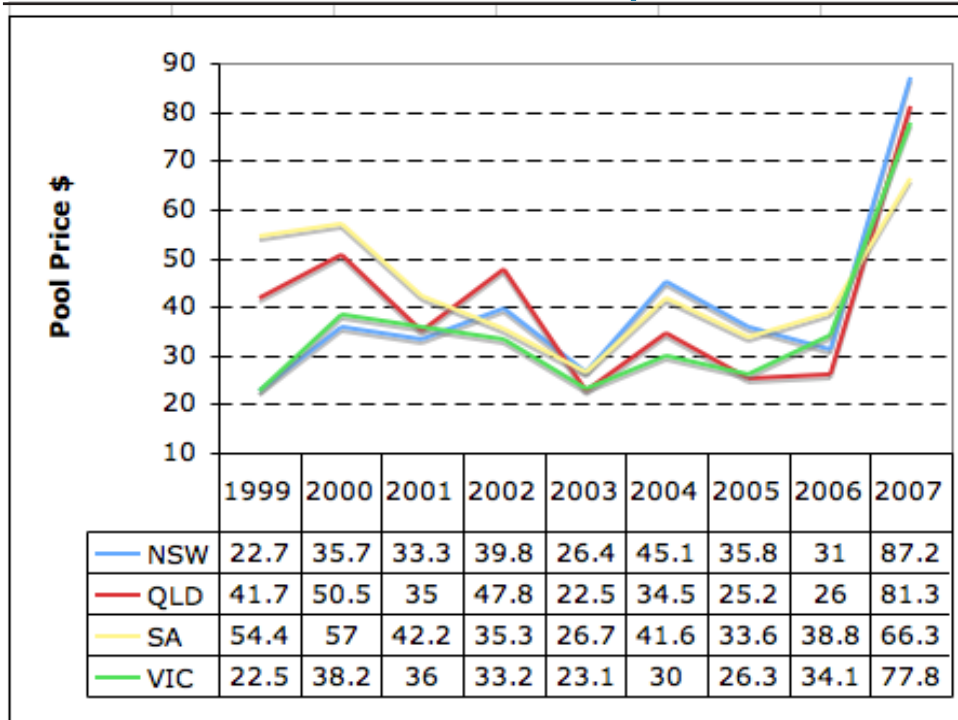


### 2007 Calendar year NEM pool



## 1 First NEM retailer fails: more to come, warn traders, amid unprecedented spike season

In an historic action, Energy One was removed from the NEM at midnight Friday 23 June, 2007. It was unable to pay the

high prices. Its customers passed to existing retailers under States Retailer of Last Resort (RoLR) rules. The business had forecast a sales volume of 360,000 MWh for FY2007.

**Price up 4x:** As the La Nina climate changed moved conditions from a hot drought, to cold rain storms, the average pool price for NSW in June 2007 near the end of the month spiked to

an extraordinary \$239.82/MWh - so high-- it triggered emergency cap measures from NEMMCO. *(see more, inside)*

The high prices and demand records appeared across the NEM. *(see more, Inside)* Pool price for the first and second quarters of 2007 was \$87/MWh as the year- end neared. (in the same period last year, it was near

\$31).

**Underhedged retailers burn:** Retailers should have hedged at \$38/MWh when it was available, bankers told *Electricity Week* after NEMMCO ruled the just-listed retailer, One Energy - the re-badged Ferrier Hodgson - had defaulted.

## Ferrier-Hodgson the first real NEM retailer-crash

The story was:

- NEMMCO issued the notice to Energy One at 3.00pm on 22 June 2007.

The order was;

- from 24:00 hours Eastern StandardTime on 22 June 2007, and made Energy One Limited ineligible to trade or enter into any transaction on the National Electricity Market.
- Customers from Energy One Limited were

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# Top price for NEM week 445: Roma, Qld at \$1287.16

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2

TAS			
Generator	Income (\$)	Output (MWh)	Av Price (/MWh)
Liap/Way/Cat	\$2,208,204	16,390	\$134.73
Bell Bay Power	\$4,520,472	36,406	\$124.17
John Butters	\$2,670,795	20,947	\$127.50
Tungatinah	\$1,602,172	10,526	\$152.22
Poatina	\$5,293,242	36,244	\$146.04
Tarraleah	\$1,358,872	11,018	\$123.33
Reece	\$3,406,060	24,280	\$140.28
Cethana	\$901,516	5,471	\$164.79
Tribute	\$367,129	2,094	\$175.29
Lemonthyme/Wilmot	\$1,152,231	8,605	\$133.90
Trevallyn	\$1,218,692	8,502	\$143.33
Mackintosh	\$1,615,697	13,009	\$124.20
Bastyan	\$1,589,477	12,848	\$123.71
Woolnorth Wind	-	-	-
Gordon	\$6,551,388	49,950	\$131.16
Vic->Tas	\$478,421	7,609	\$62.87
Devils Gate	\$671,054	4,103	\$163.54
Fisher	\$918,569	7,313	\$125.61
Meadowbank	393401.3375	2607.61	\$150.87
Lake Echo	184422.1564	1788.625	\$103.11
Repulse	-	-	-
Palooka	-	-	-
Cluny	-	-	-

transferred to alternative retailers from 00:00 hours on 23 June 2007.

Its volumes were about 8,500; 6500 in NSW, 750 in Queensland, and the balance in the ACT, and Victoria.

Security for the NEMMCO guarantee facility was provided by personal guarantees from Energy One directors Ian Ferrier, and Vaughan Busby. ( see more inside)

SA			
Generator	Income (\$)	Output (MWh)	Av Price (/MWh)
North'n Power	\$13,150,240	89,991	\$146.13
Ladbroke	\$15,618	220	\$70.89
Osborne	\$3,958,474	26,428	\$149.78
Pelican Pt	\$10,393,698	67,082	\$154.94
Torrens Is. B	\$12,999,781	74,161	\$175.29
Vic->SA	\$1,780,413	13,735	\$129.63
MLink->SA	\$34,479	291	\$118.49
Torrens Is. A	\$1,641,538	10,006	\$164.06
Mintaro	-	-	-
Dry Creek	\$120,831	332	\$363.72
Playford	\$2,180,349	13,999	\$155.76
Snuggery	-	-	-
Pt Lincoln	-	-	-
Quarantine	-	-	-
Angaston Power	\$350,596	1,245	\$281.52
Hallett Power	\$870,156	3,555	\$244.79
Lonsdale	-	-	-
Terminal Storage	-	-	-
VIC			
Generator	Income (\$)	Output (MWh)	Av Price (/MWh)
Loy Yang A	\$55,930,867	337,481	\$165.73
Loy Yang B	\$29,497,419	176,096	\$167.51
Hazelwood	\$35,834,172	208,015	\$172.27
Yallourn	\$39,695,200	236,936	\$167.54
Anglesea	\$4,234,907	23,092	\$183.39
Energy Brix	\$3,678,598	20,998	\$175.18
Newport	\$9,676,570	46,871	\$206.45
MLink->Vic	\$1,379,802	5,347	\$258.07
SA->Vic	\$1,625,951	6,055	\$268.55
Snowy->Vic	\$1,746,719	12,081	\$144.59
Tas->Vic	\$10,305,057	42,056	\$245.03
Jeeralang	\$648,589	1,476	\$439.51
West Kiewa	\$956,499	3,605	\$265.34
Bairnsdale	\$2,380,772	13,713	\$173.61
Dartmouth	-	-	-
Eildon	-	-	-
Hume Vic	-	-	-
McKay Power	\$2,040,322	5,894	\$346.18
Clover	-	-	-
Valley Power	\$3,534,887	14,494	\$243.89
Rubicon	-	-	-
Laverton North	1732606.7	7741.045	\$223.84
Somerton Power	2578239.716	9486	\$271.81
Sunshine Energy	-	-	-
Longford	-	-	-

NSW			
Generator	Income (\$)	Output (MWh)	Av Price (/MWh)
Bayswater	\$72,767,651	303,714	\$239.59
Liddell	\$52,201,603	222,802	\$234.30
Mt Piper	\$39,634,128	165,570	\$239.38
Wallerawang	\$17,962,642	74,382	\$241.49
Vales Point	\$36,440,495	151,470	\$240.58
Munmorah	\$20,537,854	91,307	\$224.93
Eraring	\$99,928,164	422,056	\$236.76
Redbank	\$5,592,432	24,401	\$229.19
Smithfield	\$5,622,842	20,365	\$276.11
Snowy->NSW	\$68,119,437	155,114	\$439.16
Shoalhaven	\$853,942	2,160	\$395.36
Hunter Valley	-	-	-
Hume Hydro	-	-	-
Blowering	-	-	-
Northern Gas	-	-	-
Burrinjuck	-	-	-
Brown Mountain	-	-	-
Keepit	-	-	-
Broken Hill	-	-	-
Ergon Energy	-	-	-
DL Q->N	\$2,833,549	10,976	\$258.15
QLD->NSW	\$17,268,428	74,151	\$232.88
Pindari Hydro	-	-	-
QLD			
Generator	Income (\$)	Output (MWh)	Av Price (/MWh)
Kogan Creek	\$7,603,628	40,887	\$185.97
Tarong	\$31,560,246	129,654	\$243.42
Millmerran	\$22,145,044	110,817	\$199.83
Swanbank	\$9,817,837	36,541	\$268.68
Stanwell	\$47,695,882	209,408	\$227.77
Callide B	\$24,898,039	111,958	\$222.39
Callide Power	\$26,837,653	132,252	\$202.93
Townsville	\$5,230,214	19,227	\$272.02
Gladstone	\$42,483,871	189,056	\$224.72
Collinsville	\$1,730,650	5,875	\$294.57
Swanbank C. D. E	\$12,003,738	47,132	\$254.68
Barcardine	\$983,771	1,692	\$581.56
Callide A	-	-	-
Kareeya	\$2,856,825	11,023	\$259.16
Barron Gorge	\$915,943	2,114	\$433.38
Mt Stuart	\$5,093,906	7,118	\$715.66
Wivenhoe	\$5,954,435	27,403	\$217.29
Braemar Power	\$10,928,016	32,077	\$340.68
Mackay	\$32,707	54	\$608.56
Roma	\$875,176	680	\$1,287.16
Oakey	\$5,413,531	9,581	\$565.01
DL N->Q	\$4,153	37	\$113.20
NSW->QLD	\$329,766	3,261	\$101.12
Rocky Point	-	-	-
Tableland	-	-	-

## Crisis-measure triggered: Administered price cap for seven days to 30 June, 2007

The cap was triggered for 7 days to 20 June after average pool prices passed \$100/MWh

NEMMCO published a market notice to advise an Administered Price Period( APP) was triggered. The administered price cap (APC) and floor were invoked to apply upper and lower limits on the published dispatch prices for energy and market ancillary services.

The value of the APC was:

- \$100/MWh in peak periods (07:00 to 23:00 on NEM business days) and
- \$50/MWh at all other times.
- The administered price floor for energy is \$100/MWh and - \$50/MWh.

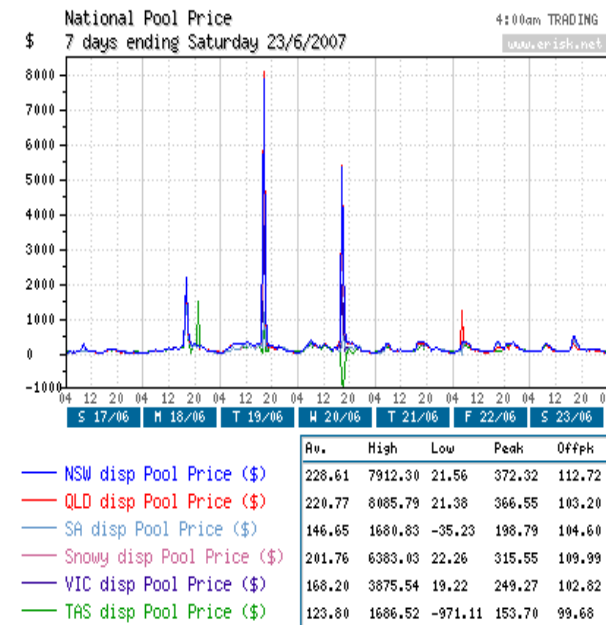
Prices are capped for dispatch intervals, the spot price for a trading interval in an administered price period will only reach the cap value if each of the 6 dispatch interval prices is at least equal to the cap value.

The APC is determined by the AEMC and published at <http://www.aemc.gov.au/electricity>

### the week in detail

#### Week to Saturday, 23 June

- **NSW:** Average price \$228.61/MWh, down 34 per cent on the spike-affected \$344.59/MWh the previous week, up 637 per cent on the \$31.01/MWh of the comparable week last year; maximum price \$7912.30/MWh for the 30-minute trading interval ended 1800EST Tuesday. Average demand 10,175MW, up 4.6 per cent on the previous week, up 3.3 per cent on a year ago; maximum demand a winter record 13,231MW in the 1800EST Tuesday interval, up 3.4 per cent on the 12,795MW the previous week.
- **Victoria:** Average price \$168.20/MWh, up 5 per cent on the spike-affected \$160.61/MWh the previous week, up 364 per cent on the spike-affected \$36.27/MWh of the comparable week last year; maximum price \$3875.54/MWh for the 30-minute trading interval ended 1800EST Tuesday. Average demand 6519MW, up 5.1 per cent on the previous week, up 4.0 per cent on a year ago; maximum demand a winter record 8018MW for the 1800EST Tuesday interval, up 3.3 per cent on the 7763MW the previous week.
- **South Australia:** Average price \$146.65/MWh, up 76 per cent on the spike-affected \$83.38/MWh the previous week, up 253 per cent on the spike-affected \$41.59/MWh of the comparable week last year, maximum price \$1680.83/MWh for the trading interval ended 1800EST Monday. Average demand 1727MW, up 2.2 per cent on the previous week, up 3.2 per cent on a year ago; maximum demand 2325MW for the 1900EST Tuesday interval, up 0.5 per cent on the 2313MW the previous week, and 44MW below the winter record of 2367MW.
- **Queensland:** Average price \$220.77/MWh, down 3 per cent on the spike-affected \$226.88/MWh the previous week, up 743 per cent on the \$26.19/MWh of the comparable week last year; maximum price \$8085.79/MWh for the trading interval ended 1800EST Tuesday.



Average demand 6014MW, up 6.3 per cent on the previous week, up 3.0 per cent on a year ago; maximum demand a winter record 7837MW for the 1730EST Wednesday interval, up 9.7 per cent on the 7147MW the previous week.

• **Tasmania:** Average price \$123.80/MWh, up 528 per cent on the negative price-affected \$19.72/MWh average the previous week, up 161 per cent on the spike-affected \$47.51/MWh of the comparable week last year; maximum price \$1686.52/MWh for the 1800EST Monday interval. Average demand 1408MW, up 6.7 per cent on the previous week, up 8.5 per cent on a year ago; maximum demand a winter record 1744MW in the 0830EST Wednesday interval, up 6.2 per cent on the 1642MW the previous week.

## How the under-hedged Energy One, crashed and burned

**W**hen EnergyOne - previously Ferrier-Hodgson Electricity - listed on the Stock Exchange on 15 January, 2007, the 2008 Calendar Futures was near 40.00 and the Fin Year 2008 futures was \$40.73. Had Energy One bought at that price, it might have survived the 2007 price shock.

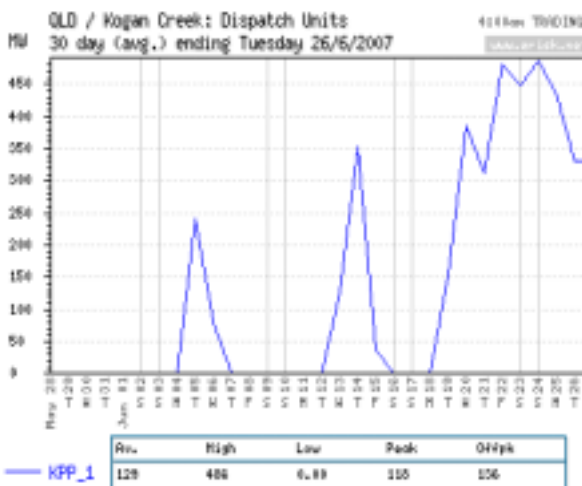
**Prospectus vague on risk control:** Its prospectus implied it had hedged - but other comments, later showed it did not appear to have the cash or credits to hedge to cover its risks.

**Forecast 2006 - 2007 \$41/MWh:** Its January prospectus, for example, had warned, if wholesale price rose 10 per cent above its 2006 - 2007 expectations - of \$41/MWh - it would operate at a loss - as a 10 per cent rise in whole sale price was ten times dangerous than a 10 per cent loss of customers, it said.

**200 new customer a month not enough:** At the time it said it was increasing customers in NSW through door to door sales at a rate of 200 a month. EnergyOne, then, showed negative cash flow for March quarter flow despite its \$10 million listing.

A sparse quarterly report made no mention of rising wholesale price risks. This was despite its prospectus forecast, that total revenue in FY2007, would increase by 77 per cent.

### Kogan on, 3 months early



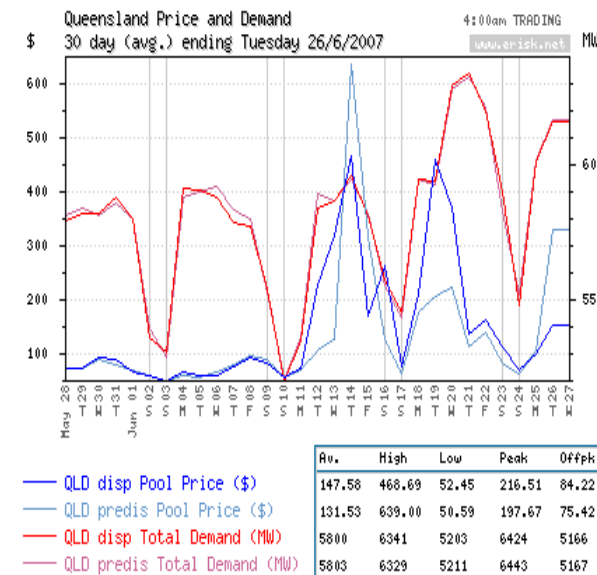
#### What went wrong for Energy One

- Calendar year pool prices had almost doubled;
- second Q prices had quadrupled, and
- both NEMMCo and the Sydney Future Exchange, then, quadrupled margin calls to match.

By 22 June, after eight winter demand records, the NSW FY average was \$54.82 and rising, d-cypha futures price were quoted at \$78.57 for NSW 2008 - where the bulk of EnergyOne customers were; and EnergyOne said had been quoted - for 2008:

- NSW baseload at \$88.65, peak \$138.43;

### Kogan cuts Qld price



- Qld baseload \$101.89, peak \$153.48.

### Energy One IPO cash pays Investec loans, and NEMMCO

**E**nergyOne had listed on 15 January, 2007, and raised \$10 million, when the NSW pool price average was \$37.24. Most of the IPO cash had gone to pay loans and NEMMCO securities. and only \$1 million was left for operators. Despite the cash influx, it listed cash flow deficits in its March 2007 books, and made no wholesale price exposure price comment in its ASX notice, despite the public data available. This suggests a poor performance in reportage of price-sensitive

issues, as required by the ASX. After the March data, the share price fell vertically, as those in the know, rushed to offload.

**Was it \$41.48 or \$64.17?:** The EnergyOne prospectus - approved by the auditor, says the FY2007 forecast cost was \$41.48 per MWh, but, a CY table appeared to show an average exposure of \$64.17 per MWh. However, this referred to peak price. On 22 June, it listed NSW 2008 peak price contracts exposure as \$138.23.

## Kookaburra contracts; some retailers laughing like drains

Some retailers were laughing - the two or three which had hedged at the 2003 - 2006 prices. The others were told, to 'grin and bear it' and - to stop blaming generators and governments; you are at the big end of town - guys - get over it, was the message from one banker. "They had three and a half years to lock in prices to hedge under \$40 - it's like waiting until your house is on fire and then blaming the insurance company.. a trader told *Electricity Week*, "EnergyOne should have used futures - they did not use enough". Rating agencies were now downgrading retailers as the market moved into a blood-bath phase, as NEMMCO made emergency margin calls created by the 2Q price spikes.

## The ones One Energy left behind

Entity	QLD	NSW	ACT	VIC	SA
<b>Electricity retailers</b>					
AGL ActewAGL Retail <sup>1</sup>	✓	✓	✓	✓	✓
Country Energy	✓	✓	✓	✓	✓
Energy Australia <sup>2</sup>	✓	✓	✓	✓	✓
TRU Energy <sup>3</sup>	✓	✓	✓	✓	✓
Energex (Sun Retail)	✓	✓	✓	✓	✓
Ergon Energy <sup>4</sup>	✓	✓	✓	✓	✓
Aurora Energy	✓	✓	✓	✓	✓
Origin	✓	✓	✓	✓	✓
Integral Energy	✓	✓	✓	✓	
<b>Energy One <sup>5</sup></b>	✓	✓	✓	✓	
Red Energy	✓		✓	✓	✓
Jackgreen		✓		✓	✓
Momentum Energy				✓	✓
Our Energy Neighbourhood				✓	
Australian Power and Gas <sup>6</sup>		✓			
Victoria Electricity <sup>7</sup>	✓			✓	✓
Independent Electricity Retail Solutions <sup>8</sup>		✓			
Click Energy <sup>9</sup>				✓	
<b>Generators with a retail licence <sup>9</sup></b>					
Eraring Energy		✓			
Delta Electricity		✓			
CS Energy	✓				
Energy Brix Australia				✓	
International Power				✓	✓
Tarong Energy	✓				
Stanwell	✓				
NRG Holdings					✓

EnergyOne competition: The competing retailers range from large government owned electricity retailers, such as Energy Australia, Integral Energy and Country Energy in New South Wales and Energex (now called Sun Retail) and Ergon Energy (now called Powerdirect) in Queensland, to the large publicly listed companies (such as AGL and Origin Energy). Several niche electricity retailers also operate in the same jurisdictions as Energy One. For example, Jackgreen is listed on the ASX and markets renewable energy to residential customers in New South Wales and Victoria

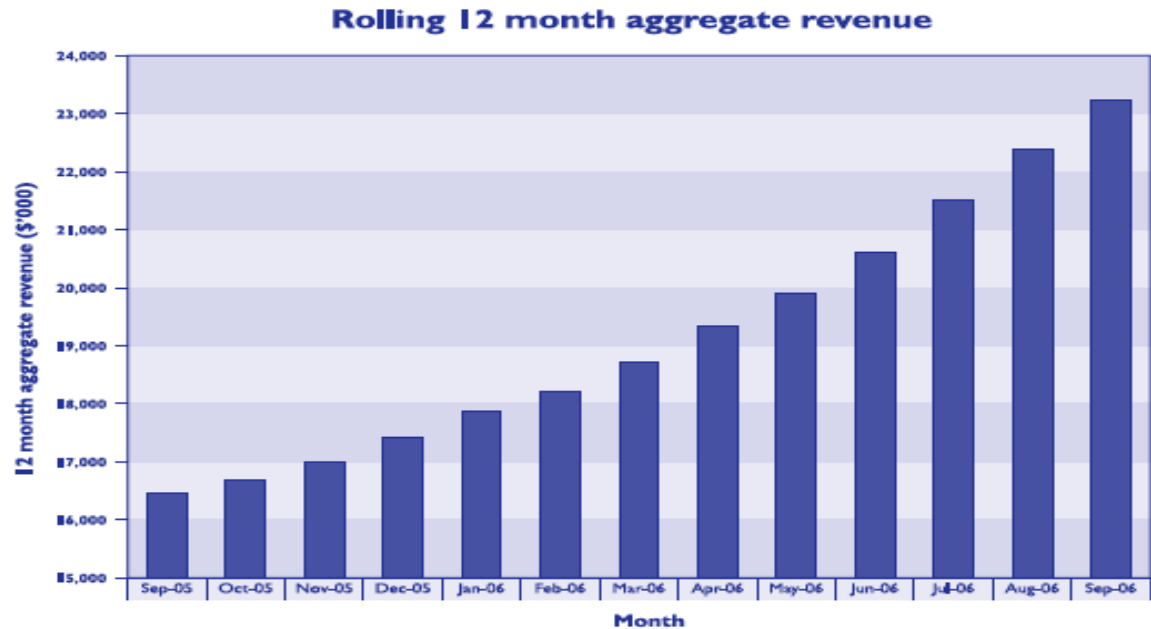
# NEMMCO, SFE, emergency margin calls form a towering inferno from 2 July, 2007

The first tower to crash was Energy One, but larger retailers were reported as under stress. The Ministerial Council on Energy had recognised the problem, and had now ordered the AEMC, to oblige NEMMCO to, integrate futures into the market by the end of 2007. This would have the effect of lowered volatility on NEMMCO margin calls. The plan was to peg NEMMCO margin calls to the average pool price for the period.

**Policy a little late:** This was requested in August 2006, by 20 participants - and would have lowered the costs of NEMMCO prudential calls by at least a billion for the second quarter, said one. It was refused by rule-maker AEMC, which said it did not have the power to do it. Ministers - at a COAG meeting - then, instructed NEMMCO, AEMC and the ASX to develop options to integrate futures into prudential offsets for NEM retailers by December, 2007.

**The SFE view:** Dean Price, general manager d-cyphaTrade - a partner of the ASX-controlled Sydney Futures Exchange (SFE), and a proponent and beneficiary of the change - told *Electricity Week* "Up until about Q3 2006, futures offsets would have reduced the prudential operating costs (i.e. cost of credit support) for NEM retailers by about 43pc.

## The pretty picture One Energy drew for the stock market



It came a little too late for Energy One and would have automatically yielded cash flow benefits for NEMMCO during Q2 2007 when NEMMCO's guarantee support from NSW retailers was inadequate to protect against high pool prices.

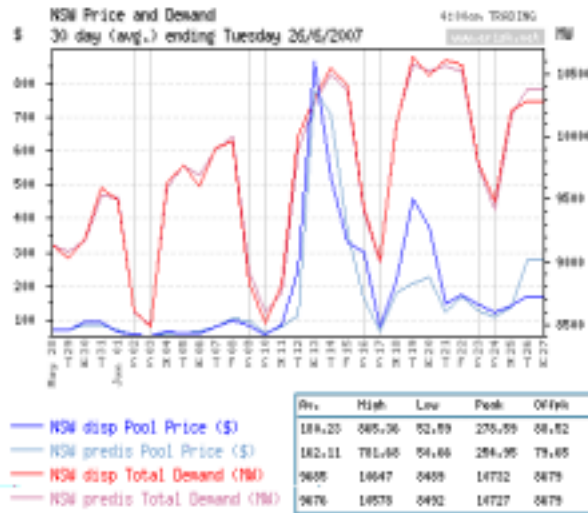
That is, NEMMCO (would have) asked for \$54.09/MWh in guarantees to support NSW retailer's purchases across Q2 2007 when actual pool price averages for Q2 (and futures prices) reached over \$107/MWh.

Futures Offsets across NSW Q2 2007 would have yielded NEMMCO an additional \$52.91/

	30 June 2005 (audited)	30 June 2006 (audited)	30 June 2007 (forecast)
Sales Revenue	\$15.9 million	\$20.7 million	\$36.6 million
EBITDA	\$(0.2 million)	\$0.7 million	\$2.0 million
NPAT	\$(0.3 million)	\$0.6 million	\$1.9 million

EnergyOne: 12 month aggregate revenue to 30 June 2006 was \$20.7 million and the 12 month aggregate revenue to 30 September 2006 was \$23.2 million.

## NSW price - 30 days - \$180

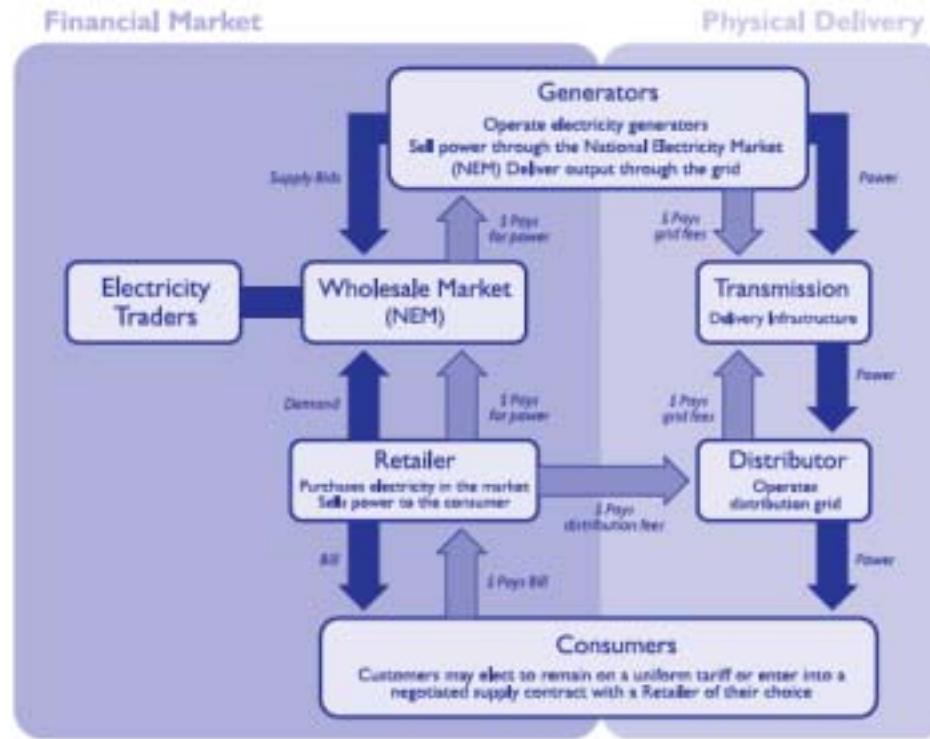


MWh in cash in addition to NEMMCO's bank guarantees and saved NEM retailers substantial cash flow stress from additional NEMMCO margin calls when guarantees were inadequate", said Price.

## SFE quadruples margin rates from 2 July 2007

**7** Eddie Farah, senior risk analyst Sydney Futures Exchange (SFE), told *Electricity Week* the SFE Clearing Corporation has reviewed the price volatility of all d-cypha SFE Australian Electricity Futures contracts and has approved the margin changes by about four-fold due to significant recent price volatility in most contracts and

## How the money goes around in the NEM



include an adjustment for current price levels. The revised margin parameters will be effective for open contracts as at close of business on 29 June 2007, impacting margin calls made on 2 July 2007. Initial margin rates for all contracts are available on the ASX website at [www.asx.com.au](http://www.asx.com.au).

Clearing Risk 9227-0236 or 9227 0532.

## Retailer crash: consumers carry can, for unknown costs

**C**onsumers pay the costs of the EnergyOne transfer. Cost may now flow to consumers, who will get charged for the transfers and may also get new higher, contracts.

**Free shower of customers:** EnergyOne saw it coming - and tried to sell its customers to

other retailers, in advance - but not were interested, perhaps - as - if EnergyOne defaulted - they would get them for free; or because they were not hedged.

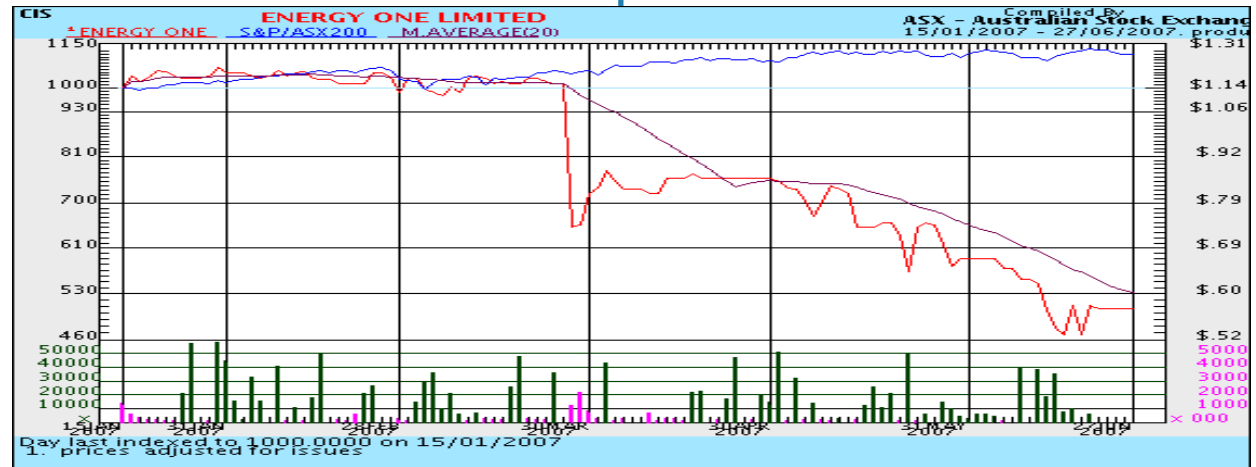
**More of the silly old NEM:** States still had not agreed - after eight years - on a standard system to manage a retailer crash, and 24 June was the deadline for submissions on yet another review. The Energy One crash was a test of the unresolved, multi-state controlled retailer of last resort rules. NEMMCO had planned a central change process, but no agreement yet existed. *(see inside - How to handle more retailer crashes: NEMMCO plan)*

**NEM absurdities:** Some of the silly bits of the NEM, remain absurd; for example the paper - *RoLR functionality & Bulk Participant Change in MSATS* Issue date: 16 May 2005, due for final submissions, 24 June, 2007, showed:

The Ministerial Council on Energy (MCE) had planned to fit retailer-crash customer-transfers to a national framework for electricity and gas distribution and retail regulation, but States could nor agree and continued to delay national rules; this had allowed, contradictions, as below;:

- fl ACTEW-AGL defaulted in the ACT, no back up existed; and the ACT - may have no electricity; as ActewAGL Retail was the only utility in the ACT that had RoLR powers. Responsibility was a condition of its utilities licence. Thus, in the ACT, the Local Retailer is currently the Retailer of Last Resort (RoLR),

## Energy One investors ran for cover after March accounts



- in some States, no ceiling existed on the costs retailers could charge consumers for the change; and
- eight years after the start of the NEM. the NEMMCO State committees were yet to agree on scenarios to test to retailer a central transfer method;
- In South Australia, ETSA Utilities had no obligation to provide RoLR services if called upon to do so, and so, could for example, chose not to supply.

EnergyOne: Negative cash flow for March quarter flow despite \$10 million listing. The sparse quarterly report made no mention of rising wholesale price risks.

## EnergyOne's founder an insolvency company

In a supreme irony, EnergyOne's founder shareholder - an insolvency company, controlled by Ian Ferrier - itself, appeared to risk insolvency, when its off-shoot electricity retailer, EnergyOne said it could not pay its bills to NEMMCO. NEMMCO said EnergyOne - which had filed a \$3.5 million guarantee - for which its directors were the personal guarantors - asked to be removed, on Friday, 22 June. Reinstatement was improbable, NEMMCO told *Electricity Week*. The EnergyOne NEMMCO guarantee was funded

by the South African based bank, Investec. Investec said it was paid before the listing,

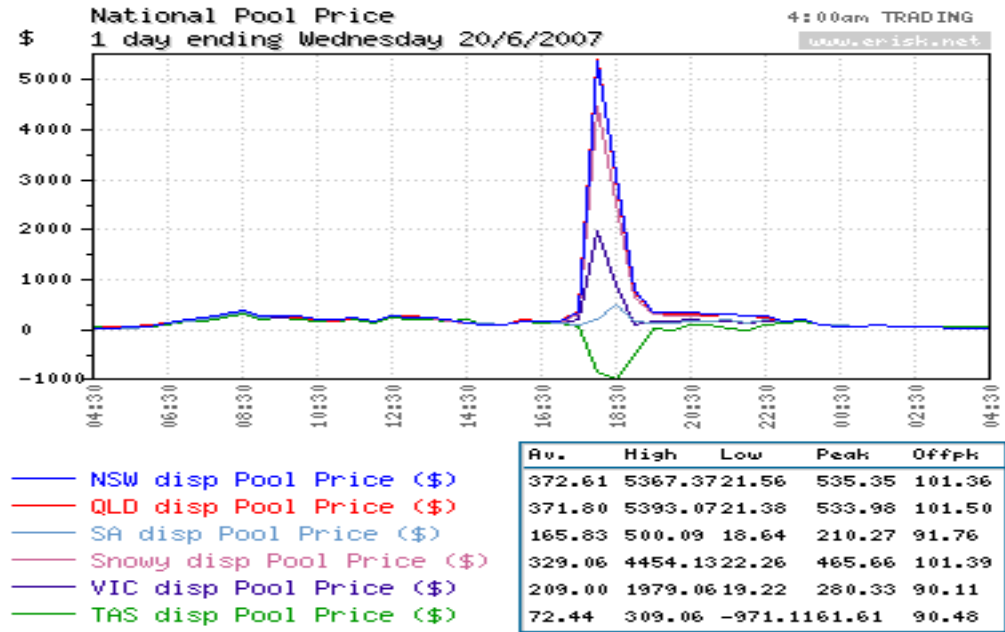
**Borrows to meet NEMMCO credit rules:** In December 2004, Energy One did a deal with Investec Bank (Australia) Limited, to provide the bank guarantees required by NEMMCO. The EnergyOne prospectus showed it faced a large risk, of failure if wholesale price rose 10pc above its expectations.

**Prospectus questioned:** EnergyOne had expected a 2007 cost of about \$40 - 45/MWh, but, in a contradiction, listed expected seasonal costs at a Calendar year \$64/MW (average) in another part of the prospectus. *(see more, inside).*

**The EnergyOne banker:** The banker was Investec, managed by Mark Joffe; who works with Mark Schneider, head of specialised funds and investments, Investec Capital Markets, Investec Bank Australia. Schneider, long-time player in the NEM, was a member of the NEMMCO Participant Committee and director of Viridis Energy Capital Pty Ltd, and manager of the ASX-listed Viridis Clean Energy Group. Investec holds 9 per cent of the Energy One stock and provides a \$1.5million overdraft.

**Energy One IPO data queried:** The \$10 million listing in January was part of its plan for an expected 40 per cent income - rise for 2006 - 2007. EnergyOne had previously reported a loss of \$338,000 (NPAT) in 2005 to a profit of \$642,000 (NPAT) in 2006, on revenue of \$23 million.

## 20 June price too high: AEMC to set lower price



**Operation during an Administered Price Period i:**  
 When an APP is triggered, NEMMCO publishes a market notice to advise of the commencement of an administered price period from the start of the trading interval immediately after that in which the CPT was exceeded. Market prices and dispatch of generation continue to be calculated normally. However, the administered price cap (APC) and floor are invoked to apply upper and lower limits on the published dispatch prices for energy and market ancillary services. The value of the APC is currently \$100/MWh in peak periods (07:00 to 23:00 on NEM business days) and \$50/MWh at all other times. The administered price floor for energy is -\$100/MWh and -

\$50/MWh over the respective periods. Market ancillary service prices are always positive. As the prices are capped for dispatch intervals, the spot price for a trading interval in an administered price period will only reach the cap value if each of the 6 dispatch interval prices is at least equal to the cap value.

The APC is determined by the AEMC and published at <http://www.aemc.gov.au/electricity.php?r=20070427.140352> or on the NECA website at <http://www.neca.com.au/SubCategoryod71.html?SubCategoryId=167>

Last week - after it was re-stated by the ASX, forecast a loss of \$2.5 million.

**Why NEMMCO cut it off:** NEMMCO requires the deposit of bank guarantees and security deposits against an credit limit for each retailer. If a market participant breaches a maximum credit limit on any one day of trading; NEMMCO then issues a call notice for rectification, and then, and a default notice; then suspends the retailer.

**NEMMCO powers:** NEMMCO had the authority to suspend a market participant who fails to respond ... to a default notice, and to reinstate that market participant only when their required financial position was reestablished.

**Relics of the lost Ark:** The directors of EnergyOne argued its billing and hedging management system had a value; but *Electricity Week* observes - as that system had not protected it from collapse - that argument may not hold up. Energy One said it would continue with the development of its utility software system.

The company said it had received interest from both utility and software companies who are interested in licensing the software said Vaughan Busby Chief Executive Officer, who It did not return calls from *Electricity Week* by deadline.

**Shock mechanics:** EnergyOne had earlier reported some speed bumps - and, had - in a way, warned the market, when, in its prospectus, it had said the purchase price of

electricity had an impact 10 times greater than a corresponding change in customer numbers. But, EnergyOnes auditor - Greenwoods - perhaps did not fully understand the NEM, and gave no warning in relation to apparent contradictions in the prospectus. It did not return calls from *Electricity Week*. Energy One's focus was the small to medium size business, and said it had found a new niche in Queensland in body-corporates of Queensland high rise apartment blocks; where it had offered energy efficiency services and green power.

## Big names take a bath

One of the Energy One leading lights was Andrew Bonwick - who had succeeded in a glorious style with the listing of Powerdirect. Bonwick was previously Marketing Director of Yallourn Energy for 6 years, including responsibility for the AusPower retail operation and Yallourn's wholesale and regulatory activities. He also worked with retailer PowerDirect, later bought by Ergon after listing as Australian Energy on the ASX, April 2006.

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## How Energy One's wobbles turned into a crash

As of June 2006, Energy One said it supplied electricity to more than 8,500 customers, primarily in New South Wales and Queensland.

A rise in aggregate revenue was reported each month over the last year. In the 3 months ending 30 September 2006, Energy One's rolling 12 month aggregate revenue had increased by approximately \$2.5 million to \$23.2 million or an increase of 12 per cent. The 12 month aggregate revenue to 30 June 2006 was \$20.7 million and the 12 month. The aggregate revenue to 30 September 2006 was \$23.2 million.

**How Energy One saw it:** On 22 June, 2007, the board and management of Energy One said:

- It would be impossible to provide a service to customers and break even, in fact significant losses would occur; and
- It was imperative to suspend retailing activities in order to secure the continuation of other parts of the business.

## Wobbles turn into chaos effect

An underhedged, Energy One had said its FY2006 revenue increased by 30 per cent compared to FY2005, - a lower gross margin in 2005 had "reflected some unanticipated losses as a result of having

insufficient hedging in place”, explained the prospectus.

It said, insufficient hedging was due to:

- a delay in recapitalizing the business, which meant there was insufficient cash available to purchase the required hedging instruments;
- as a result the business incurred some losses during a period of volatility in the spot market for wholesale electricity;
- Interest expenses were higher in FY2006 due to a full year of interest being incurred as a result of the Investec Facility;
- additional bank guarantees were required to support Energy Ones purchases of electricity from the wholesale market;
- depreciation and amortisation also increased in 2006 following a considerable increase in the amount of software development that was capitalized.
- one-off expenses associated with the recapitalization of the business were incurred during 2004;
- bank fees were incurred as a result of terminating the banking arrangements with the ANZ and entering into the Investec Facility.
- additional bank guarantees, over and above those required by NEMMCO, were also taken out..during this period; and
- due to the change in the controlling

shareholders during 2004 a loan provided by the previous shareholders was repaid.

WHK Corporate Advisory Limited provided the this Financial Services Guide (FSG) and the audit report for the IPO. David Sinclair 02 9262 21555 EnergyOne, Prospectus [http:// www.energyone.com.au/pages/asx\\_releases.html](http://www.energyone.com.au/pages/asx_releases.html) P O Box 4953 Gold Coast Mail Centre Bundall Qld 9726 Phone (07) 55743810 Fax : (07) 55047544 Email : Kristin.Frankcombe@energyone.com.au

## EnergyOne’s hedge vision-thing, did not work as planned

It appeared EnergyOne was simply underhedged - it did not have the cash to pay. But EnergyOne had claimed it was covered, and had a proprietary billing software, Fusion, which “compares estimated energy purchases against a register of current hedging instruments”, it said: “In order to manage its exposure to market risk, the company currently utilizes hedging instruments including base load futures, peak load futures, \$300 base load caps, Asian call options and whole of metered load swaps...These products are bought directly from electricity generators, through the Sydney Futures Exchange or from local or international banks...”

**But cash flow gap appeared:** “For example, if a significant event occurs in the spot market for wholesale electricity, Energy One may have to bear the high spot market costs for three months or more, until a payout is received on a particular hedge contract. Typically those hedge contracts with longer periods until settlement occurs have lower premiums. The

Company manages its hedging strategy to balance the cash flow effects of different contracts, as well as their risk premiums and the underlying forecast cost of energy”.

**Costs v income:** “The two main drivers of the Company’s profitability are the underlying purchase price of electricity and customer numbers.;

- The purchase price of electricity has a much larger impact on profitability than a corresponding increase or decrease in customer numbers;
- A 10 per cent fall in the purchase price of electricity more than compensates for a 10 per cent decline in customer numbers;
- Conversely a 10 per cent increase in the purchase price of electricity has a greater impact on profitability than a 10 per cent increase in customer numbers. In relative terms, the purchase price of electricity has an impact 10 times greater than a corresponding change in customer numbers.

## Whos who at Energy One

**Ian Ferrier, chairman, 66** an insolvency professional holds directorships in a number of publicly listed Australian companies including McGuigan Simeon Wines Limited, Macquarie Goodman Management Limited, Reckon Limited, Invocare Limited and Australian Oil Company Limited. Ferrier established Ferrier Hodgson (the accounting and corporate

recovery firm) in 1976 having spent the previous 15 years specialising in his field (insolvency) The firm has insolvency offices in Tokyo, Singapore, Hong Kong, Indonesia and Malaysia.

**Andrew Bonwick, 49:** Andrew was the Managing Director of ASX listed Australian Energy Limited (now called Powerdirect). Australian Energy was a niche electricity retailer supplying electricity to customers in New South Wales, Victoria, Queensland and South Australia. During Bonwick's tenure at Australian Energy (from September 2003 to April 2006), gross sales increased from approximately \$50 million per annum to more than \$120 million per annum and the share price increased from 70 cents to \$1.95 when the company was bought by Ergon Energy Limited. Bonwick was the Marketing Director of Yallourn Energy for 6 years, including responsibility for the AusPower retail operation and Yallourns wholesale and regulatory activities. His career has included roles in senior management, institutional equity research and management consulting.

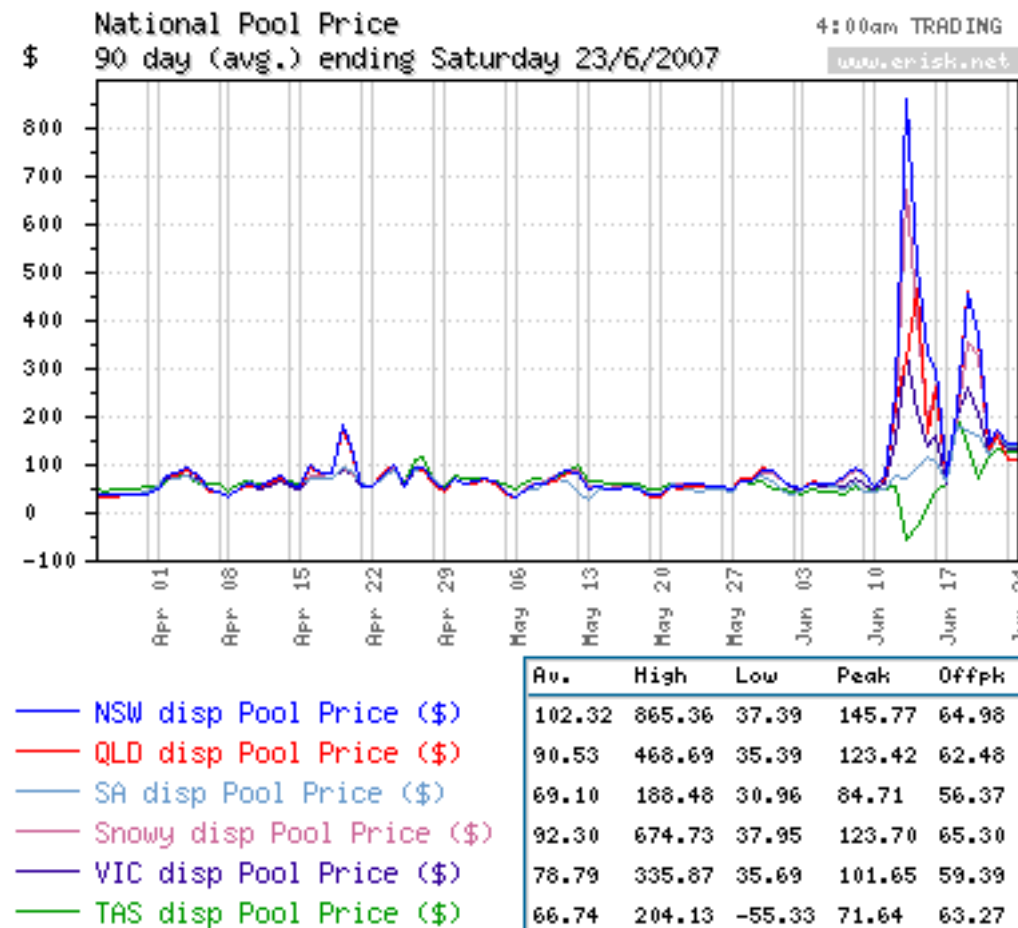
**Vaughan Busby:** Chief Executive Officer and Managing Director of the Company and has been the CEO for two years. He had refinancing the business and used derivatives to hedge the financial risk associated with electricity purchases and report the hedging position on a daily basis.

**Richard Brys:** Managed all supplier contracts including energy purchases and network and metering services. He also worked with Logica developing energy trading systems for various European markets. Brys has managed the ongoing development of Energy Ones proprietary billing software, Fusion, over the last two

and a half years. The system compares estimated energy purchases against a register of current hedging instruments,

**Joshua Rudd:** Prior to joining Energy One, Rudd worked for a private chartered accounting

**Travis Waycott:** National Sales Manager -



managing a door-to-door sales team of approximately eight in New South Wales concentrating on making sales to small business customers. The Company also outsourced telesales.

**Paul Gramenz** - General Manager, Compliance: has worked for Origin Energy, Powercor and AGL in roles covering energy trading, business development and sales and marketing.

ewn publishing

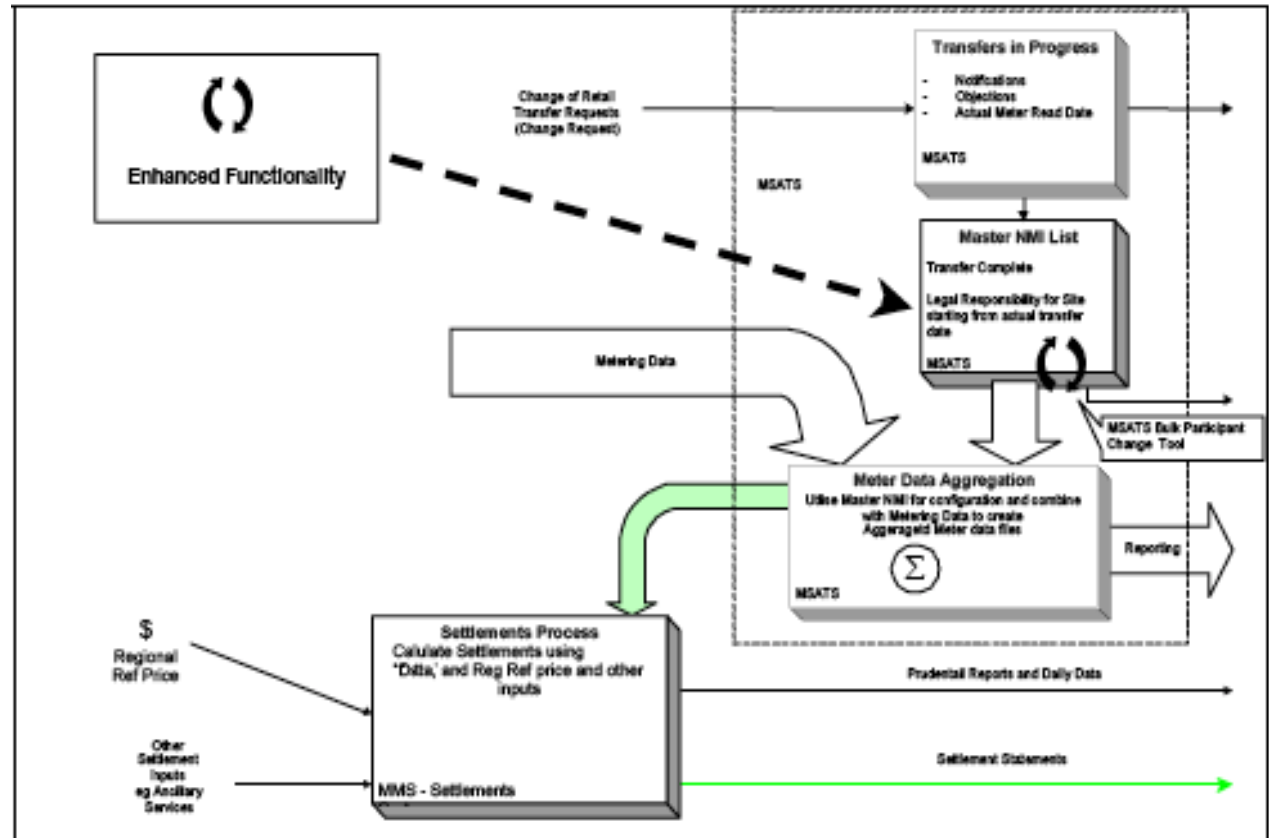
### NSW actuals



### Futures

Prices as at COB Mon 25 Jun 2007				
Base	NSW	QLD	SA	VIC
CAL08	78.57	86.06	59.46	72.16
CAL09	67.22	58.96	42.36	61.84
CAL10	49.01	47.50	40.15	55.77
WEPI	107.73	117.45	89.06	99.82
APS	Australian Power Strip			66.33

## How to handle more retailer crashes: NEMMCO plan



**NEMMCO's central change plan:** NEMMCO planned a bulk Change Tool (to handle RoLR and other bulk data changes). See above - the Metering and Settlement process to produce NEM settlements statements- the arrow shows where the new RoLR would be located in the business process (identified by the symbol) . The current business process flow starts with a consumer site transfer being managed (transfers

in progress), and then completing in MSATS (Master NMI List). This master configuration is then combined with metering data for the associated sites and is passed from MSATS into NEMMCOs Market Management Systems (MMS) for processing, where the Regional Reference Price (\$) is applied and settlement statements are produced.