenance of a financially viable electricity and gas supply industry.

### **3.1 Key Personnel**

#### **3.1.1 Donald Cheesman**

#### Managing Director

Donald Cheesman was a founder and Managing Director of Energy Online, a start up independent electricity retailer in New Zealand. Energy Online was formed in 1999 and by Dec 2002 when it was purchased by Genesis Power (NZ's largest government owned electricity and gas retail and generation company), had 25,000 customers and annualised revenues exceeding \$30M. Prior to founding Energy Online, Donald Cheesman had 12 years experience in the electricity industry, which included senior management roles at Power New Zealand where he was responsible for the non-domestic customer base of 25,000 and Power New Zealand's wholesale energy purchases of approximately \$170 million per annum. This portfolio included both electricity and gas.

#### **3.1.2 Steve Eskrigge**

##### Director

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

### **4.0 Compliance**

VEL has the technical capacity to comply with the conditions of the licence and associated codes and guidelines. VEL is familiar with and understands the requirements associated with the objectives of the ESC under the Gas Industry Act, 2001, the Essential Services Act, 2001 and the National Third Party Access Code for Natural Gas Pipeline Systems (the Code).

VEL is aware of its obligations in association with VENCORP and the Office of Gas Safety (OGS) and is in the process of completing the necessary arrangements in order for VEL to fully comply with both of these bodies.

#### **4.1 Compliance with Industry & Regulatory Requirements**

VEL is familiar with the operation of the Victoria gas supply industry and agrees to comply with the relevant legislation. Additionally, as part of the application to VENCORP for registration as a market participant, VEL will agree to be bound by the financial and procedural commitments of VENCORP.

VEL is familiar with the Gas Retail Code, Gas Industry Act 2001, National Third Party Access Code for Natural Gas Pipeline Systems (the Code) and the Victorian Gas Industry Tariff Order and agrees to abide by them. VEL is familiar with the Fair Trading Act and the Marketing Code of Conduct and agrees to abide by them.

VEL has met with officials from the Department of Human Services and has received a Community Services Agreement contract to complete.

#### **4.2 Distributors – Use of System Agreements**

VEL is familiar with the terms of the Use of System Agreements of the Victorian Gas Distributors and will sign an agreement with all 3 major Distributors. VEL has previously expressed its views to the ESC and the Victorian Electricity Distributors regarding the issue of credit support. VEL is able to meet the conditions of this clause but it places a major financial obligation on VEL and as such is seeking to negotiate a compromise position which achieves the necessary satisfactory protection for the Distributors such as outlined in the ESC guidance on this issue in June 2002.

Additionally VEL understands rights and responsibilities regarding key tasks including:

- Meter reading
- Network outages and customer communications
- Disconnection's/reconnections
- Customer obligations to the distributor
- Payments to Distributors for distribution charges

### **4.3 VEL's Operations**

VEL's intention is to be a very responsible corporate citizen. VEL's Infratil directors are experienced Australian Company directors and as such are acutely aware of Australian standards and recognise the importance of compliance, governance and risk management and compliance with Australian laws and associated guidelines and codes. Additionally, Infratil Ltd being a publicly listed organisation bring strong corporate governance and place market reputation and being a responsible corporate citizen of the highest importance.

#### **4.3.1 Risk Management**

An important component of VEL's operations is its risk management policy. As part of VEL's risk management policy VEL has contracted to Morrison & Co to provide risk management consulting services. As part of these services Morrison & Co will undertake monthly audits ensuring that VEL is operating prudently in relation to its wholesale activities and market compliance.

#### **4.3.2 Operational Procedures & Training**

VEL has documented procedures and training manuals. VEL's operational processes are documented in the attached schedule to this application marked as Confidential, Commercial in Confidence.

#### **4.3.4 Billing and Customer Management Systems**

VEL has a software licence to a Customer Management System (CMS) that has already been proven in the New Zealand gas and electricity markets. This system already successfully bills 40,000 small commercial, residential and time of use metered electricity customers each month for Energy Online. The CMS is also being used in the gas industry in New Zealand and telecommunications in New Zealand, Singapore and Fiji.

The CMS has been customised to interface with NEMMCO's MSATS and the same process is being followed to interface with VENCORP. VEL has received the

specifications in order to facilitate the completion of the required interfaces and to accommodate codes and guidelines issued by the ESC.

VEL's CMS includes the following features:

- Call Centre operations, notes, soft copy bills, job scheduling and reporting.
- Customer enquiries and tracking
- Customer relationship management, fulfilment, communications and management
- Document storage
- Task and job assignment
- Credit control
- Forecasting
- Switching
- Billing, basic and time of use metering, multi products, consolidated accounts, online billing
- Settlements
- Management reporting, standard pre programmed and ad hoc queries, relational database facilities
- Proven scalability
- Web interfacing
- Fast and easy customisation

#### **4.4 Summary**

VEL has the management expertise, operational skills, established processes, proven IT systems and financial backing to operate a financially sound and competent gas retail business. Infratil provides the corporate discipline to ensure the sound and responsible management of VEL. As such, tight management controls are in place to ensure the responsible financial and operational management of VEL.

Further information on VEL's technical capacity is provided in Schedule 1 marked Confidential, Commercial-In-Confidence.

#### **5.0 Other Interests**

- VEL does not have a controlling or substantial interest in any other licensee in the state of Victoria.
- VEL has no intention of cross-subsidising its retail operation in Victoria. VEL has no ownership or relationship with a 3<sup>rd</sup> party that would enable the cross-subsidisation of its retail operation. VEL intends to attribute services and resources incurred by the retail business and account for these items in its retail business conducted in Victoria.
- VEL is not seeking any non-standard licence conditions.

#### **6.0 Confidentiality**

VEL agrees to this application being made publicly available. As provided in the guidance notes the attached schedule provides detailed information of a confidential

nature to the ESC regarding VEL's financial viability and technical capacity to operate a retail gas business.