



Application for Electricity Retailer Authorisation

April 2016

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hello@energylocals.com.au
Energy Locals Pty Ltd

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1. General Particulars

1.1. Legal Name

The applicant is Energy Locals Pty Ltd (Energy Locals).

1.2. Trading Name

Energy Locals

1.3. ABN or ACN

ACN is 606408879 and ABN is 23606408879.

1.4. Registered Address and Address for Correspondence

Energy Locals Pty Ltd, C/- General Standards, Suite 16, 231 Chapel Street, Prahran Victoria 3181

1.5. Nominated Contact Person

Adrian Merrick
Director

Martin Larkman
Legal Counsel and Company Secretary

1.6. Form of Energy for which a Retailer Authorisation is Sought

Electricity

1.7. Expected Commencement Date

August 2016

1.8. Nature and Scope of the Company's Operations

Energy Locals will be retailing electricity to residential and small business customers (the latter being customers with consumption of <160MWh).

1.9. Jurisdictions

The company will commence operations in NSW with a view to also expanding into SA and Qld.

1.10. Types of Customers

Energy Locals will offer standard and market retail contracts to small customers (both residential and business).

2. Organisation and technical capacity

2.1. Previous Retailing Experience

The founder of Energy Locals has extensive experience of electricity retailing in Australia and abroad. This is outlined in more detail in Appendix D.

2.2. Other Relevant Experience including Shareholders

A further member of the founding team has strong experience in the metering area, as outlined in Appendix D.

2.3. Support for Gaps in Skills and Experience

The founding team understands the gaps that need to be filled prior to launch. A number of positions have been budgeted for and will be filled before market entry. Budget has also been planned for short-term contractors to help with certain specialist aspects of the set up.

Two critical management positions that are budgeted to be filled on a permanent basis in advance of launch are:

- a CFO. Having used an independent consultant with strong experience in energy finance up to this point, the company will now seek a permanent CFO with relevant experience; and
- a Head of Compliance with proven electricity retail experience.

Certain services will be outsourced to specialist companies, including wholesale trading and the provision of a proven customer billing system.

2.4. Organisation Chart

Energy Locals' organisation chart is contained in Appendix E.

Recruitment will take place in a staged approach between now and market entry.

2.5. Employees by Business Function

Energy Locals currently has four staff. The planned staffing levels for each month over the next five years are detailed in Appendix F.

2.6. Qualifications, Skills and Experience of Officers

A founding team has been established with highly relevant experience. As we proceed towards launch, other individuals who bring the required skills and experience to operate in the market will join the company.

Adrian Merrick – Managing Director

14 years of retail energy experience in senior roles, in both the UK and Australia. Strong knowledge of the Australian retail market from four years running EnergyAustralia's retail business.

Milan Vrkic – Business Development

8 years of energy experience in Landis+Gyr, most recently as Head of Marketing and Strategy. Smart Grid Australia Secretary/Treasurer for six years. Over 20 years telecoms experience including time with both Optus and AAPT, and on the start up team to launch Virgin Mobile in Australia.

Martin Larkman – Legal Counsel and Company Secretary

Corporate lawyer specialising in mergers & acquisitions. Most recently performed roles at Allen & Overy and AIG.

Full staff biographies are contained in Appendix D.

2.7. Recruitment and Selection Policy

Energy Locals is committed to fairness, equality and diversity in its recruitment and selection and ensuring potential staff have suitable experience, qualifications, capability and attitude to fulfil their roles in accordance with the company's policies and procedures and to the quality required by customers and stakeholders.

A Recruitment and Selection Policy has been established to govern this. It covers the requirements for job design, job benchmarking, sourcing strategy, selection criteria, interview framework, character assessment, qualification evidence, reference checking and contracting. The policy can be found in Appendix G.

2.8. Training and Development Policy

Energy Locals has developed a Training and Development Policy to ensure that staff are appropriately equipped with the skills to perform their roles successfully and in accordance with the company's policies and procedures. The policy can be found in Appendix H.

2.9. Third Party Service Providers

A small number of third party service providers will be used to perform certain functions on behalf of Energy Locals. The key functions to be managed by third parties are the core customer billing platform and electricity trading. Further details of these activities are contained in Appendix P.

2.10. Comprehensive Business Plan

A detailed business plan has been created which is supported by a comprehensive financial model. The plan contains full details of the company's strategy, operating model and financial forecasts. The financial modelling covers FY16 to FY21, with the first year being only a set up period. The full business plan is contained in Appendix B.

2.11. Compliance Program

Energy Locals is committed to ensuring compliance with all relevant regulatory requirements. A compliance policy & framework has been established which covers the principles of commitment, implementation, monitoring, measuring and continual improvement.

The compliance framework is to be overseen by a Head of Compliance who will report directly to the Managing Director and have no operational responsibilities.

The Compliance Framework can be found in Appendix I.

2.11.1. Obligations

Energy Locals understands the importance of compliance with the Energy Laws and the licence terms. The compliance framework outlined above, in conjunction with the other company policies listed in this document, will be used to govern this activity internally.

Prior to market entry an obligations register will be produced which details the obligations of the National Electricity Retail Law (South Australia) Act 2011, National Electricity Retail Rules, National Energy Retail Regulations, AER Retail Guidelines, Australian Consumer Law, Competition and Consumer Act 2010, Telecommunications Act 1997, Privacy Act 1988, Do Not Call Register Act 2006, the Spam Act 2003, each State and Territory Fair Trading Act, and any AER licence authorisation conditions. An independent and experienced consultant has been identified to produce this register and cost has been budgeted for it in FY16.

2.11.2. Complaint and Dispute Handling Procedure

While we aim to satisfy all customers, we are conscious that there will be times that customers are not happy with our service or wish to raise a dispute. Energy Locals has a documented procedure for taking these situations from complaint or dispute to resolution. The procedure is designed to help resolve complaints quickly and with sensitivity. Complaints are defined in line with the AER Guidelines and all are recorded in line with AER reporting requirements.

The procedure is contained in Appendix J.

2.11.3. Hardship Program

Energy Locals has established a Hardship Program with the aim of making clear and consistent the ways in which we will seek to identify and help vulnerable customers. The Hardship Program is outlined in Appendix K.

2.11.4. Privacy

We understand how vital it is to properly handle all forms of customer information. Our Privacy Policy has been written to articulate the way we will do this and it will be published on our website prior to market entry. The Policy is contained in Appendix L.

2.11.5. Ombudsman Scheme Participation

Energy Locals will apply to EWON for membership of the NSW energy ombudsman scheme upon granting of the retail licence. We have contacted EWON and are clear on the process to follow for submitting an application after the retail licence has been

approved, and in advance of an EWON Board meeting. We have also shared our draft Complaints Handling Procedure with EWON to gain their feedback on ways in can be improved prior to submitting our application.

Later, we will apply for membership of the Queensland and South Australian ombudsman schemes in advance of our market entry in those states.

The financial forecast includes expected ombudsman costs.

2.12. Risk Management

Separate policies have been created for Energy Market Risk Management and Operational Risk Management. These policies are contained in Appendix M. and Appendix N.

2.13. Insurance

Prior to market entry, Energy Locals will take out insurance to cover public liability and workers compensation. Cost for this insurance has been provided in the budget.

2.14. External Assurance

External assurance has been carried out on the Compliance Framework & Policy, the Energy Risk Management Policy and the Operational Risk Policy. Evidence of this assurance is contained in Appendix O.

2.15. Arrangements with Key Market Participants

2.15.1. AEMO

Energy Locals is familiar with the AEMO registration process and will lodge its full application as soon as the AER's retail licence application has been authorised. In the meantime we have submitted an Intending Participant application to AEMO.

A dedicated role exists in the Energy Locals structure to manage settlements, and this role will be filled by a suitably experienced person prior to market entry.

The cost of prudential guarantees has been included in the financial forecast. The company will seek to reduce the guarantee required through the use of reallocation arrangements with a wholesale counterparty, in line with the published AEMO rules.

2.15.2. Distribution Use of System Agreements

Energy Locals is in the process of contacting distribution companies with a view to establishing contracts, and these will be formally agreed well in advance of market entry. The business plan contains all the appropriate distribution costs, including the cost of providing Credit Support to network companies.

2.15.3. Austraclear

Energy Locals understands the Austraclear process and will shortly submit its application. Two individuals in Finance roles within Energy Locals will be trained in the Austraclear system and compliance requirements.

2.15.4. Australian Financial Services Licence

A third party will undertake wholesale trading on Energy Locals' behalf, in line with the Energy Locals Risk Management Policy. Energy Locals does not intend to carry out any trading activities in house. Therefore Energy Locals will not be applying for an AFSL licence at this stage.

2.15.5. Community Services Agreements

Energy Locals is familiar with the concession schemes that are in place to support customers. The requirements of these schemes will form part of the Energy Locals obligations register and the Hardship Program.

2.15.6. Clean Energy and Renewable Schemes

To enable Energy Locals to surrender small-scale technology certificates and large-scale generation certificates, a registration application will be lodged with the Clean Energy Regulator in advance of market entry.

The company will also participate in all relevant energy efficiency schemes in the jurisdictions it operates in.

3. Financial Resources

3.1. Audited Financial Reports for Past Year

As a new organisation, Energy Locals does not yet have any trading history to be audited.

3.2. Credit Rating

As a new organisation, Energy Locals does not yet have a credit rating.

3.3. Financial Statements for a Start Up Business

As a new organisation, Energy Locals does not yet have any trading history and therefore does not yet have financial statements. It does, however, have a comprehensive set of financial projections based on a robust business planning process. The financial projections can be found in Appendix S.

3.4. Group Structure

Energy Locals Pty Ltd is privately owned.

3.5. Director and Officer Declarations

Energy Locals confirms that:

- the business is a going concern;
- it is unaware of any factor that would impede on its ability to finance its electricity retailing activities for the next 12 months;
- no member of the management team has been disqualified from the management of corporations; and
- no member of the management team has been declared bankrupt in Australia or in any overseas jurisdiction.

Written declarations confirming the above points have been provided by the Director and by a certified accountant. The declarations can be found in Appendix U.

3.6. Auditor's Declaration

As Energy Locals is a new organisation with no previous financial history, there is no independent auditor's declaration available for the three items that follow.

3.6.1. Insolvency

Energy Locals has not had an insolvency official appointed in respect of the business or any property of the business.

3.6.2. Dissolution or Winding Up Resolution

Energy Locals has not had any resolution passed or steps taken to pass a resolution for the winding up or dissolution of the business.

3.6.3. Any Other Factor Impeding the Finance of Business Activities

Energy Locals is not aware of any other factor that would impede our ability to finance our retail activities.

3.7. Bank Guarantees

As stated earlier, Energy Locals is aware of the prudential requirements under the AEMO rules and the credit support that will need to be put in place for distribution companies. The cost of these guarantees is included in the Energy Locals financial forecast. Initially, the company will provide these guarantees from shareholders' equity. In the future the Board may consider the use of bank guarantees or insurance instruments to provide this support.

3.8. Forecast Revenue and Expenses

The Energy Locals business plan contains full financial forecasts including P&L and cashflow statements, as detailed in Appendix S.

3.9. Additional Information on Financial Capacity

Energy Locals is currently in the closing stages of raising capital. We expect this process to be complete during May 2016.

4. Suitability

4.1. Material Failures, Legal Actions, Revocation of Authorisations

Energy Locals confirms that none of its Directors or Officers nor, to the best of its knowledge, its associates, have been the subject of any offences or prosecutions under any territory, state, Commonwealth or foreign legislation.

Further detail is contained in Appendix Q.

4.2. Criminal History Check

Criminal history checks for Directors and Officers will be provided on request.

4.3. Disqualification Declaration

No directors or officers of Energy Locals have been disqualified from the management of corporations.

4.4. Bankruptcy Declaration

Energy Locals does not have a bankruptcy record in any jurisdiction.

4.5. Officer Details

Details of officers are contained in Appendix T.

4.6. Suitability Policy

Energy Locals is committed to building a business that operates ethically and is the subject of robust governance frameworks and processes. The company plans to achieve these outcomes through the following actions:

- Employment contracts deal with probity expectations and requirements including confidentiality, compliance with laws & regulations and code of conduct.
- Completing Good Fame and Character screening for all Board and management positions, including criminal history and bankruptcy checks for all jurisdictions they have resided in during the past 10 years and extensive reference checks.
- Enforcement of the Energy Locals Compliance Policy & Framework. This requires commitment from every employee and good role modelling from the Board and management team.
- Promotion of ethical conduct through the adoption of the Energy Locals Code of Conduct. Employees are required to sign their commitment to this Code prior to commencing employment, and the Code of Conduct also forms a major part of the mandatory induction training.
- Keeping accurate records from all Board meetings.
- Conducting regular reviews of Board and management activities and decisions.
- Providing management with access to qualified legal advice.