

Energy Services Management

Licence Application

March 2019

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Introduction

Energy Services Management Pty Ltd (“ESM”) is a privately-owned company. It is proposing to establish an electricity retail business within the AER jurisdictions. This application has been put together in accordance with the “Retailer authorisation guideline – December 2014”, issued by the Australian Energy Regulator.

ESM’s business model is to establish and run a lean business operation and outsource the majority of customer services and operational activities to an experienced and capable services provider that currently provides customer services, billing and operational support to utility clients within the energy sector.

Part A - General information

Legal name: Energy Services Management Pty Ltd (Asic Extract provided)

Trading name: Energy Services Management Pty Ltd

ABN: 95 619 512 935

Registered address: 27 Dudley st, West Melbourne, Victoria 3003

Key Contact: Sai Thota, Financial Officer – Phone: 0431394795 email: sai@myenergysystems.com.au

Proposed license start date: July 1st, 2019

Types of customers intended to supply: ESM is applying for a licence to retail electricity to residential and small business customers with consumption less than 160MWh per year.

Nature and scope of operations: ESM is aiming to provide customers it interacts with a competitively priced energy offer through:

- Accessing a wholesale cost to acquire;
- Utilising existing key community and long term relationships;
- Utilising a scalable cost to serve through a lean experienced management and key experienced outsourced relationships;
- Keeping its market/growth size at sustainable levels.

ESM believes that the outsourcing of its operational and service delivery function to an established, experienced and capable service provider will present significant benefits and advantages over the alternative insourced services model. ESM will leverage scalable outsourced capabilities to deliver a holistic retail energy business that is effective, efficient and sustainable and void of significant fixed cost overheads. This will allow ESM to keep its cost stack more flexible and provide more product /service options in the future.

License Conditions: ESM does not seek any non-standard license conditions.

Part B – Organisational and technical capacity

Energy retail experience: The ESM leadership team has extensive experience within the Australian energy retail industry having held various senior roles with major investment funds, start up and large energy retail utilities and governmental organisations. Specific experience in electricity retail is therefore broad and covers such areas as

- Energy trading and risk management;
- Compliance & compliance reporting;
- Regulatory licencing & reporting;
- Company directorships;
- Executive committee memberships and Corporate Governance;
- Senior executive management;
- Membership of Industry forums and associations;
- Customer services and sales;
- Business Strategy & budgeting;
- Team development & Training; and
- Broad legal experience & specific experience of legal issues within the Energy Industry and Consulting.

Please see as a part of its business plan attachment 1, ESM's current and prospective management experience that has been assembled including an organisational chart.

Number of Employees: Please see as attachment 2, ESM's financial model that has provided a breakdown of employees by business unit.

Previous Experience as an Energy retailer: The ESM board and executive management all have previous experience of work within a retail energy environment in a NEM jurisdiction. Of Important note, Dhaval Shah, who is a major shareholder in the business, has not only previously worked in a retail energy environment (with Momentum Energy and Neighbourhood Energy) but has also funded retail energy businesses previously in both Australia as

well as overseas. Dhaval has an understanding of the risks, operational and financial support that is required to support an energy retail business.

People/HR Policy: Possessing a wealth of experience in running a retail energy operation, ESM has put together a prospective list of policies to ensure that its current staff and management adhere to the best standards and practices. This will also ensure that competent staff is hired, who will add to a vibrant, positive and inclusive culture that ESM will seek to foster. Please see the below list of example policies that ESM is developing to ensure that maintains a professional, organised and transparent environment for its staff to operate in:

- Employee Code of Conduct
- Workplace Harassment Policy
- Workplace health and Safety Policy
- Employee Well Being Policy
- Equal Opportunity & Discrimination Policy
- Compliance Strategy
- Risk Strategy

Third Party Service Providers: ESM understands the need to outsource or contract in certain expertise to support its retail operations in the market. ESM understands the need to procure services that are experienced and relevant to conducting on market energy retail operations in the NEM. ESM has started discussions/contract negotiations with Third parties that will cover the following areas -

- Compliance oversight – To ensure that ESM’s compliance strategy is implemented and managed as an ongoing part of its business;
- Billing and back office support – To ensure that NEM data is accurately billed on in a timely manner for its consumers; and
- Wholesale oversight – To ensure that ESM has the appropriate governance and transparency to understand and manage its wholesale position at all times and the requisite access to capital to support its strategies.
- Details of the above relevant third party agreements can be found in ESM’s business plan (attachment 1) as well as through separate communications listed as attachments 3. A document outlining each third party’s key relevance to ESM’s retail operation as well as an outline of how each can assist ESM in meeting its technical capacity requirements to run its retail operations has also been attached as a part of attachments 3.

Business Plan: As previously mentioned, ESM has developed a comprehensive Business Plan (attachment 1) that outlines the following:

- Business structure
- Strategic direction of the business
- Key objectives
- Financial forecast and underlying assumptions listed as a separate attachment (attachment 2)
- Outline of key executives to bring the business plan to fruition

Compliance Strategy: ESM Energy views seriously its compliance as not only a critical business requirement, but as a key component of its responsibility to the industry and the wider community. To this end it has established a clear and robust Compliance Strategy consistent with Standard AS/ISO 19600:2015 (Compliance Programs). ESM Compliance and Risk strategies have been listed for review as attachments 4 (confidential) along with an external review of ESM's proposed strategies. The board is ultimately responsible for the development, maintenance and progress of ESM's approach to compliance. The board, in turn, requires the ESM Energy Compliance team to demonstrate its commitment to this culture by embedding compliance within the organisation with all legal, regulatory and industry requirements that affect the business.

Dispute Resolution Policy: ESM acknowledges that managing and responding to customer complaints is a critical element to operating an effective Retail Electricity Business. It is a major source of a health check on our systems, processes and overall customer value proposition. ESM has ensured that a robust complaints management system is established and is continuing to be evolved before go live. ESM also has the requisite staff and experience in managing a dispute resolution process and is up to date with key customer centric processes (rising rates, credit management, disconnection process and proactive financial hardship identification etc) that are priorities to the current overall energy experience across the market.

ESM has reviewed the implications of the National Energy Customer Framework, which includes the National Electricity Retail Law, the National Energy Retail Rules and the National Energy Retail Regulations. ESM will ensure that these guidelines and regulations are at the foundation of its compliance framework and retail process.

ESM understands that all rules are not applied equally in all jurisdictions and that variations must be allowed for.

- ACT NERL National Energy Retail Law (ACT) Act 2012
- ACT NERL Regulations National Energy Retail Law (ACT) Regulation 2012
- NER National Electricity Rules
- NERL
- National Energy Retail Law which is a Schedule to the National Energy Retail Law (South Australia) Act 2011
- NERR National Energy Retail Rules
- NSW NERL
- National Energy Retail Law (NSW) as defined in s. 4 of the National

- Energy Retail Law (Adoption) Act 2012
- NSW NERL Regulations National Energy Retail Law (Adoption) Regulation 2013
- SA NERL National Energy Retail Law (South Australia) Act 2011
- SA NERL Regulations National Energy Retail Law (Local Provisions) Regulations 2013
- TAS NERL National Energy Retail Law (Tasmania) Act 2012
- TAS NERL Regulations National Energy Retail Law (Tasmania) Regulations 2012
- QLD NERL National Energy Retail Law (Queensland) Act 2014
- QLD NERL Regulations National Energy Retail Law (Queensland) Regulation 2014
- VIC NEL National Electricity (Victoria) Act 2005

ESM is aware that NECF commenced in the Australian Capital Territory and Tasmania on 1 July 2012, in South Australia on 1 February 2013, in New South Wales on 1 July 2013 and in Queensland on 1 July 2015. Victoria has completed a harmonisation process between the Victorian Energy Retail Code and Guidelines with the NECF but has not yet announced a date for transition to the NECF.

ESM also understands the responsibilities associated with the AER Compliance Procedures and Guidelines. It has resourced and incorporated into its business the related management expertise to manage its operations according to such guidelines. All board members and executives have had previous experience with working in accordance with AER Compliance Procedures and Guidelines.

Staff recruited by ESM are fully aware of the AER compliance obligations of regulated entities and in particular for reporting breaches of types 1, 2 and 3. ESM has staff that have either:

- Managed a Compliance Framework incorporated a breach reporting process in line with AER guidelines
- Worked within an energy retail organisation that has adhered to the required AER breach reporting process

While breaches of type 1 requires an initial 2 business days response time, they must also be reported quarterly, with type 2 bi-annually and type 3 annually.

ESM staff are familiar with the standardised reporting templates to be used in reporting and subsequent timeframes that apply to such a process. ESM also understands that such processes change from time to time and such changes

must be incorporated into its business process as they are communicated or come to light.

As part of its Compliance structure ESM is developing a compliance obligations register, internal/external breach reporting process to ensure compliance management is transparent at all times and tracked accordingly. The obligations register has been formulated with respect to the National Energy Retail Law, the National Energy Retail Rules and associated regulations.

Key market player contact/arrangements: ESM's understands the importance of contact being made with the following entities –

- Networks (i.e. Energex) for Nuos agreements etc
- AEMO
- Relevant state Ombudsman
- Concession bodies
- Billing and managed services organisation
- AFSL Compliance service

Please see as evidence listed as attachment 5 contact has begun to be made in this regard. ESM understands that it cannot retail without relationships set up effectively in each market with the above players (amongst others) and is committed to closing these out upon receipt of its license (some of which cannot be completed without an AER authorisation in place). Having been through the requisite process before ESM understands the process to ensure such arrangements are in place.

Ensuring the compliance of third parties: With regards to ensuring the compliance of key 3rd parties ESM is ensuring that specific schedules are created in its agreements (where applicable) that bind third parties to:

- Adhere to retail processes as directed and documented by ESM (i.e. customer policies – dispute resolution, adherence to training material and consistent delivery, recording or security of data, product representation, rules or processes around gaining explicit informed consent, etc); and
- Have or adhere (when provided by ESM) to appropriate systems in place (manual or automated) to ensure adequate reporting to meet compliance requirements (i.e. call centre reporting for managed services, breach reporting, dispute resolution reporting).

In addition ESM will put in place relevant reporting from automated systems (such as billing CRM) or manually prepared report details where automation is not possible. The various regulations, laws and rules of the retail energy industry are known (as listed above) and in each, clearly articulated. ESM's Compliance calendar will also ensure processes are routinely audited/tested. This will include any part of the customer process that includes interactions with third parties. Potential or actual breaches will be consistently identified and improvements updated and communicated internally and with key third parties.

Part C- Financial Capacity

Financial Position of ESM: Energy Services Management has been set up as a pure start up operation for the purpose of retailing energy in the NEM. Evidence of the ESM's ability to meet its financial capacity criteria is found in documents listed as attachment 6.

Financial forecast: ESM has put together a 5-year financial forecast for review (as attachment 4). P&L and Cash flow forecasts have been included.

Financial Declarations: Please see as attachment 7 the following declarations for review –

- ESM is a going concern with no impediment to financial viability (From the CEO)
- No insolvency or impediment to financial viability (From our financial institution)
- Addresses of key staff

Additional information on Financial Capacity: Please see attachment 8 as further evidence and experience in supporting similar energy retail ventures.

Credit Support: ESM can confirm that it can meet all credit support requirements. ESM executive staff have previous experience managing credit support requirements and understand the role and importance of hedging, trading and risk tolerances, trading margin calls and timely settlements and delivery of bank guarantees to function appropriately in the NEM.

Part D - Suitability

Compliance History:

Declaration: For Energy Services Management and its associates, any other businesses where Energy Services Management Officers have held officer positions and any other entity that exerts control over Energy Services Management, we confirm the following:

- (a) Previous non-compliance with any law or regulatory requirement. Energy Services Management Energy has no history of non-compliance with applicable laws or regulations.
- (b) Licences/authorisations which have been revoked. Energy Services Management has not had any licences or authorisations revoked.
- (c) Previous unsuccessful licence/authorisation applications in any industry. Energy Services Management does not have any unsuccessful licence or authorisation applications in any industry.
- (d) Past or present administrative or legal action in relation to any licence/authorisation application. Energy Services Management does not have any past or present administrative or legal action in relation to any licence or authorisation applications.
- (e) Previous Retailer of Last Resort (RoLR) events Energy Services Management has not previously triggered a RoLR event.

Offences or prosecutions: With reference to the definitions of Related Bodies Corporate, Related Entities, Associated Entities and Associates of Body Corporate, in sections 50, 9, 50AAA and 11 of the Corporations Act 2001 (Cth), we confirm that:

- we have made enquiries of Related Bodies Corporate, Related Entities, Associated Entities and Associates of Body Corporates of Energy Services Management Pty Ltd (ESM); and
- subject to the information provided in Section 5.1 (a), no prosecutions or regulatory complaints have been commenced against:

Energy Services Management Pty Ltd;

- (ii) any Related Bodies Corporate, Related Entities, Associated Entities and Associates of Body Corporates of Energy Services Management; or
- (iii) any key personnel of Energy Services Management, in any jurisdiction.

Criminal History checks: ESM is happy to conduct these and provide on request.

Declaration as to bankruptcy and disqualification from management:

Energy Services Management nor its management have a bankruptcy record in any jurisdiction. Further, 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.

Names and Addresses of Officers: The Name and addresses of Directors, Management and or key staff is provided as attachment 9.

Policies and Procedures addressing probity and competence: As previously mentioned ESM has developed HR policies to ensure competence and probity required to run its retail business. **Specific examples of these are listed below:**

- ESM has developed the following (amongst others) General HR policies for all staff:

- Employee Code of Conduct
 - Workplace Harassment Policy
 - Workplace health and Safety Policy
 - Employee Well Being Policy
 - Equal Opportunity & Discrimination Policy
- Employment contracts have been drafted to ensure requirements are met on confidentiality, compliance with laws & regulations and ESM's employee code of conduct. These have been legally vetted;
 - A process has been established for the recruitment and orientation of all prospective staff, including training and sign off on all HR policies as well as regulatory obligations under energy retail laws, codes and guidelines. This process has been signed off and endorsed by the board.
 - All board members and management team must meet regulated standards as to whether they are 'fit and proper' persons to hold such offices. To do this, they must submit to criminal history and bankruptcy checks in all jurisdictions for the last 10 years;
 - ESM is developing its Compliance and Risk strategies in line with Standard AS guidelines;
 - ESM will create compliance training programs to ensure that all laws, regulations and guidelines obligations as they pertain to working in a regulated energy retail environment; and
 - ESM will ensure all staff; management and board members have access to an independent HR resource.

Attachments (Commercial in confidence)

Attachment 1 – Business Plan

Attachment 2 – Financial Model and forecast

Attachment 3 – Third Party documents/Communications

Attachment 4 – Compliance/Risk Strategy/Dispute resolution Policy/Compliance review letter

Attachment 5 – Initial Key contact evidence

Attachment 6 – Key Financial position documents

Attachment 7 – Financial declarations including address information of key staff

Attachment 8 – Additional information on financial capacity

Attachment 9 – Address statement

Additional attachments – Company support information – ASX extract.