Public Forum Presentation

Review of Regulated Retail Tariffs and Charges for Electricity
2007-2010

8 September 2006

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Presentation Outline

- Our business
- National retailing experience
- Our proposals
- Concluding comments

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Country Energy at a Glance

Australia’s largest regional utility

- 840,000 retail electricity customers – also retail natural and bottled gas, internet support and energy management services
- 20,000 gas network customers in southern NSW
- 10,000 water and sewerage customers in Far West
- 3,600 employees in 140 offices, customer centres and field service centres
- $1.8 billion in annual revenue
- Customers in Victoria, Queensland, South Australia, ACT and NSW

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COUNTRY ENERGY WANTS TO BE AUSTRALIA’S LEADING UTILITY BUSINESS

Strategy Statement

2006/2007

This will be achieved by becoming:

- A leader in safety
- A successful national retailer
- A valued part of the community
- A reputable water supplier
- The best network manager
- An employer of choice
- A responsible environmental manager

In such a way that values:

- Safety
- Excellence
- Accountability
- Teamwork
- Fun
- Enthusiasm

Our priorities for 2006/07 will be:

- Safety
- Customer Service
- Network Management
- Business Performance
- Employee Development

This will be measured in the areas of:

- Financial Performance
- Customer Satisfaction
- Business Effectiveness
- Organisational Health

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Key messages for today

- Existing Regulatory arrangements have delivered what was required
- Time is right to transition to relaxation and eventual removal of retail pricing regulation
- Changing environment
  - Phasing out of ETEF
  - Metering solutions
  - Maturing competitive market
  - Transition to National Regulatory Framework

The last three years

- Successful integration of Australian Inland Energy
- Increased customer satisfaction
- Moving to deliver price consistency
- Country Support
- Home Energy Efficiency trial
- Successful national retailer

Where have we come from

1995
NSW Government Changes the states 25 distributors to 6 corporations, Including:
NorthPower
Great Southern Energy
Advance Energy
Australian Inland

1998
National Electricity Market Commences

2001
Country Energy formed
Advance Energy, Great Southern Energy and NorthPower

2005
Country Energy expands
Australian Inland joins Country Energy

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Country Support is about helping our customers in times of hardship, with long term payment solutions - not just short term fixes.

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- Country Energy has assisted more than 7000 customers experiencing financial hardship to keep the power on
- Disconnections reduced by 50 per cent
- Expanded program to include *Busiplan* for small businesses and *Farmplan* for farming families

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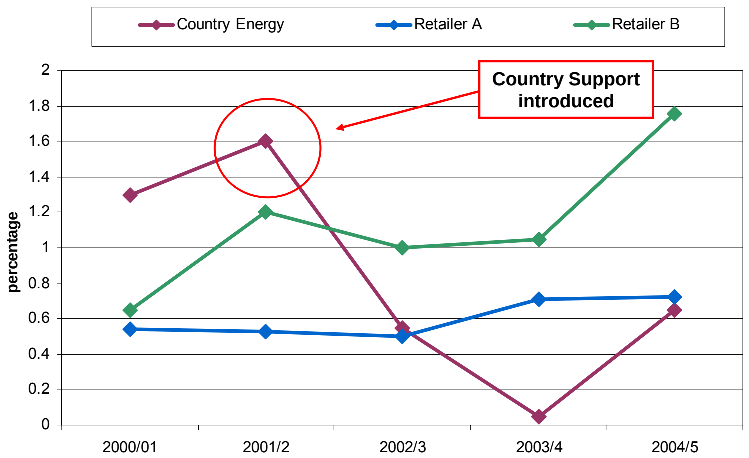
Residential disconnections for non payment

Source: IPART NSW Electricity Information Paper No. 1



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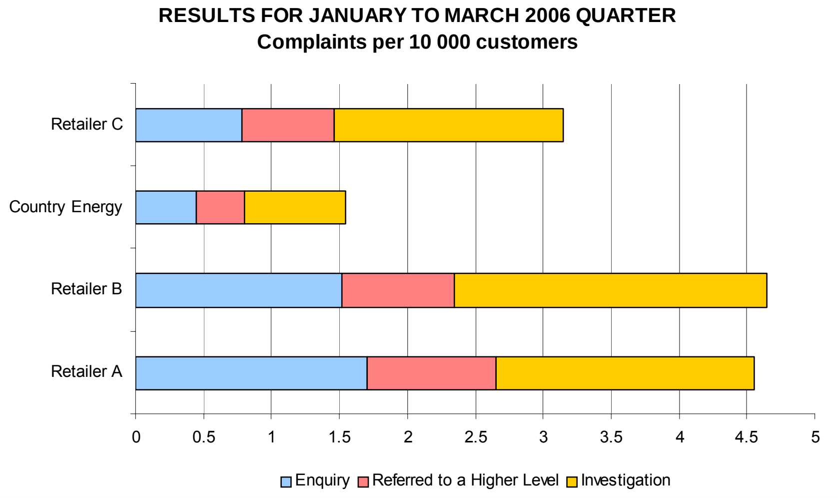
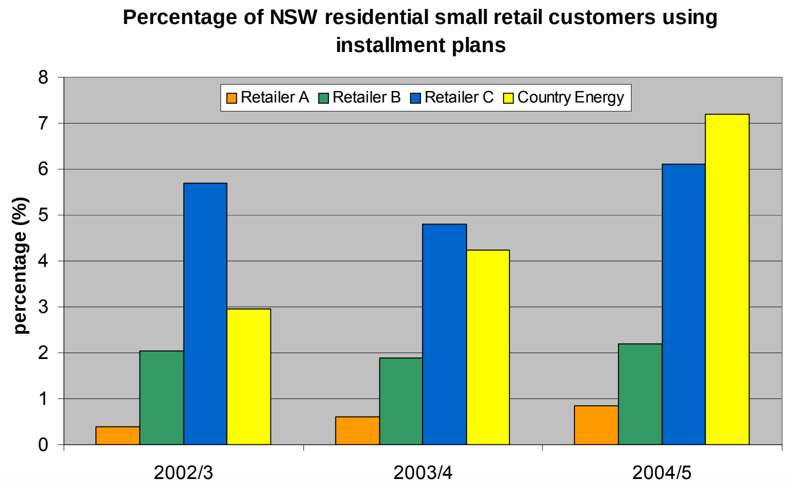
Customer complaints fall to record levels



Instalment plans

Source: IPART NSW Electricity Information Paper No. 1



The Home Energy Efficiency Trial (HEET)

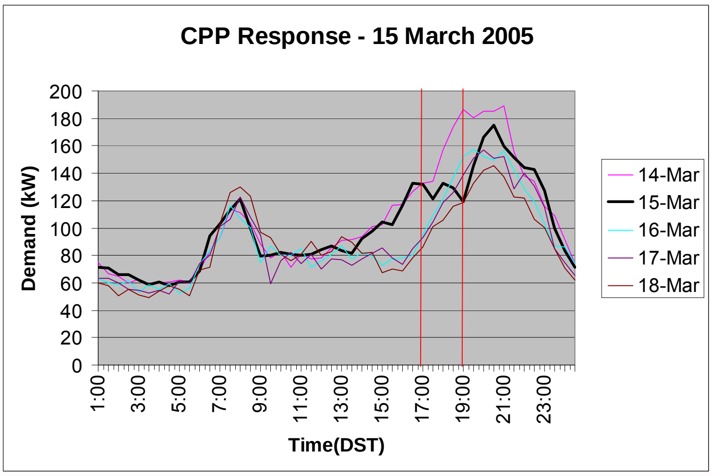
Purpose -

To better understand our residential customers' propensity to change their electricity consumption patterns, if provided with more information about their consumption and its relative cost at different times of the day and year.

Home Energy Efficiency Trial

- 18 month trial commenced December 2004
- In house access to real time information
- Pricing structure incorporates a Critical Peak Price (CPP) activated by Country Energy
- For this trial, CPPs are linked to market and temperature events

Impact of a critical peak price – 15/03/05



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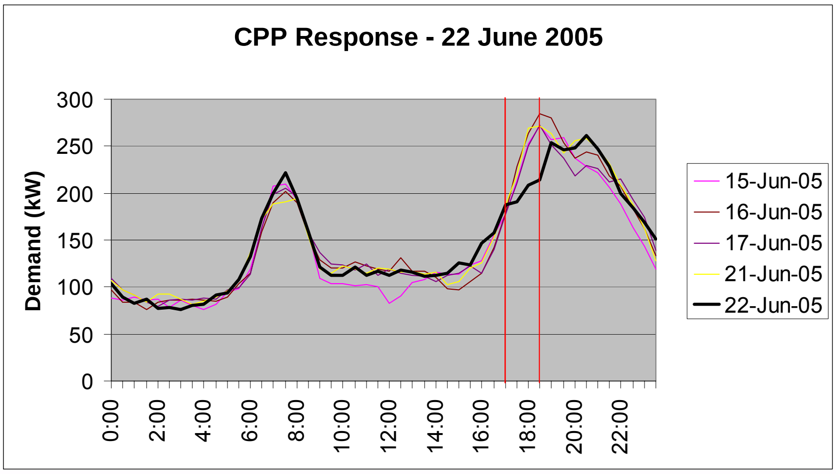
Impact of a critical peak price – 22/06/05



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Interval meter roll out

- Transition to Time Of Use on voluntary basis
- Customer more likely to transition in a contestable environment
- There is no “one size fits all”
- The shape of the Net System Load Profile will change

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National retailing experience

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Country Energy –
One of Australia's most successful energy retailers

One of Australia's largest utilities

- More than 840,000 customers in New South Wales, Victoria, Queensland, South Australia and the Australian Capital Territory
- More than 20,000 natural gas customers in NSW and 10,000 water customers in our new Far West Region
- Also retail natural and bottled gas, internet and energy advisory services

Growing a profitable retail customer base

- Acquired many tens of thousands of customers in Victorian, Queensland, South Australian, ACT and NSW markets

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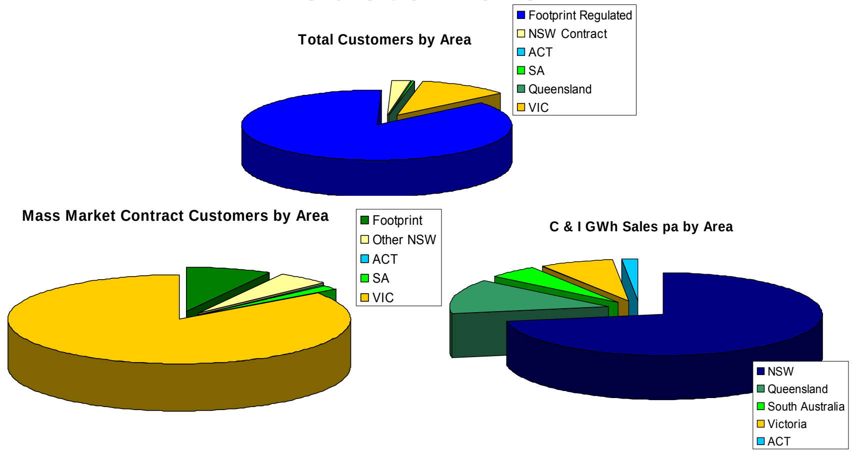
Geographic Distribution of Customers



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Extent of Competition

- Majority of customers remain on standard form contracts
- To date relatively low activity levels and impacts
- Based on our internal analysis, churn rates within the market varies significantly between the various States of Australia
  - approximately 40 percent of customers have churned in Victoria and South Australia,
  - 16 percent of customers have churned in NSW and
  - 3 percent in the ACT.

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Increased customer satisfaction

- Customer views obtained from
  - Customer satisfaction surveys
  - Customer consultative committee and rural advisory group
  - Customer feedback
  - Consultation with special interest and customer advocacy groups and organisations
  - Customer research
- Customer service tailored to customer needs
- Customers accept the need for equity and price consistency

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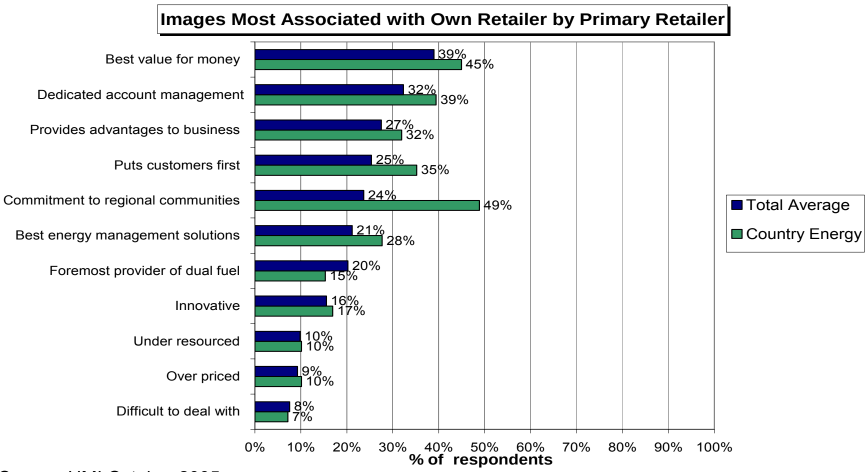
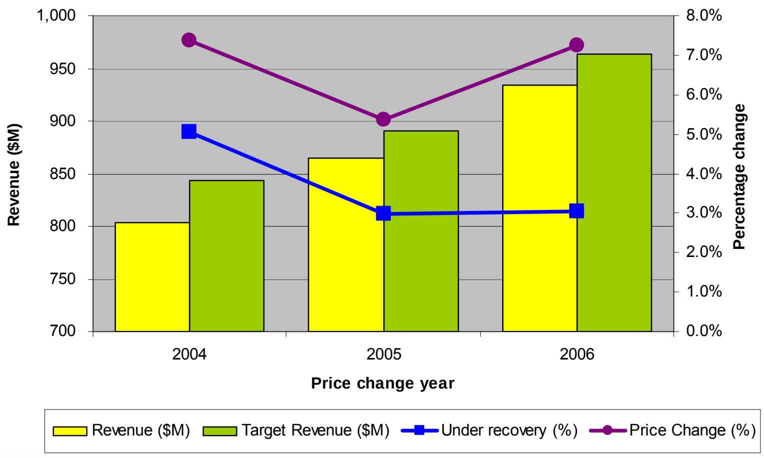
Positive Results



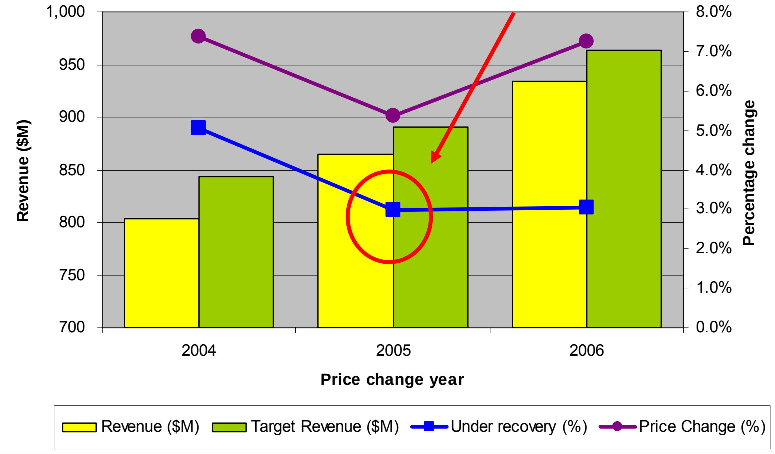
Source: UMI October 2005

Regulated Retail



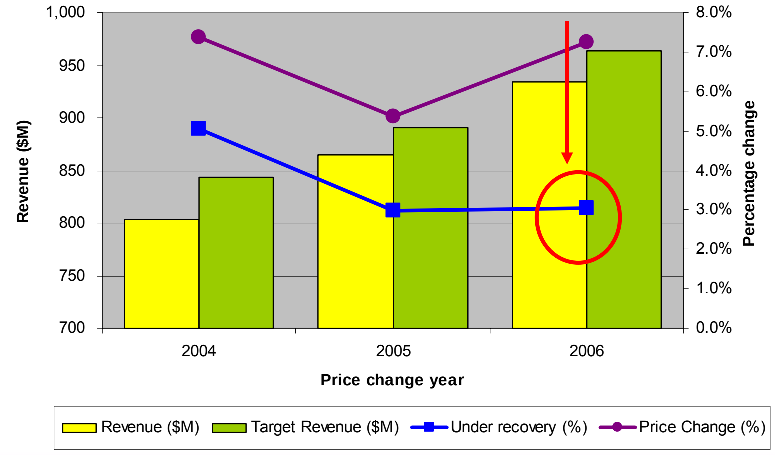
Regulated Retail

Approximately a 2% improvement in recovery to target levels in 2005



Regulated Retail

No change in overall recovery due to limited pass through of network charges



Appropriate Costs

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Pass through of network charges

- The current form of regulation allows a pass though of network charges, subject to:
  - Compliance with limits on price movement on customers bills
  - Recovery level of each regulated retial price
- For prices to move towards and remain at cost reflective levels, a full pass through of network charges is required
- Removal of overlapping constraints

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Phasing out of ETEF – demand for hedging products

- The removal of ETEF will increase the demand for hedging products
- Increasing demand in NSW without the introduction of additional capacity will also work to reduce the liquidity in the wholesale contract market
- The tighter supply/demand balance in the wholesale contact market will increase the price of hedging products

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Phasing out of ETEF – risk premiums

- The use of market hedging products as opposed to the 100% load following ETEF 'hedge' means an increased exposure to load and price volatility
- Risk premiums will be added for the increased exposure to load and price volatility post ETEF
- Wholesale costs will move above "market levels" as these premiums are added

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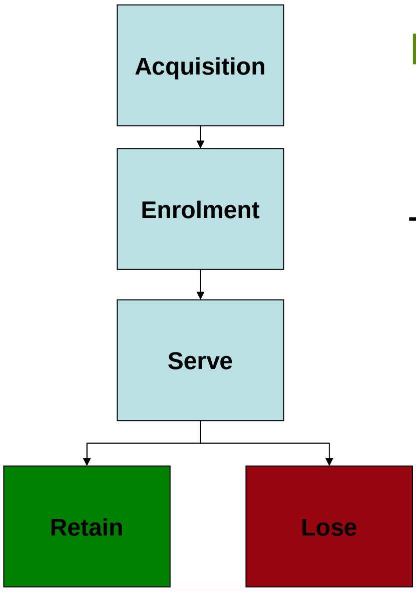

Mass market new entrant retail operating costs

The appropriate level of mass market new entrant retail operating costs as a minimum should include……

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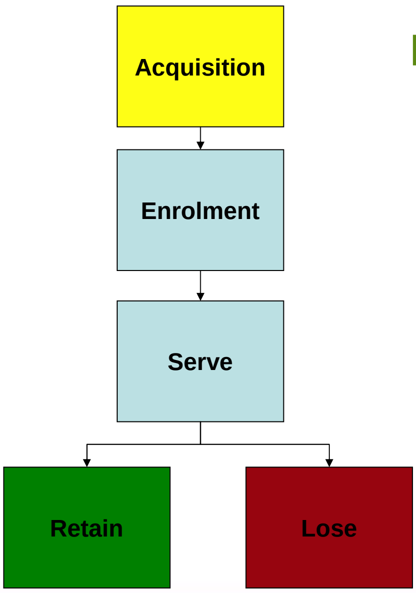

Mass market new entrant retail operating costs

Communicating and inviting the customer to join

- Advertising and marketing
- Proactive call centre communication
- 3rd party door to door activities
- Direct mail

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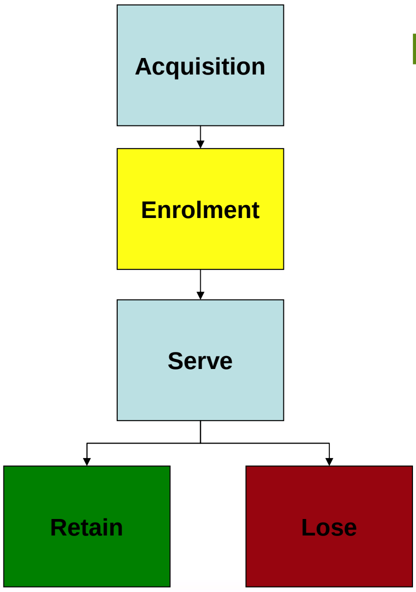

Mass market new entrant retail operating costs

Processing an acquired customer through market and internal systems

- Transfer through MSATS
- Establishment of the customer in the customer billing and information systems

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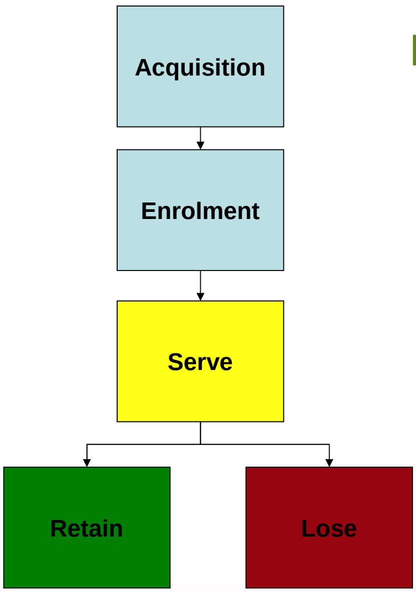

Mass market new entrant retail operating costs

Serving customers to a base level of expectation

- Call centres and customer centres
- Information systems
- Billing, revenue collection and credit control
- Bad debt and debt management
- Marketing and advertising
- Regulatory compliance
- Finance and Energy Trading
- Administration and legal services
- Human resources
- Complaint management

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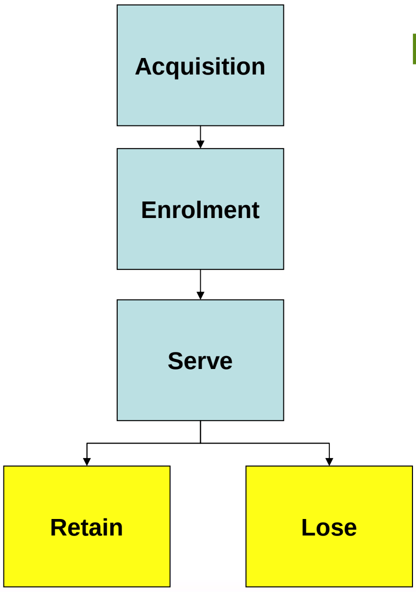

Mass market new entrant retail operating costs

Costs of retention of a customer once acquired

Costs of losing a customer if they choose a new retailer

Mass market new entrant retail margin

- Net margin as a percentage of the total regulated retail price
- Current allowance within target levels is approximately 2 per cent
- The current net margin allowance is unlikely to encourage a new entrant into the NSW market
- Recent Boston Consulting report suggests customers need a 5-12% discount to churn
- The absolute minimum level for the retail margin should be 5 percent , with further modelling required to determine new entrant requirements

Our Proposals

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The journey of retail price regulation

01/02 to 03/04 Determination

Introduction of N+R framework

CPI or $25 limit on domestic CPI+5 or $50 limit on business

02/03 Mid-term review

Continuance of N+R framework

Introduce CPI limit on total revenue CPI+2 or $25 limit on domestic CPI+5 or $50 limit on business

04/05 to 06/07 Determination

Continuance of N+R framework

Pass through of N, CPI+3 on R at total revenue

CPI+5 or $35 on all customers

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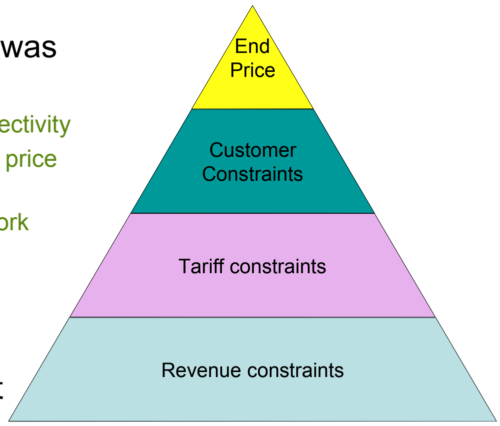
Current framework

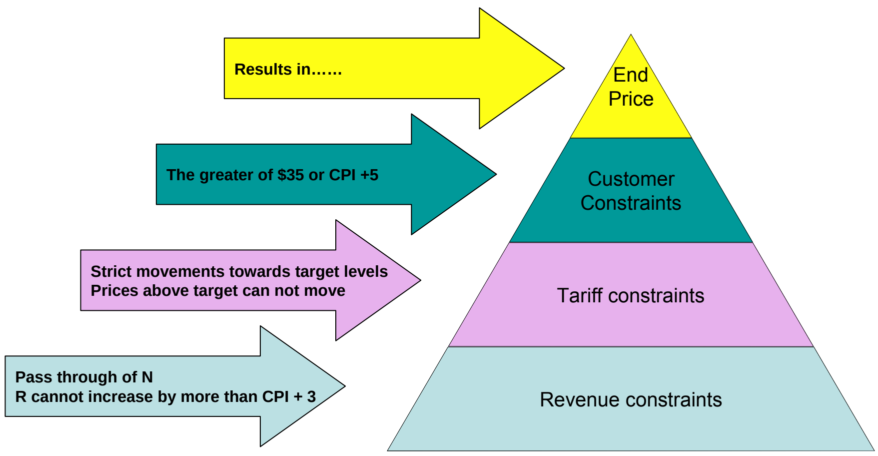
Largely achieved what was intended

- Move closer to cost reflectivity
- Protect customers from price shocks
- Partially achieved network pass through

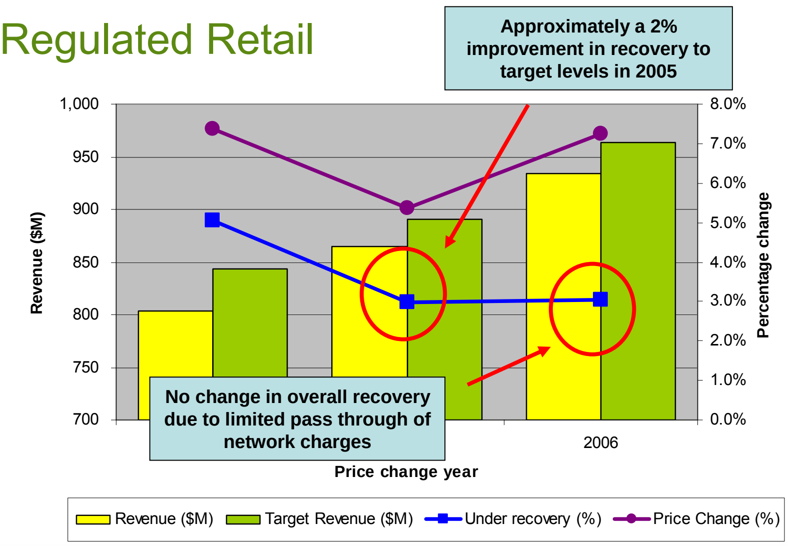
Impact of customer constraints has limited ability to move to target levels



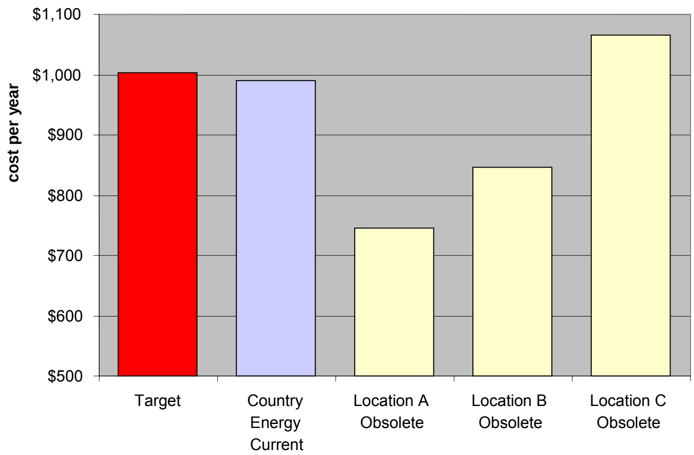
Current framework



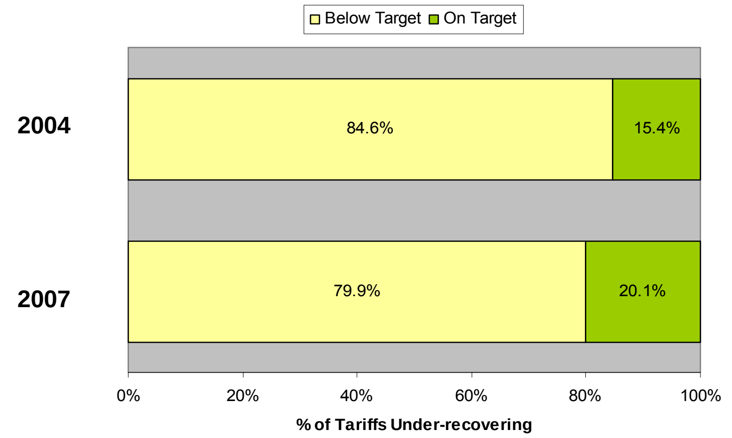
Regulated Retail



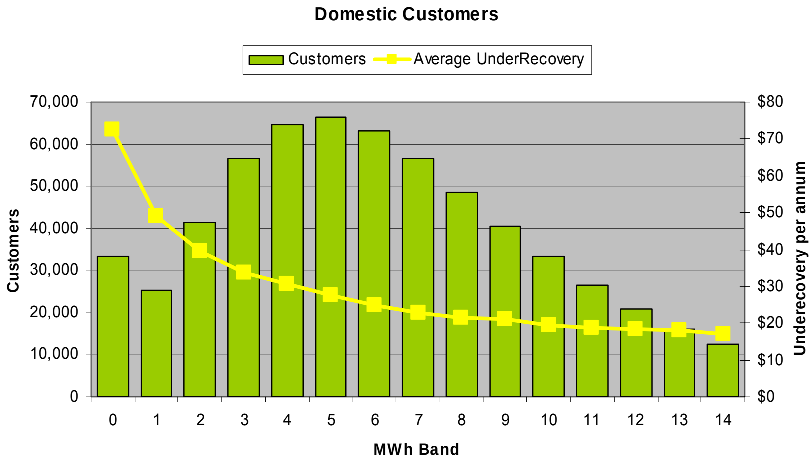
Diversity of prices



Starting point

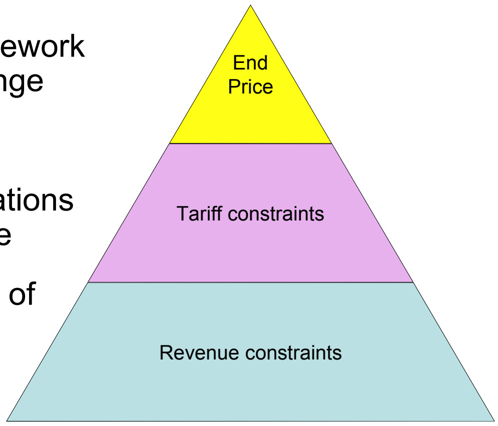


Current levels of under recovery



Proposed framework

- Builds on existing framework without significant change
- Simplification
- Will avoid current limitations with framework in place
- Will achieve objectives of review



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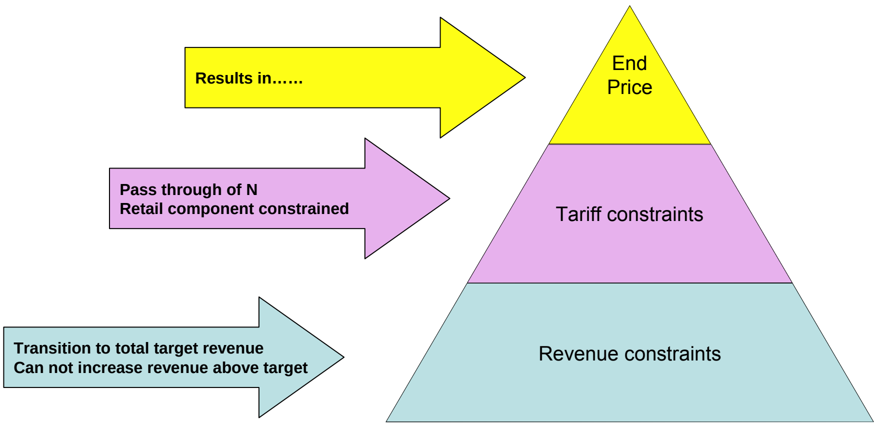
Proposed framework



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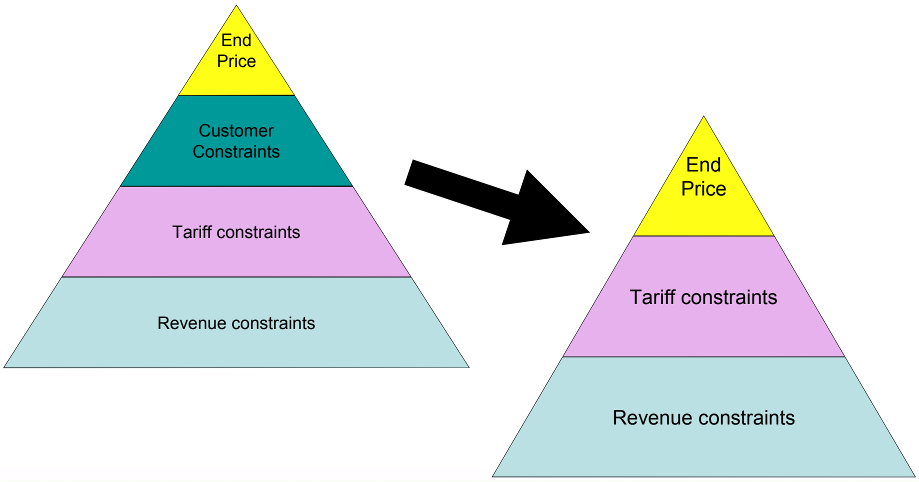
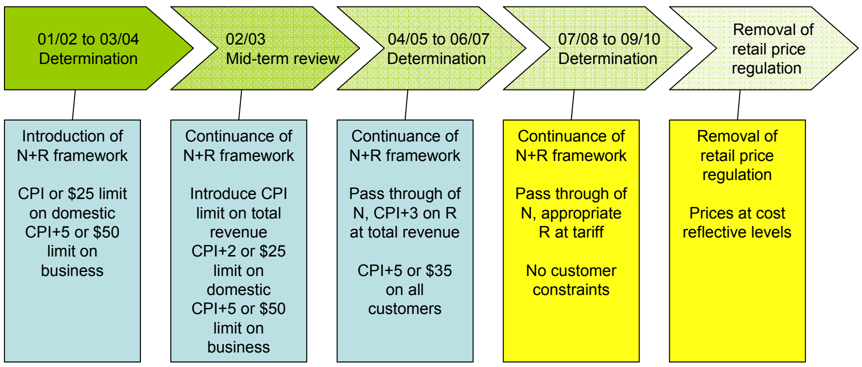
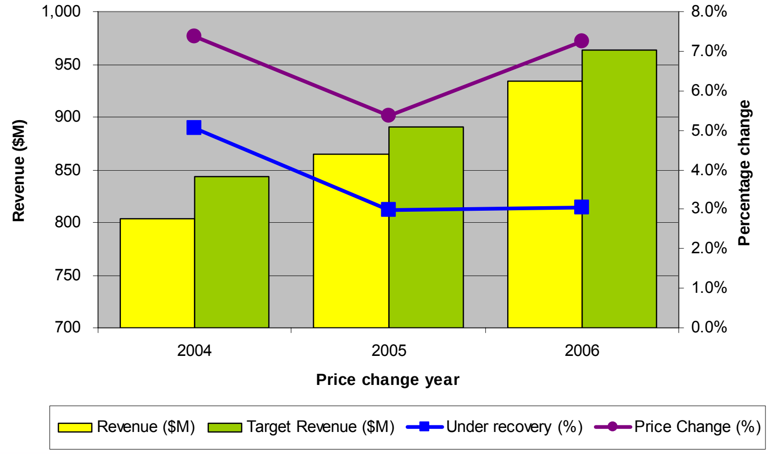
Building on the current framework



The journey of retail price regulation



Regulated Retail



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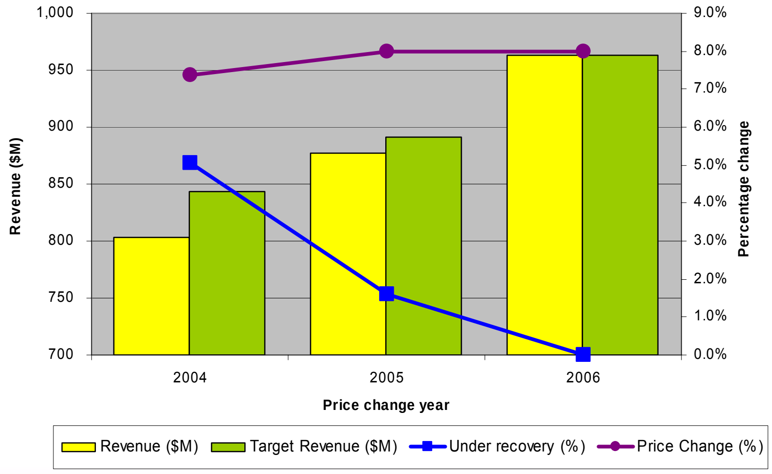
Relaxed constraints - Results



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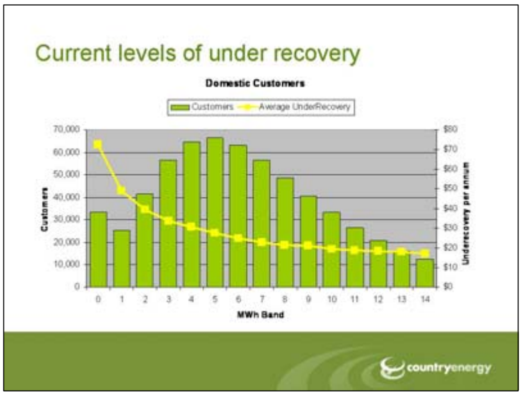
Impact of proposal

- Small number of customers impacted by above average changes
- Country Energy is confident of ability to manage these transitions



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Concluding comments

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In Summary

- **Existing Regulatory arrangements have delivered what was required**
- **Time is right to transition to relaxation and eventual removal of retail pricing regulation**
- **Changing environment**
  - **Phasing out of ETEF**
  - **Metering solutions**
  - **Maturing competitive market**
  - **Transition to National Regulatory Framework**
- **Wholesale change not required**
  - **Improvements to the current framework will set the foundations for 2010**

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Questions

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