



**Application for Retail Electricity Licence
For Jackgreen (International) Pty Ltd**

Tuesday, 21st June 2005

1.0 General Information

Jackgreen International Pty Ltd ("Jackgreen" or the "Applicant") is a 100% Australian owned independent electricity retailer. Jackgreen was incorporated in June 2001, was granted a New South Wales Electricity Retailer Licence in March 2002 and became a National Electricity Market Code Participant in January 2004. Jackgreen became registered with the Energy & Water Ombudsman NSW (EWON) as an electricity provider in June 2004. An Australian Financial Services Licence was granted in March 2005. Jackgreen began retailing electricity in New South Wales in January 2005. Jackgreen (International) Pty Ltd is the wholly owned subsidiary of the public company, Jackgreen Limited (ASX Code: JGL). Jackgreen Limited was listed on the Australian Stock Exchange in December 2004) after a successful, prospectus based, \$7M capital raise. Refer to the Applicant website at <http://www.jackgreen.com.au>

Jackgreen is growing its business in an exciting era of energy market reform and transition in Australia. Consumer choice, price competition and growth of investment into companies involved in the areas of sustainability and sustainable business development clearly support the Jackgreen growth strategy.

Jackgreen's target electricity market is the Residential and Small Medium Enterprise (SME) consumer accounts that purchase less than 160MWh per annum. This market has demonstrated a 50% unsatisfied customer demand with incumbent electricity retailers.

Jackgreen's core offer to customers includes:

- Supply of green energy;
- Opportunity to develop genuine community partnerships through Jackgreen providing a donation on behalf of customers to community organisations or charities at the time of becoming a Jackgreen customer, thereby creating wider social benefits as a result of the purchase decision;
- Competitive pricing, such that choosing a green energy component does not cost more a than current supplier level; and
- Proven customer information and billing system that is 'state of the art', facilitating higher levels of customer service.

Following our successful launch in New South Wales (NSW) energy jurisdiction, the application for an electricity retail licence in Victoria is the next link in our national strategy. This national strategy includes application for energy licenses in South Australia, which have been recently lodged.

This application to retail electricity is made pursuant to section 18 of the Electricity Industry Act 2000 (Victoria) and in accordance with the guidance notes and technical capacity criteria published by the Essential Services Commission (the "ESC" or the "Commission") date November 2002.

It is consider that Jackgreen has the necessary financial viability and technical capacity to operate a successful electricity retail business in Victoria, as is evidenced by this application. This application is composed of public and private, in confidence, components. Where additional *Commercial-In-Confidence* information is available for consideration by the Commission on a particular element of this public application, it is so noted.

All questions related to this application should be directed to:

Mr Ashleigh Antflick
General Manager - Strategic Operations
Jackgreen (International) Pty Ltd
Level 16, 100 William St Sydney, NSW 2011
Ph (02) 8302 3814
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2.0 Information about existing activities, both within and external to the electricity industry.

Jackgreen is a fully functioning, licenced and code compliant electricity retailer in NSW and does not conduct any other business at this time.

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

The Jackgreen business model is built on the understanding that the Victorian target market firmly support the concepts of environmental and community advancement. This understanding is supported by research conducted on behalf of Jackgreen by Millward Brown Australia in the consumer market which indicated that 92% of people surveyed would consider switching from their current supplier if there was a 'greener' alternative at the same price as their existing supplier. We will offer our greener products initially to residential customers then to Small/Medium Enterprises ("SMEs").

3.0 The Essential Services Commission's objectives

Address the Commission's objectives under the ESC Act.

From its inception, Jackgreen's business philosophy has been to:

- Build a profitable, high growth electricity retail operation;
- Develop the green power industry through the provision of an educated customer base;
- Work with customers by offering ongoing support to charities and community interest groups of their choice; and,
- Offer a reliable supply of electricity at a competitive rate over a contracted period.

To be a strong competitor in the Australian electricity market offering residential and SME customers a great choice:

By granting a retail electricity licence to Jackgreen, the ESC will reinforce it's the objectives under the Essential Service Commission Act.

To promote the development of full retail competition:

Jackgreen has targeted the previously under performing "Green" market in all jurisdictions. The early success of the business in NSW, coupled with the depth of expertise in the management team will be used to encourage customer switching to a product suite that offers true differentiation. Additionally, Jackgreen's focus on higher standards of customer service will provide a compelling offer to the Victoria market.

Protect the long-term interests of Victorian consumers:

Members of the Jackgreen team participated in the initial drafting of the guidelines for customer service and were participants in the market during the early stages of Victorian deregulation. As a result, Jackgreen holds unique experiences and knowledge within its team, which provides the foundation of a clear understanding of the guidelines, the potential for positive participation in future developments. Notably, the concept of "explicit informed consent" is well understood, and is a cornerstone element of our customer acquisition strategy.

Facilitate efficiency in regulated industries and incentives for efficient investment:

The key to efficiency in the electricity retail industry lies in the ability of players in the supply chain to adopt innovative, lower cost and highly efficient customer billing, transfer and service systems.

Jackgreen employs established state of the art information technology to support its operations. There are three key elements to Jackgreen's back office system:

- Peace Software's customer information system, Energy7.2. This system includes customer acquisition and quotation, account management, billing, collection and settlement modules;

- Formfill's MSATS Gateway, which facilitates automated customer transfer through NEMMCo's market system. Formfill's system has a proven record of seamless integration with Peace Energy^{7.2}; and
- The hosting and management of this integrated information technology system by IBM on a cost per user basis.

This exact software configuration is in use by another large, incumbent market participant today billing over 800,000 customers in NSW, VIC and SA.

Jackgreen's higher efficiencies, in part due to this system, foreshadow potential higher margins across the customer portfolio. In doing so, attractive returns on capital employed may result, thereby increasing the incentives for efficient investment.

Further *Commercial-In-Confidence* information about Jackgreen's back office systems will be made available to the Commission as part of the evidence submitted concerning Jackgreen's technical capacity.

Facilitate the financial viability of regulated industries:

By providing the best and most compatible data transfer systems, Jackgreen will cause little or no extra cost on existing regulated entities. Indeed, business to business (B2B) interactions with Jackgreen may result in more efficient transaction with commensurate costs.

Prevent misuse of monopoly or non-transitory market power:

Jackgreen's entry into the VIC market has the potential to dilute the market power of the incumbents, though not necessarily through mass "churning" of customers as was experienced in the early stages of FRC. In reality, the consumer choice offered through Jackgreen's differentiated product suite, the organic growth of the existing market and the "cherry-picking" of target customers is likely provide a light counter-balance to misuse of market power.

Facilitate effective competition and promote competitive market conduct:

As stated earlier in this application, Jackgreen's objective is to stimulate a niche segment of the market, thereby facilitating competitive pressures through a sincere and differentiated product suite. Jackgreen's experience in NSW has demonstrated that the market is highly responsive to a well consider, good value product offer.

Ensure that consumers benefit from the gains available from competition and efficiency:

The consumer benefits available from the competition and efficiency Jackgreen will bring to the VIC market include and extend beyond price. Jackgreen's business model has been engineered to provide a successful example of sustainability in the Twenty First Century. Consumers will not only benefit from competitive prices, but also community support mechanisms at the "grass roots" level, and most importantly environmental benefits associated with the consumption of electricity sourced from renewable energy.

Promote consistency in regulation between States:

As a potential multi-jurisdictional player within the National Electricity Market (NEM), Jackgreen welcomes the progressive introduction a unified regulatory framework and operating standards throughout the NEM. It is our view that regulatory consistency across NEM states will enhances the customer, stakeholder and shareholder experiences.

4.0 Technical Capacity, Industry Expertise and Experience

The Senior Management and Board have demonstrated first hand experience in starting, developing and operating a retail business in both NSW and in previous roles, VIC. It is considered that whilst the regulatory frameworks in differ in many ways from jurisdiction to jurisdiction, there is capacity to transfer knowledge and skills between each, as there remains an overarching and common approach to retailing energy in each of these markets. As a subsidiary of a public and listed corporation, we have fully functioning operating systems and procedures; the caliber of regulatory

staff necessary to meet our ASX Governance, AFSL and multi-jurisdictional licence compliance requirements. Jackgreen has a fully functional risk, compliance and corporate governance program that includes training and extends to the regulatory requirements specified under an electricity retail license in Victoria. Jackgreen is confident that it has assembled the right people and processes to perform beyond the norm in this industry.

Details of experience in and knowledge of the electricity industry:

John A. Smith (Non Executive Chairman)

John Smith is the former CEO of Australian Energy Limited (ASX Code: AEN) and a former group executive of Powercor Limited, Pacificorp Inc, Telstra Corporation Limited, Ritronics Limited and Seiko Epson Pty Limited.

Through his successes at Australian Energy Limited, he cemented the position of the first independent, start-up electricity retailer in the Victorian market place. During his tenure, Australian Energy Limited experienced an increase in market capitalisation from \$5 million to over \$40 million. Mr. Smith was responsible for implementing the key strategic elements of IT infrastructure, facilitation of Reallocation Agreements, and driving marketing strategy.

As an executive of Powercor Limited, he helped shape the customer market share balance of the early Victorian electricity market and, with the opening of the NSW market, established Powercor Limited as the leading national retailer. Seconded in 1996 to the USA parent company, Pacificorp Inc, Mr. Smith delivered retail market contestable strategies in the western United States. He has spoken at many public forums and has delivered papers to US senatorial committees on retail electricity. His assignment as President of an Australian owned Chicago based Energy Strategy Corporation was successfully completed with the signing of the US Department of Energy, EPA, PG&E and TXU as customers.

Kenneth Harrison (Non Executive Director)

Ken Harrison is an investment banker. For a period of 14 years up until October 2004, Ken served on the board of Oxfam-Community Aid Abroad and was a member of the Finance and Audit Committee. Ken is now chairman of the Ethical Investment Trust (a joint initiative of Oxfam and the Bendigo Bank Ltd). He is also the Managing Director of Collinsbank Pty Ltd, Ken was involved in the initial planning and preparation of the prospectus for the float of Australian Energy Ltd, an independent retailer of electricity in the Victorian market.

Andrew Randall (Managing Director)

Andrew Randall is a founding shareholder and managing director of Obelisk Capital Pty Ltd, a corporate advisory and investment company that specialises in the Information Technology, Communication and Energy markets. His business expertise has been used for many successful corporate advisory engagements, including assignments within the energy industry. He has specific expertise in determining growth strategies for emerging businesses in Australia, and implementing those strategies. As Vice President of Citibank Australia Ltd, between 1985 and 1990, he established a number of operating units within the bank's structured finance division. Prior to that he worked with Peat Marwick Mitchell in its Private Business Services division. Andrew holds a Bachelor of Economics from Monash University, and is a qualified CPA and a graduate of the Securities Institute of Australia. Andrew has sat on a number of both private and publicly listed company boards.

Andrew Woodward (Company Secretary and Chief Financial Officer)

Andrew Woodward is a qualified chartered accountant and Justice of the Peace. After gaining his accounting qualifications at Deloitte Touche Tohmatsu as an auditor in 1994, he joined a public accounting practice that also specialised in Government grant consulting. From 1996 onwards, he operated a practice that specialised in Government grant consulting. In 2000, this practice was merged with Obelisk Capital Pty Ltd, where he continues to provide consulting services as well as being the Company Secretary. He is responsible for the financial and secretarial aspects of the Company. Andrew holds a Bachelor of Business from University of Technology Sydney.

James Myatt, General Manager – Sales and Marketing

James Myatt is the former Director of Sales for Energy Australia, where he was accountable for sales across all markets in which Energy Australia operates. In this role he managed all electricity and gas customer segments and all sales channels. Prior to Energy Australia, James held sales and marketing roles at TXU, Duke Energy International and AGL.

Ashleigh J. Antflick, General Manager - Strategic Operations

Ashleigh Antflick has spent more than four years as a value-based consultant in Australia and Europe, focused specifically upon strategy and operational effectiveness. His involvement with the green power industry spans assessment of market entry strategies and business models, investment advice on generation infrastructure, and negotiation of the sale of energy assets.

Geoff Pollard, General Manager – Wholesale

Geoff Pollard's previous roles included General Manager, Commercial and previous to that General Manager Trading and Marketing for Duke Energy International – Sydney. In the latter role he was responsible for all commercial activity within Asia Pacific business including energy trading, gas marketing, business development and strategic planning. During this period between 2003 and 2004, Geoff contributed to the trade sale of the Asia Pacific portfolio. Previous to Duke, Geoff was Manager Energy Trading at United Energy, a large Victorian electricity retail/distribution business.

Summary of skills and experience of the Directors/Senior management and their relevance to meeting the requirements of the licence & evidence the applicant has the capacity to comply with the licence conditions, codes and guidelines relevant to its application.

As indicated in the biographical information in the previous section of this document, the Directors and Senior Management of Jackgreen are experienced in the disciplines of corporate governance and licence compliance. Jackgreen currently complies with regulations stipulated by the Australian Securities and Investment Commission (ASIC), the Australian Stock Exchange, the responsibilities imposed as a holder of an Australian Financial Services Licence, and significantly, those conditions, codes and guidelines relevant to the NSW market as administered by the Independent Pricing and Regulatory Tribunal, IPART.

Further *Commercial-In-Confidence* information about Jackgreen's capacity to comply with license conditions, codes and guidelines will be made available to the Commission upon request.

5.0 Retail Guidelines

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

Jackgreen intends to retain core operational processes that are fundamentally important to the business. These functions include billing, customer service, acquisition, sales team and call centre support. Jackgreen anticipates that the service provision roles covering metering, meter reading and data management will be contracted on normal commercial terms with the current owner of the metering equipment. Similarly, the arrangements with the distribution companies for use of their networks will be on commercial terms. The company does not expect to enter into non-commercial arrangements with another party, or with any entity unable to adequately perform the tasks related to Jackgreen retail activities in the Victorian market.

Compliance with Regulatory Requirements:

Jackgreen, its Directors and Management are familiar with the Victorian regulatory framework, its requirements and the obligations they impose on performance and reporting. In particular, both the Chairman and GM – Sales & Marketing have first hand experience within the Victorian jurisdiction.

Over and above of specific electricity code and guidelines provided by the ESC, Jackgreen as a subsidiary of a public and listed corporation has a pro-active compliance and governance program that incorporates all of its regulatory obligations under the law, including and not limited to:

- Trade Practices Act;
- Corporations Law;
- National Electricity Code;
- Electricity Industry Act (as amended);
- Essential Services Commission Act;
- Fair Trading Act;
- Financial Services Reform Act (2001);
- Payment Systems and Netting Act (1998);
- Electronic Transactions Act;
- Electricity Customer Transfer Code;
- Victorian Electricity Retail Code
- Electricity Customer Transfer Code
- Code of Conduct for Marketing Retail Electricity in Victoria; and
- Any additional codes or guidelines arising from the Retail Licence.

Wholesale Market, NEMMCO

Jackgreen is an active market participant and settles its account using the proscribed AustraClear methodology.

Further *Commercial-In-Confidence* information about Jackgreen's market participant status will be made available to the Commission upon request.

Distributors – Use of System Agreements (UoSA)

Jackgreen understands the UoSA processes, including prudential requirements and subject to being issued with a Victorian license expects to conclude the necessary UoSA negotiations with target distribution networks prior to the commencement of retail operations. Our experience in NSW and our history of senior management operating in Victoria have enabled a positive response from the incumbent distribution companies.

Further *Commercial-In-Confidence* information about Jackgreen's UoSA will be made available to the Commission.

Sales & Marketing

Jackgreen has instilled a culture of code compliance within all staff – the Retail, Marketing and Informed Consent codes being fundamental to the business model and staff and representative training.. Our customer contracts have been formulated to be code compliant and have received legal sign-off. The same high standards of compliance and reporting that are currently practiced in the NSW market will be applied our Victorian market entry.

Further *Commercial-In-Confidence* information about Jackgreen's Victoria market entry strategy will be made available to the Commission.

Customer Transfers/Switching

Jackgreen is currently working with the Electricity Customer Transfer Code (CATS and MSATS). Jackgreen uses FORMFILL to facilitate the transfer and B2B function. FORMFILL is the transfer engine of choice for many other NEM participants in Australia. Our customer transfer office is fully trained and has 15 months experience on MSATS/FORMFILL.

Customer Establishment

Jackgreen expects to attract customers using many approaches to the market. All will comply with the code, will ensure that explicit informed consent is obtained and that customers are switched and confirmed using standard confirmation processes. New Jackgreen customers are confirmed with a Welcome Pack upon successful switching to Jackgreen.

Customer Communications and Call Centre/Customer Services

We have a 24hour a day emergency service, a 8am to 8pm staffed customer service number, 1300 GO JACK (1300 46 5225), corporate and customer web sites, and innovative communication methods available to our customer base, which include customer self service through the customer web site.

Prior to the commencement of retail operations in the Victorian jurisdiction, Jackgreen will become a member of the Energy and Water Ombudsman Scheme of Victoria, EWOV. In its New South Wales operations, Jackgreen is a member of similar scheme known as, EWON. Once transferred to Jackgreen, customers receive A Guide to Customer Complaints, Appeals and Disputes, which outlines Jackgreen's process for managing complaints. Customers also receive a copy of the Jackgreen Customer Charter and Privacy Policy

Meter Reading and Data Services

In addition to agreements with incumbent Network Operators, we have contracted with a national MDA and MDP to ensure we have access to all customers.

Customer Billing/Systems

Jackgreen utilizes the PEACE, *Energy7.2* billing engine. This system is in current use with a major NSW retailer billing over 800,000 customers over \$1B per annum. All tariffs are contained within a product catalog that facilitates accurate and efficient product selection for the customer. New tariffs/products can be easily included in the catalog at any time.

Customer Collections

We will comply with the code and legal requirements and where possible direct debit customers accounts to reduce errors and cost to serve. Jackgreen's preferred payment channel is direct debit, however, we are also able to provide direct credit, customer initiated funds transfer, BPay and payment via cheque to customers upon request.

Management Reporting

Senior Management provides monthly updates to the Board of Directors. Reports are based on information that is extracted from a variety of sources, including the customer information and billing system, statistics that are recorded at the customer service centre and statistics record by authorized sales teams. The Senior Management team meets weekly to discuss performance and issues.

When convened, the Audit Committee receives reports that address Jackgreen's compliance obligations and the degree to which those obligations have been met. Where compliance issues are raised, the Audit Committee is responsible for ensuring that such are issues are resolved in a timely and professional manner, so that Jackgreen may continue to comply with obligations.

Management Systems

Jackgreen utilizes two management systems: JG-Net, a unified reporting system and the Peace CIS. JG-Net is the company's intranet based Business Operations and Compliance Manual. It is available to all employees and details the operations of each business function, as well as business operations guidelines, human resources policies and compliance schedules. JG-Net is a dynamic resource of the business resource and management system. Jackgreen employs a proprietary unified reporting system that aggregates reports from all business functions on a daily basis. Additionally, the Peace CIS provides daily and on-demand management reporting.

Technical Capacity Summary

Jackgreen's can satisfy the ESC's requirements for technical capacity as provided for in the guidance notes, the provisions of a retail electricity license, including supporting codes and guidelines, and the EI Act. Jackgreen is fully functioning electricity retailer in the NSW jurisdiction and has the necessary knowledge, skills and expertise, management experience and controls to accommodate and ensure that its operations in the Victorian market are in accordance with industry best practice.

Further *Commercial-In-Confidence* information about Jackgreen's technical capacity will be made available to the Commission.

6.0 Financial Viability

We have just completed a \$7M capital raise and are required to report quarterly to the ASX. We believe we have the capital and control to remain a very viable business into the future. The company's share register features significant investors in the utilities industry, and the company believes that the financial support of its investors will continue.

Earnings History

Jackgreen is a new business and is just now building its history. Jackgreen is experiencing consistent uptake of its product in the NSW market. Earnings will be further enhanced by entry into the VIC market place

Financial Information:

Publicly available financial information about Jackgreen's parent entity, Jackgreen Limited, is available through the investor relations section of the corporate website www.jackgreen.com.au, or from the ASX.

Further *Commercial-In-Confidence* information about Jackgreen's financial position will be made available to the Commission upon request.

7.0 Risk Management Strategy

Internal Controls and Risk Management Policy

The Audit committee shall oversee the establishment of, and at least annually review the adequacy and effectiveness of:

- The company's policies and procedures to assess, monitor, and manage financial and non financial business risk
- Internal compliance and control systems, including employee and representative training, accounting and financial controls.
- Legal and ethical compliance programs (including the company's code of business conduct and ethics)

The committee shall periodically meet separately with management, the internal auditor, and the external auditor to discuss issues and concerns warranting committee attention, including but not limited to their assessment of the effectiveness of internal controls and the process for improvement. The committee shall receive regular reports from the external auditor on the critically important accounting policies and practices of the company, and all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management.

At least once a year, the committee shall obtain and review a report by the external auditor describing:

- The overall scope of the external audit, including risk areas identified and any additional agreed procedures. In addition, the committee shall approve the external auditor's compensation
- The audit firm's internal quality control procedures
- Any material issues raised by the most recent internal quality control review, or peer review, of the audit firm; or by any inquiry or investigation by governmental or professional

- authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues
- All relationships between the external auditor and the company (to assess the auditor's independence). For the half year and full year accounts, the external auditor is required to confirm in writing its independence as auditor within the meaning of relevant legislation in Australia and the standards set by the relevant accounting bodies

The Jackgreen has comprehensive, Board approved Risk Management Policy. This Policy specifies limits and delegates responsibilities between front, middle and back offices.

In addition, the company's AFSL requires Jackgreen to certify and establish by way of evidence that it has established, and will maintain adequate risk management systems that take into account the nature, scale and complexity of its electricity supply business, with a focus on its obligations under the financial laws.

Further *Commercial-In-confidence* information about Jackgreen's risk management strategy will be made available to the Commission.

Incorporation

Jackgreen (International) PTY Limited was incorporated on 2/8/2001, Australian Company Number: 097 708 104

Licence Conditions

Jackgreen is seeking a standard electricity retail licence. Jackgreen does not seek any non-standard conditions attaching to this licence.

8.0 Confidentiality

Except for the information provided to the Commission marked *Commercial-In-Confidence*, Jackgreen agrees to this application being made publicly available.