

# Application for Retail Authorisation

Pacific Hydro Retail Pty Ltd

30 March 2012

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## 1. Applicant details:

Legal Name	Pacific Hydro Retail Pty Ltd
ACN	155 908 839
Registered Address	Level 11, 474 Flinders Street, Melbourne, Vic 3000
Postal Address	As above
Contact Person	John Vendel Energy Markets Regulatory Manager Phone: 03 8621 6308 Mobile: 0419 397 729 Email: <a href="mailto:jvendel@pacifichydro.com.au">jvendel@pacifichydro.com.au</a>
Accreditation Sought	Electricity
Intent to commence	1 July 2012

## 2. Nature and scope of operations proposed:

Pacific Hydro Retail Pty Ltd (Pacific Hydro Retail) is a wholly owned subsidiary of Pacific Hydro (Pacific Hydro) Pty Ltd. Pacific Hydro Retail Pty Ltd was established to implement Pacific Hydro's retail strategy within the NEM. The company was registered on 24 February 2012.

Pacific Hydro Retail will retail electricity to large customers across the National Electricity Market.

Since 1993 Pacific Hydro has established a highly successful portfolio of operating renewable generators across Australia, with six wind farms and four hydro power projects located in the NEM. Pacific Hydro is now considered a world-leading renewable energy generation company with over 850MW of operating renewable energy projects across two continents and three countries. 302MW is in Australia, of which 272MW is located in the NEM.

In addition Pacific Hydro has been an accredited retailer of GreenPower since 2006. In 2010 Pacific Hydro was the fourth largest seller of GreenPower to commercial customers (behind AGL, Origin and Energy Australia).

Pacific Hydro is a wholly owned subsidiary of the Industry Funds Management (IFM) Australian Infrastructure Fund. IFM is an investment management company specialising in the management of investment products across private equity, infrastructure, debt and listed equities portfolios, and is wholly owned, through Industry Super Holdings Pty Ltd, by a large number of Australian superannuation funds. Through its ownership structure, Pacific Hydro provides sustainable infrastructure investment opportunities for around 5 million Australian members of Industry Superannuation Funds.

In October 2011 the Board of Pacific Hydro, approved the development of an in-house retail capability, thus giving rise to Pacific Hydro Retail.

This decision is a significant step in Pacific Hydro's journey towards vertical integration which started in 2005, when the company decided to build its first wholesale market (or 'merchant') generation asset – the 30MW Yambuk wind farm (located in SW Victoria). Prior to this the company had always sought to commercialise its energy through long-term fixed price Power Purchase Agreements (PPAs), typically contracted with large electricity retailers. Since then the company has built three more wind farms – Cape Bridgewater, Cape Nelson South (both in Victoria) and Clements Gap (in South Australia) – using the merchant strategy; and in 2011 the Codrington wind farm became the company's fifth merchant asset after the expiry of its 10-year PPA. It is this portfolio of 207MW of wind farms that will form the basis of Pacific Hydro's Retail's offering to its customers.

## **Energy Markets and Risk Management**

Pacific Hydro has built up its energy markets (trading) expertise, risk management and best-practice governance procedures over the past 7 years, enabling it to successfully manage its merchant portfolio risk exposures through the sale of electricity derivatives and other marketable products. Pacific Hydro, through its wholly-owned subsidiary Pacific Hydro AFSL Pty Ltd, holds an Australian Financial Services Licence (AFSL) for the purposes of trading in electricity derivative products.

## **Retail Business**

The primary purpose of Pacific Hydro Retail is to provide another method for Pacific Hydro to manage its merchant (price) risks, whilst offering a unique suite of competitive product offerings to large electricity consumers. Pacific Hydro Retail will draw on the expertise of the whole Pacific Hydro organisation, however the primary responsibility for the new business will be housed within the Australian Business Unit's Energy Markets team.

Pacific Hydro Retail will develop its customer base by offering competitive products, a low cost operating model utilising credible third-party service providers, and a targeted marketing campaign leveraging off the company's strong green credentials and popular GreenPower product.

As a start-up retailer Pacific Hydro Retail Pty Ltd will be fully supported by its parent company, drawing on established resources, systems, policies and procedures across the Pacific Hydro group, including 120 Australian-based professional staff serving the existing Australian generation business.

The initial sales effort will be focused on Victoria and South Australia, being the location of Pacific Hydro's operating portfolio of merchant wind farms.

## **3. Entry Criteria:**

### **3.1 Organisational and technical capacity to operate as a retailer**

#### **3.1.1 Experience as an energy retailer, or any other experience in the energy market**

Pacific Hydro has over 7 years experience in the wholesale energy markets, and within its Energy Markets and Group Risk Management teams has at its disposal numerous significantly experienced energy market professionals. To complete the team required to implement and manage a new retail business the company is in the process of recruiting additional staff with significant relevant electricity retail business management and sales experience.

Pacific Hydro, through its existing generation and energy trading activities, has built up best practice governance arrangements, eg. policies and procedures. These arrangements are being adapted (as needed) and adopted for use by Pacific Hydro Retail. In addition a number of new arrangements are being developed specifically to support new retailing activities. A document titled 'Pacific Hydro Retail Implementation Status'<sup>1</sup> has been prepared in support of this application, illustrating the progress made to date on these arrangements.

Pacific Hydro as a generator has been subjected to a number of regulatory accreditations. Amongst other things the Pacific Hydro, through its wholly-owned subsidiaries, holds numerous generation licences, is accredited under the Mandatory Renewable Energy Target (MRET) and is an approved registered participant in the National Electricity Market.

Perhaps the most notable accreditation from a retail perspective is Pacific Hydro's Australian Financial Services Licence (AFSL), held by the wholly-owned subsidiary Pacific Hydro AFSL Pty Ltd, used for the purposes of trading in electricity derivative products.

In addition Pacific Hydro is an accredited (licensed) retailer of GreenPower, which it has held in the name of its wholly owned Energy Pacific (Vic) Pty Ltd, since 2006. In 2010 Pacific Hydro was

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<sup>1</sup> Appendix 1 – Pacific Hydro Retail Implementation Status

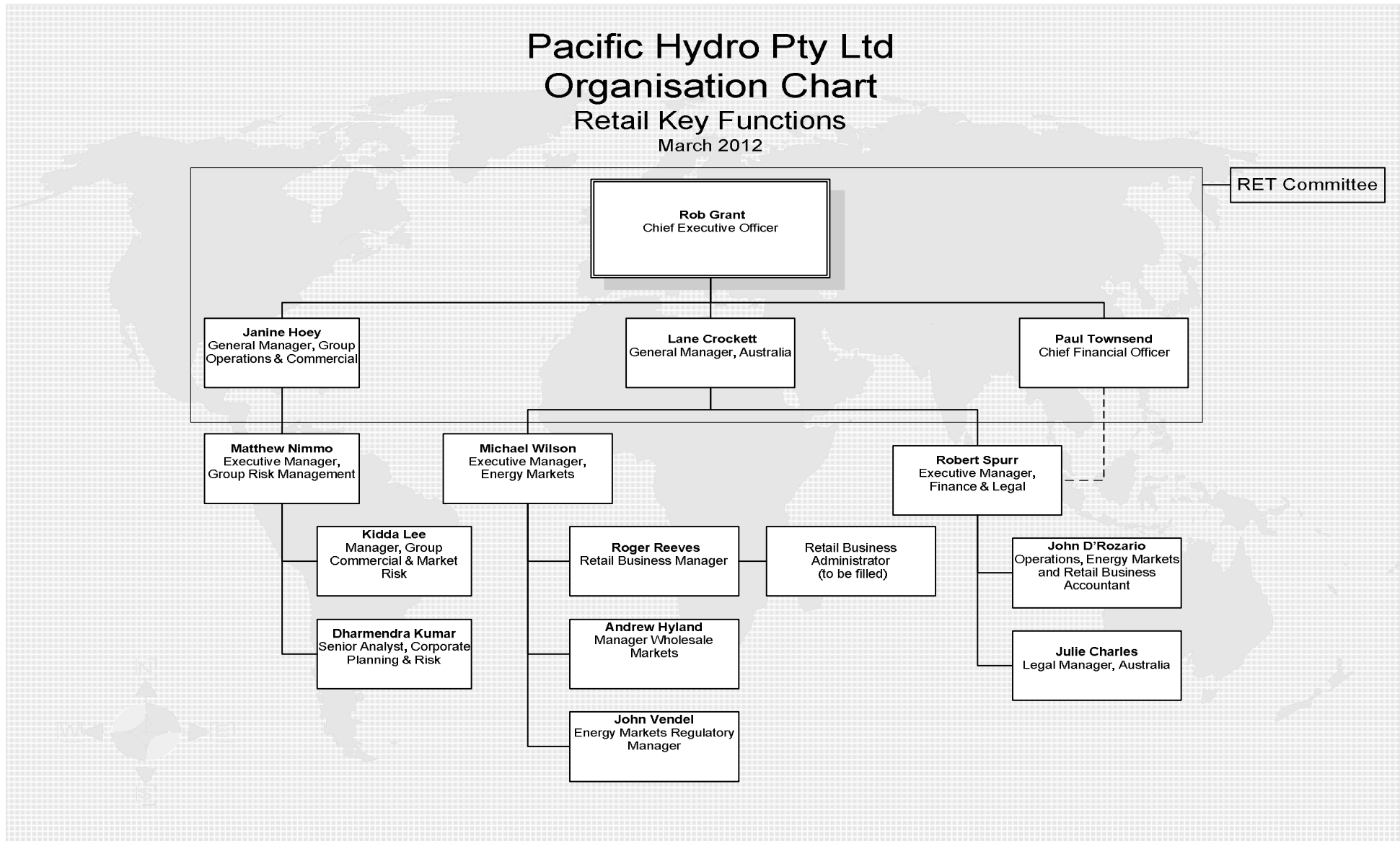
the fourth largest seller of GreenPower to commercial customers (behind AGL, Origin and Energy Australia). As part of its obligations as a GreenPower retailer, Pacific Hydro is independently audited annually. Since receiving GreenPower accreditation in 2006, Pacific Hydro has been annually assessed as compliant to the GreenPower Rules. In 2010 Clear Environment Pty Ltd, an approved GreenPower auditor completed the audit and provided an audit report<sup>2</sup> to Pacific Hydro. Clear Environment's audit opinion to the GreenPower Manager<sup>3</sup> is also provided.

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<sup>2</sup> Appendix 2 – Independent GreenPower Audit for Pacific Hydro 2010

<sup>3</sup> Appendix 3 – GreenPower Audit Opinion for Pacific Hydro 2010

3.1.2 Organisational chart





### 3.1.3 Number of employees broken down by business unit or other classification

Business Unit	Number of permanent employees
Australia	64
Corporate	56
Chile	135
Brazil	24

### 3.1.4 Summary of qualifications, technical skills and experience of your officers and relevance of those skills and experience to meeting requirements.

Below are the biographies of people with retail key functions, being Pacific Hydro staff who are directly involved in the establishment and ongoing work for Pacific Hydro Retail.

#### **Rob Grant – CEO**

Rob joined Pacific Hydro in 1996 as Project Development Manager and became Chief Executive Officer in July 2005 following the acquisition of Pacific Hydro by IFM. He is a member of the Australian Government's Council on Australia Latin America Relations (COALAR) and was Chairman of the Clean Energy Council in Australia from 2008 through to 2011. He holds a Bachelor of Engineering (Civil) and an MBA degree from the University of Melbourne and a Master of Applied Finance from Macquarie University.

#### **Lane Crockett – General Manager, Australia (Director of Pacific Hydro Retail Pty Ltd)**

Lane joined Pacific Hydro in December 2005 as Commercial Contracts Manager with over 20 years of international experience in the energy sector in Australia, Asia, the UK and New Zealand. He has worked in utilities regulation, managed the performance of electricity and gas alliance contracts and has led engineering, procurement and construction projects in the oil and gas and petrochemical industries. He holds a Bachelor of Engineering (Mechanical) from the University of Canterbury, New Zealand and a Graduate Diploma in Commercial Law from Deakin University.

#### **Paul Townsend – CFO (Director of Pacific Hydro Retail Pty Ltd)**

Paul joined Pacific Hydro in February 2010 as Chief Financial Officer. He has over 15 years experience in senior finance roles held in the resources and industrial sectors. Prior to joining Pacific Hydro, he held the CFO position for a leading Australian supplier of automotive interior products with operations in Australia, China, South Africa and the USA and the CFO position for a multipurpose sport and entertainment company within Australia. He holds a Bachelor of Business from Swinburne University and is a Fellow of the Institute of Chartered Accountants.

#### **Janine Hoey – General Manager, Group Operations & Commercial**

Janine joined Pacific Hydro in 2004 and was General Manager Chile from 2005 to 2006 and General Manager Latin America between 2006 and 2009. Currently based in Australia, Janine is responsible for the global risk management and risk adjusted optimization of the company's key revenue, operating and cost drivers in addition to health, safety and sustainability performance. She has 25 years of experience in commercial and financial roles in Australia and overseas. For 10 years, Janine held senior roles in the airline industry and was CFO for a large Singaporean listed hotel chain, with significant operations in Australia. She has a Bachelor of Commerce from the University of Melbourne and is a graduate of the AICD.

**Michael Wilson – Executive Manager Energy Markets**

Michael joined Pacific Hydro in April 2003 and is responsible for managing the company's revenue contracting strategy for the Australian Business Unit. During his nine years with Pacific Hydro Michael has overseen a significant shift in the way that Pacific Hydro goes about contracting its revenues. Michael was responsible for establishing a wholesale trading desk and GreenPower retailing function within Pacific Hydro, and is responsible for the implementation of the new retail business. Michael has over 24 years experience in the utilities sector, where he has held numerous roles, including managing Melbourne Water's Treasury performance function, working in Energy Developments' corporate finance team – where he held numerous senior roles – and at AGL. Michael is a Responsible Manager for the company's Australian Financial Services License (AFSL) and holds a Bachelor of Commerce degree from Deakin University.

**Rob Spurr – Executive Manage, Finance & Legal Australia**

Rob has a Bachelor of Business (Accounting) from Deakin University and has more than 20 years of senior financial experience. Rob joined Pacific Hydro in 2005 as their Executive Manager Finance for Latin America based in Santiago Chile and returned to Australia in 2009. Prior to joining Pacific Hydro, Rob enjoyed a variety of finance and commercial roles with the Orica Group based in Melbourne, Sydney, Vietnam, Singapore and Indonesia.

**Matt Nimmo – Executive Manager, Group Risk Management**

Matthew joined Pacific Hydro in 2010 and is responsible for managing the company's Enterprise Wide Risk Management framework and Group Market Risk. He has 20 years experience in various risk management and financial market roles, with the last 10 years focused in the Australian electricity market at a range of enterprises including major energy retailers TRUenergy and Energex Retail as well as BP Australia, a multinational energy trading corporation. He holds a Bachelor of Business degree.

**Roger Reeves – Retail Business Manager**

Roger comes to Pacific Hydro with more than 15 years of professional experience, mainly in Commercial and Large Customer Business Development / Account Management roles within the Energy Industry.

He has held senior positions with Yallourn Energy, AusPower, Country Energy, AGL and Momentum Energy. In his most recent role at Momentum Energy, Roger played a fundamental role in breaking into large Commercial, Industrial and Government Retail Electricity Customer supply markets from both an internal and external perspective. He was responsible for sourcing, pricing, negotiating and finalising retail supply contracting opportunities for significant energy users located across the National Electricity Market, as well as mentoring less experienced staff in the same field.

Roger is responsible for identifying and securing optimal retail revenue contracting arrangements through the day to day management of Pacific Hydro Australia's new retail function. This will include managing distribution business contracts, metering contracts, third party billing services contract with our preferred supplier, as well as the primary interface between Pacific Hydro Retail and internal stakeholders. Roger holds a Bachelor of Business from Monash University.

**John Vendel – Energy Markets Regulatory Manager**

John joined Pacific Hydro in July 2008. John's role has been to strengthen Pacific Hydro's regulatory team and implement an Australian wide compliance system for the management of Pacific Hydro's Australian generation assets. John's previous role was Regulatory Manager and Analyst at the State Electricity Commission of Victoria (VicPower Trading) where he managed 7000GWh per year of long term Aluminium supply contracts and the associated regulatory arrangements including the market interface with the Australian Energy Market Operator. John has over 25 years' experience in the electricity industry and holds a Bachelor of Business and is a Certified Practising Accountant.

**Andrew Hyland – Manager Wholesale Markets**

Andrew Hyland joined Pacific Hydro in 2004. From 2004 Andrew held a number of positions in Pacific Hydro's finance department, including Finance Manager Chile and Finance Manager Asia/Pacific. In 2008 Andrew joined the Energy Markets team as Commercial Manager. His current responsibilities include Pacific Hydro's wholesale energy market sales and electricity derivative trading activity.

Andrew holds a Bachelor of Business from RMIT and is a member of the Institute of Chartered Accountants Australia.

**Julie Charles – Legal Manager, Australia**

Julie joined Pacific Hydro in June 2010 and is responsible for managing the legal team for the Australian business. Julie's work extends across solar, wind and geothermal projects on the development and delivery aspects of the business in addition to working across a broad range of energy market matters. Julie has 8 years experience across roles both in-house and in private practice working in renewable energy, manufacturing and projects.

Prior to joining Pacific Hydro, Julie spent 3 ½ years in the role of legal counsel with Qenos Pty Ltd reporting to General Counsel dealing with the sales, feedstock and energy and procurement contracts for the company. Julie spent 3 years in Dubai working with Denton Wilde Sapte, predominantly working on the Ajman Wastewater project and as legal counsel reporting to the CEO with Dubai Aluminium LLC in a commercial role which included dealing with sales and energy contracts. Julie holds a Bachelor of Laws degree from Deakin University.

**John D'Rozario – Operations, Energy Markets and Retail Business Accountant, Australia**

John joined Pacific Hydro in 2007 as Operations Accountant for the Australian Business Unit and has developed a specialisation in the management of energy market settlements, renewable energy product settlements and related annual compliance obligations.

Prior to joining Pacific Hydro, John had worked as a Chartered Accountant in public practice, most recently with Pitcher Partners. John has more than 15 years of accounting experience and holds a Bachelor of Business (Accounting) from Monash University.

**Kidda Lee – Manager, Group Commercial & Market Risk**

Kidda joined Pacific Hydro in 2007 and has over 12 years of experience in the energy markets in Australia. He is responsible for the development of energy risk management strategies, risk quantification, energy portfolio analyses and other market related activities.

Prior to joining Pacific Hydro, Kidda held analytic roles with Jackgreen Energy and AGL. He holds a Bachelor of Commerce from the University of Melbourne and is currently appointed as a Responsible Manager under the company's AFSL.

**Dharmendra Kumar – Senior Analyst, Corporate Planning & Risk Management**

Dharmendra is accountable for facilitation of risk management across all business units and functions within Pacific Hydro. Dharmendra maintains Pacific Hydro's Enterprise Wide Risk Management (EWRM) System. Dharmendra also worked in Pacific Hydro's Finance and Corporate Planning areas.

Prior to joining Pacific Hydro, Dharmendra spent 14 years with ExxonMobil in Financial Reporting, Business Analysis & Planning, Audit and Business Control roles.

Dharmendra holds a Masters in Business Administration in Finance (AIBA), Diploma in Financial Services (FINSIA) and BA in Accounting/Economics (USP). Dharmendra holds membership of US Institute of Management Accountants (IMA), Financial Services Institute of Australasia (FINSIA) and Risk Management Institute of Australasia (RMIA).

### **3.1.5 Details of your human resources policy regarding employee qualifications**

Pacific Hydro has a number of human resources policies in place surrounding the employment of staff whether it be internally or externally, these are:

- a. Recruitment and Selection – Role Approval and The Recruitment Process<sup>4</sup>;
- b. Internal Recruitment Procedure<sup>5</sup>; and
- c. Training and Development Policy<sup>6</sup>.

The Recruitment and Selection – Role Approval and The Recruitment Process outlines the company's policy on employee qualifications, which is to conduct a Qualifications Check to verify the candidates qualifications stated on their CV. In addition, relevant retail roles will include police and bankruptcy checks where appropriate and in accordance with our appointment and development of key retail personnel under our Retail Compliance Strategy.

### **3.1.6 Details of all training programs and training policies for employees and agents of the retailer. Any training programs that are in place (or proposed) for customers.**

Pacific Hydro's Australian Training & Development Policy is attached to this Application. Section 2(a) of this policy places the ongoing responsibility of training and development with managers of Pacific Hydro.

*'2 (a) Managers are responsible for ensuring that they have the appropriate knowledge/skills in their area to ensure that business objectives can be met'*

As set out in Section 4 of the Compliance Strategy (refer to our response to 3.1.9), the Executive Manager, Energy Markets has an oversight role to ensure all personnel involved in the retail business are satisfactorily trained for these activities and to maintain training records.

Pacific Hydro's Internal Training and Induction List<sup>7</sup> contains a list of Pacific Hydro's current internal training and induction programs and a list of expected retail specific training programs

Customer training, if requested, will be provided on our metering and energy usage web interface system available through our metering service providers.

### **3.1.7 Comprehensive business plan including strategic direction and objectives. Impact of differing assumptions on financial position and budgets.**

On 27 October 2011 the Board of Pacific Hydro approved the Australian retail strategy as set out in the document titled "Business Case for Pacific Hydro (Australia) Retail"<sup>8</sup>. A copy of that document, together with a copy of the covering Board Paper<sup>9</sup> and an extract of the Minutes of the 27 October 2011 Board Meeting<sup>10</sup> signed by the Company Secretary, are provided in support of this application.

A range of scenarios with differing assumptions and their impacts on financial positions and budgets are presented in the Business Case.

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<sup>4</sup> Appendix 4 – Recruitment and Selection – Role Approval and The Recruitment Process

<sup>5</sup> Appendix 5 – Internal Recruitment Procedure – Sep 2010

<sup>6</sup> Appendix 6 – Training and Development Policy – June 2010

<sup>7</sup> Appendix 7 – Pacific Hydro Internal Training and Induction List

<sup>8</sup> Appendix 8 – Pacific Hydro Retail Business Case

<sup>9</sup> Appendix 9 – Retail Business Case Board Paper

<sup>10</sup> Appendix 10 – Board Minute Extract Retail Approval

### 3.1.8 Details of Quality Assurance accreditations held.

Pacific Hydro has developed a comprehensive Quality Management System (QMS) that comprises a series of written documents that describe the way we:

- Plan and manage our work,
- Do our work,
- Check our work, methods and / or processes to ensure they are correct
- Act when improvements are required.

Pacific Hydro's QMS documentation provides the following key benefits:

- a. Identifies the key activities that make up our business processes and clarifies their inter-relationship with other activities. Examples of this include:
  - Construction
  - Contracts and Controls
  - Scheduling
  - Project management
  - Engineering
  - Operations
  - Quality
  - Hydro / Wind Development
- b. Assists communication, consultation and co-operation.
- c. Provides a foundation for integrating safety, quality, environmental and other management system requirements.
- d. Defines our current methods, systems, minimum standards and "best" practices.
- e. Retains information and knowledge that could be lost by departure or absence of key employees.
- f. Enables people to have access to current procedures, instructions and other information relevant to their work.
- g. Provides a basis for induction and training.
- h. Provides greater consistency, control and added discipline for critical activities.
- i. Provides a basis for auditing and measuring the effectiveness of the system, and providing factual evidence for decision-making purposes.
- j. Provides mechanisms for identifying and eliminating causes of accidents, incidents, errors, inferior work, inefficiency or client complaints.

### 3.1.9 Compliance Strategy

A robust Retail Compliance Strategy<sup>11</sup> has been developed to ensure that Pacific Hydro Retail is compliant with all of its legal obligations as an authorised retailer. The law firm Norton Gledhill has reviewed this document and provided written assurance<sup>12</sup> that it is appropriate for its intended purpose.

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<sup>11</sup> Appendix 11 – Retail Compliance Strategy

<sup>12</sup> Appendix 12 – Retail Compliance Strategy – External Assurance

### 3.1.10 Dispute resolution procedures

A Dispute Resolution Policy is being developed in accordance with Chapter 8 (8.2.3) of the National Electricity Rules and is planned to be implemented before July 2012

### 3.1.11 Risk Management Strategy

Pacific Hydro Retail will have a number of tools at its disposal to manage risks, including

- a. Pacific Hydro's Risk Management Policy;
- b. Pacific Hydro's Enterprise Wide Risk Management (EWRM) Framework;
- c. the Pacific Hydro Retail Risk Register;
- d. the Renewable Energy Hedging Policy; and
- e. the Retail Pricing and Contracting Procedure.

Each of these tools are used at different levels, and together they combine to form the risk management strategies for the retail business.

At the highest level Pacific Hydro's Risk Management Policy<sup>13</sup> integrates risk management principles on an enterprise-wide basis to ensure a sound system of risk oversight, culture and management.

At the next level down Pacific Hydro's Enterprise Wide Risk Management (EWRM) Framework<sup>14</sup> details the structure for achieving the Risk Management Policy objectives. One of the tools used as part of the EWRM is a Risk Register that is maintained on a regular basis by the Group Operations and Risk team. A Risk Register has been developed specifically for the retail business and is attached to the Business Case provided in Appendix 5. Subsequent to the Business Case being prepared (in October 2011) the Retail Risk Register<sup>15</sup> has been subjected to an annual review and the updated version dated 6 March 2012 is provided.

Both the Risk Management Policy and the EWRM are covered in some detail in the Retail Compliance Strategy.

At an operational level the primary tool for managing risks associated with the retail business is the Renewable Energy Hedging Policy.

The company adheres to a robust governance structure which involves amongst other things a strict segregation of duties between the Energy Markets team (Front Office), the Group Operations and Risk team (Middle Office), and the Finance and Legal Team (Back Office). These arrangements are governed by the Renewable Energy Hedging Policy, which is overseen by the Renewable Energy Trading Committee (RET Committee), comprising the CEO, CFO, General Manager Australia and the General Manager Group Operations and Commercial, and the Pacific Hydro Board. The Renewable Energy Hedging Policy has been operational and regularly reviewed and improved since its implementation over five years ago. The Policy addresses numerous issues including:

- approved markets, products and counterparties;
- trading limits – including Earnings at Risk, Value at Risk, volumetric and pricing limits; and
- responsibilities and delegated authorities.

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<sup>13</sup> Appendix 13 – Pacific Hydro Risk Management Policy

<sup>14</sup> Appendix 14 – Enterprise Wide Risk Management (EWRM) Framework

<sup>15</sup> Appendix 15 – Retail Business Risk Register

In addition Pacific Hydro has other strong governance arrangements related to the Renewable Energy Hedging Policy, including the Credit Review Procedures, the Australian Financial Services Licence Compliance Plan and the Anti-Money Laundering and Counter-Terror Financing Program. These are addressed further in the Retail Compliance Strategy.

The Renewable Energy Hedging Policy is in the process of being amended to accommodate the new retail business. The proposed amendments have been approved by the RET Committee for recommendation to the Board. The Board's approval will be sought at the next Pacific Hydro Board meeting scheduled for 26 April 2012. A copy of the amended Renewable Energy Hedging Policy<sup>16</sup>, highlighting the changes in mark-up format, a covering paper provided to the RET Committee from the Middle Office (Risk)<sup>17</sup>, together with a copy of the minutes of the RET Committee meeting of 29 March 2012<sup>18</sup> approving the proposed amendments, are provided.

Whilst the Renewable Energy Hedging Policy is the principle risk management tool, some risks, principally concerning the mechanics of pricing and contracting retail load, are managed through the application of the (new) Retail Pricing and Contracting Procedure<sup>19</sup>. This Procedure is in draft form and subject to RET Committee approval.

### **3.1.12 Written declaration from director/s that risk management and compliance strategies have been approved and have been subject to an external assurance process**

A written declaration<sup>20</sup> from directors of Pacific Hydro Retail Pty Ltd regarding the approval of risk management strategies has been obtained and is provided.

A written declaration<sup>21</sup> from directors of Pacific Hydro Retail Pty Ltd regarding the approval and external assurance of the Retail Compliance Strategy has been obtained and is provided.

Whilst external assurance has been obtained with respect to the Compliance Strategy, Pacific Hydro Retail considers it unnecessary to obtain external assurance with respect to its risk management strategies. This is because Pacific Hydro has been actively managing market risk, similar to the price and volumetric risks that will be a feature of the new retail business, since 2005. The primary tool for managing these risks has been (and will remain) the company's Renewable Energy Hedging Policy, which has been in use for over five years. The original version of the Renewable Energy Hedging Policy was developed with external assistance and assurance. However it is now overseen by the company's Group Operations and Risk team (Middle Office), which is headed up by Matt Nimmo. Matt has had significant experience in managing energy market risks, including retailing, at organisations such as BP Australia, TRUenergy and Energex Retail. Senior management, through the RET Committee, has recently affirmed its confidence in the company's Middle Office, by approving the changes proposed to the Renewable Energy Hedging Policy (to accommodate the new retail business) without the need for external review or assurance.

### **3.1.13 Any other information demonstrating our ability to manage risk and operate in accordance with the Retail Law eg copies of retail contracts**

As discussed Pacific Hydro Retail is in the process of developing a Retail Pricing and Contracting Procedure<sup>19</sup>. This procedure describes the process by which retail offerings are priced and contracted, including the development and approval of a standardised sales contract for its

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<sup>16</sup> Appendix 16 – Renewable Energy Hedging Policy

<sup>17</sup> Appendix 17 – Middle Office paper to the RET Committee

<sup>18</sup> Appendix 18 – Minutes of RET Committee Meeting – 29 March 2012

<sup>19</sup> Appendix 19 – Retail Pricing and Contracting Procedure (draft)

<sup>20</sup> Appendix 20 – Directors' Declarations – Approval and Risk Management Strategy

<sup>21</sup> Appendix 21 – Directors' Declarations – Approval and External Assurance – Compliance Strategy

prospective customers. At the time of this application, Pacific Hydro Retail has conducted several internal meetings with the Pacific Hydro Finance and Legal team, as well as obtaining external legal advice, around the structure and content of its standard retail sales contract. A draft of the standard retail sales contract<sup>22</sup> is provided.

In addition to the Retail Pricing and Contracting Procedure, Pacific Hydro Retail is also in the process of developing the following procedures:

- Retail Connection Procedure;
- Retail Disconnection Procedure; and
- Retail Reconciliation Procedure.

Refer to Pacific Hydro Retail Implementation Status <sup>1</sup> for further detail.

#### **3.1.14 Details of insurance arrangements**

Pacific Hydro Pty Limited (PHPL) has adequate insurance in place covering the parent company, all subsidiaries and associated companies and all joint ventures<sup>23</sup>. Pacific Hydro Retail Pty Ltd, as a wholly-owned subsidiary of PHPL, is covered under these policies.

#### **3.1.15 Details of any third party provider of services**

Pacific Hydro Retail is intending to appoint a third party provider of billing and metering services. We have conducted a robust selection process involving three qualified and credible alternative suppliers.

Following this process Pacific Hydro Retail has selected Kinetiq Ltd as their preferred supplier of Retail Billing and Reconciliation Services, and has entered into a Letter of Intent (LOI)<sup>24 25</sup> for the purpose of implementing the required systems and services.

The high level services Kinetiq Ltd will perform include:

- a. Management of meter data for retail billing purposes;
- b. Setup and billing of Pacific Hydro Retail customers;
- c. Updating of billing data to accommodate changes, such as Loss Factors and Network Tariffs; and
- d. Reconciliation of Network and Metering Invoices against Pacific Hydro Retail Invoices.

Further detail on Kinetiq Ltd and their corporate experience is also provided<sup>26</sup>.

#### **3.1.16 Details of any membership of a recognised energy industry ombudsman scheme**

It is our understanding that the role of the various jurisdictional energy industry ombudsmen is to protect the interests of small customers. Pacific Hydro Retail is only targeting large consumers of electricity who enter into a contract with us and we have no intention to retail electricity to small customers. Accordingly our view is that it is unnecessary for Pacific Hydro Retail to become a member of any energy industry ombudsman.

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<sup>22</sup> Appendix 22 – Standard Retail Sales Contract (draft)

<sup>23</sup> Appendix 23 – Pacific Hydro Insurances

<sup>24</sup> Appendix 24 – Kinetiq Letter of Intent

<sup>25</sup> Appendix 25 – Not Used

<sup>26</sup> Appendix 26 – Kinetiq – Company Information



**3.1.17 Details of any agreements and systems in place to facilitate interaction with relevant market participants including AEMO, distribution businesses, jurisdictional or technical regulators, government departments and market participants**

On 21 March 2012 Pacific Hydro Retail submitted an application<sup>27</sup> to the Australian Energy Market Operator (AEMO) to participate as a Market Customer in the National Electricity Market. Prior to considering approval AEMO requires evidence that Pacific Hydro Retail has been granted a Retail Authorisation by the Australian Energy Regulator.

Pacific Hydro Retail has obtained current versions of Distribution Business Use of System (UOS)<sup>28</sup> Agreements and conducted legal and commercial reviews of these documents.

We are in the process of scheduling meetings with all Distributors in the jurisdictions of our initial entry with a view to commence contract negotiations in good faith. It is intended that these agreements will be finalised prior to commencing retail operations in July 2012.

Pacific Hydro Retail understands that metering works can be contestable at the options of retailers and large customers. We have obtained several current contracts<sup>29</sup> and are in the process of conducting legal and commercial reviews of these contracts

We expect to commence contract negotiations in good faith shortly, with the view to finalising these agreements prior to commencing retail operations in July 2012.

**3.1.18 Details of any situation where a RoLR trigger has occurred or likely to occur**

Pacific Hydro Pty Ltd, its subsidiaries and its personnel, have not been involved in any Retailer of Last Resort event.

**3.2 Sufficient financial resources to operate as a retailer**

**3.2.1 Copies of your audited financial reports for the past three years**

As Pacific Hydro Retail Pty Ltd is a special purpose vehicle created for the sole purpose of operating Pacific Hydro's new retail business, no historical financial statements can be provided.

However, to ensure that Pacific Hydro Retail has the financial capability and creditworthiness to finance its operations, Pacific Hydro Pty Ltd is providing an undertaking of financial support to Pacific Hydro Retail ('the Undertaking')<sup>30</sup>. Further detail of the Undertaking is provided in section 3.2.5 of this document.

As Pacific Hydro Pty Ltd is providing the Undertaking to Pacific Hydro Retail, the Pacific Hydro Pty Ltd group financial statements have been provided. It will also require the approval of the Pacific Hydro Board, which is being sought at the next Board meeting scheduled for 26 April 2012.

Consolidated audited financial reports for Pacific Hydro Pty Ltd and its subsidiaries have been provided for 2008-09, 2009-10 and 2010-11<sup>31</sup>.

**3.2.2 Directors declaration that financial statements comply with accounting standards, give a true and fair view etc.**

Pacific Hydro Retail Pty Ltd is a special purpose vehicle created for the sole purpose of Pacific Hydro's retail activities – as such, no historical financial statements can be provided.

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<sup>27</sup> Appendix 27 – Pacific Hydro Retail – AEMO Application

<sup>28</sup> Appendix 28 – Distribution Businesses – Use of System Agreements (drafts)

<sup>29</sup> Appendix 29 – Metering Service Agreements (drafts)

<sup>30</sup> Appendix 30 – Pacific Hydro Deed of Undertaking

<sup>31</sup> Appendix 31 – Consolidated Audited Financial Reports

As Pacific Hydro Pty Ltd is providing the Undertaking, we believe that it is relevant to look at the financial statements of Pacific Hydro Pty Ltd. Within these financial statements are the director's declarations that state that Pacific Hydro Pty Ltd's financial statements have been prepared in accordance with accounting standards.

**3.2.3 Copy of any other document that has been submitted to ASIC under chapter 2M of the Corporations Act 2001 (Cth) over past three years**

Copies of all documents submitted to ASIC under chapter 2M of the *Corporations Act 2001* (Cth) for Pacific Hydro Pty Ltd and its subsidiaries have been provided for 2008-09, 2009 – 10 and 2010 – 11<sup>32</sup>

**3.2.4 Evidence of long and/or short term credit rating/s from agencies such as Standard & Poor's, Fitch or Moody's**

Per section 2.2 of the Retail Authorisation Guideline (Financial Resources Criterion), and in accordance discussions between Pacific Hydro Retail and the AER, it is not necessary for Pacific Hydro Retail to obtain a credit rating from an agency such as Standard & Poors, Fitch or Moody's.

Pacific Hydro Pty Ltd, the parent entity of Pacific Hydro Retail Pty Ltd, is a large multinational company with a strong balance sheet and substantial profitable operations across Australia and Latin America. We believe that while Pacific Hydro Retail does not have a formal credit rating, the entity that will be financially guaranteeing the retail operations pursuant to the Undertaking is a highly credit worthy entity with substantial financial strength.

**3.2.5 Pacific Hydro group of related companies: ownership and equity structure, contractual arrangements including shared resources, guarantees, revenue flows, obligations and/or responsibilities. Consolidated audited financial statements for the group.**

**Ownership and Equity Structure**

Pacific Hydro's group Organisational Chart is provided<sup>33</sup>.

The section of this chart relevant to Pacific Hydro's retail business is provided<sup>34</sup>.

**Shared Resources**

Pacific Hydro Retail Pty Ltd will not employ staff directly, rather it will utilise staff employed within the overall Pacific Hydro Group.

Pacific Hydro's staff levels and relevant experience has been addressed in sections 3.1.4 and 3.1.5, and further information is provided below.

Pacific Hydro has 279 staff globally and 120 based in Australia. With over \$150m of annual revenue and having constructed over \$1 billion of assets over the past 5 years. Pacific Hydro has a significant organisational structure that can be called upon by Pacific Hydro Retail. Specifically, Pacific Hydro has the following functions to support the retail business:

- Well defined front, middle and back office functions for trading energy and LGCs;
- Internal legal capability;
- Internal finance and corporate finance departments; and
- Other staff whose functional areas include risk, insurance, company secretarial, sustainability

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<sup>32</sup> Appendix 32 – Documents submitted to ASIC

<sup>33</sup> Appendix 33 – Pacific Hydro Corporate Structure

<sup>34</sup> Appendix 34 – Pacific Hydro Retail - Ownership Structure

health safety and environment.

### **Guarantees**

Pacific Hydro Retail Pty Ltd is a special purpose vehicle created for the sole purposes of the operation of Pacific Hydro's new retail business. While the retail business will be run as a separate segment within the Pacific Hydro group, Pacific Hydro Pty Ltd will financially support the special purpose entity.

Pacific Hydro Pty Ltd will enter into The Undertaking<sup>30</sup> with Pacific Hydro Retail Pty Ltd whereby the parent company will guarantee the following transactions:

- a. for wholesale energy purchases from AEMO – to the extent required based on retail sales volume;
- b. for network transmission charges with distribution businesses – to the extent required based on retail sales volumes; and
- c. for other service providers to Pacific Hydro Retail.

### **Revenue flows**

This item is provided in Appendix 35<sup>35</sup>

### **Consolidated Financial Statements**

The consolidated financial statements for the Pacific Hydro Group are contained within Appendix 31<sup>31</sup>

### **Obligations/Responsibilities**

As Pacific Hydro Retail Pty Ltd is a special purpose entity created specifically for the Pacific Hydro's new retail business, it has no additional responsibilities or obligations above those that are detailed within this application.

#### **3.2.6 Forecast revenue and expenses for first 12 months of operations consistent with the business plan. All key assumptions and risks highlighted along with risk management strategies.**

The summarised business plan profit and loss statement for the financial year ending 30 June 2013 and the high level assumptions underpinning this analysis is provided in Appendix 35<sup>35</sup>.

For further detail, please refer to the Business Case<sup>8</sup>.

The risk management strategies for the retail business are listed in section 3.1.11 of this document.

#### **3.2.7 Written declaration for independent auditor – unaware of any factor that would impede ability to finance Pacific Hydro Retail activities**

Our view is that sufficient evidence is being provided with respect to Pacific Hydro's ability to finance Pacific Hydro Retail's operations without the need for a declaration from an independent auditor.

Specifically:

- a. The financial obligations of Pacific Hydro Retail are being guaranteed by PHPL as follows:
  - for wholesale energy purchases from AEMO – to the extent required based on retail sales volumes;
  - for network transmission charges with distribution businesses – to the extent required

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<sup>35</sup> Appendix 35 – Pacific Hydro Retail Forecast Revenue and Expenses

based on retail sales volumes; and

- for other service providers to Pacific Hydro Retail.
- b. Transactions for the purchase of LGCs (for RET compliance and GreenPower) are to be sourced via intercompany purchases from other 100% owned Pacific Hydro entities (ie, the entities that own the generating assets and register the creation of LGCs). These arrangements do not give rise to financial liabilities outside of the Pacific Hydro group.
- c. The larger costs identified in the Pacific Hydro Retail Business Case are variable costs that will scale with the level of Pacific Hydro Retail's sales. These include wholesale energy purchases from AEMO, network service provision charges and LGC purchases.

### **3.2.8 Written declaration from CFO, CEO or director stating that Pacific Hydro Retail is a going concern and unaware of any factor that would impede ability to finance Pacific Hydro Retail activities**

A written declaration<sup>36</sup> from the CFO of Pacific Hydro Pty Ltd (as parent entity of Pacific Hydro Retail) is provided.

### **3.2.9 Details of any bank guarantees**

Pacific Hydro Retail has commenced discussions with AEMO regarding the level of bank guarantees required to support the new business. AEMO have indicated that a bank guarantee of \$100,000 may be required to set the initial maximum credit limit for Pacific Hydro Retail.

While it is possible that this amount could be reduced by off-setting a portion of Pacific Hydro's market generation capacity. Pacific Hydro has the financial capability to meet this requested guarantee.

Apart from the possibility of this AEMO bank guarantee, it is not anticipated that any further bank guarantees will be required in the initial phase of the business operation.

## **3.3 Suitable person to hold a retailer authorisation**

### **3.3.1 For Pacific Hydro Retail, any other business where its officers have held a officer position and any other entity that exerts control over its business activities detail of any material failure with regulatory requirements, laws or other obligations over the previous 10 years. Also any revoked, failed or past or present administrative or legal actions in relation to authorisation, authorities or licences in any industry.**

This item is addressed in Appendix 37<sup>37</sup>.

### **3.3.2 Details of any directors' or persons responsible for significant operating decisions offences or successful prosecutions under any territory, state or Commonwealth or foreign legislation relevant to Pacific Hydro Retail capacity as an energy retailer.**

There have been no instances where any directors or persons responsible for significant operating decisions have been guilty of any offences or had any successful prosecutions under any territory, state or Commonwealth or foreign legislation relevant to Pacific Hydro Retail Pty Ltd as an energy retailer.

### **3.3.3 Upon request a criminal history check conducted within last 12 months of persons under**

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<sup>36</sup> Appendix 36 – Pacific Hydro Retail Going Concern Declaration

<sup>37</sup> Appendix 37 – Details of breaches of Regulatory Requirements

**Item 2.**

Pacific Hydro's Key Retail Function employees and Directors and Secretaries of Pacific Hydro Retail Pty Ltd acknowledge their retail role may require a criminal history check be requested by the AER.

**3.3.4 Statement from directors that are not disqualified from management of corporations**

Written statements<sup>38</sup> from the directors of Pacific Hydro Retail Pty Ltd stating they have not been disqualified from the management of corporation is provided.

**3.3.5 Statement from CFO or CEO declaring PH record of bankruptcy in any overseas jurisdiction.**

A written statement<sup>39</sup> from the CFO of Pacific Hydro Pty Ltd (as the parent entity of Pacific Hydro Retail Pty Ltd) declaring records of bankruptcy in overseas jurisdictions is provided.

**3.3.6 Full name and current residential address of all officers of the applicant.**

Pacific Hydro Retail Pty Ltd Directors and Secretaries current residential addresses<sup>40</sup> is provided.

**3.3.7 Details of policies and procedures addressing the probity and competence of officers and any other key management staff**

Pacific Hydro's operates an Enterprise Wide Risk Management Framework which includes a Governance and Controls Pillar<sup>41</sup>. The Constitution of Pacific Hydro<sup>42</sup> prescribes the scope of Pacific Hydro's activities and empowers the Board of Directors to act within that scope. Operationally the Delegation of Authority Policy<sup>43</sup> sets out responsibilities and authorisation limits. Pacific Hydro's Australian Training & Development Policy<sup>6</sup> provides guidance as to the competency of key management.

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<sup>38</sup> Appendix 38 – Statement from Key Management – not disqualified from management of corporations

<sup>39</sup> Appendix 39 – Statement from CFO declaring records of bankruptcy in any overseas jurisdiction

<sup>40</sup> Appendix 40 – Pacific Hydro Retail Director and Secretary addresses

<sup>41</sup> Appendix 41 – EWRMF Governance and Controls Pillar

<sup>42</sup> Appendix 42 – Pacific Hydro Constitution

<sup>43</sup> Appendix 43 – Pacific Hydro Delegation of Authority Policy

## **4. Appendix**

- 4.1 Appendix 1 – Pacific Hydro Retail Implementation Status**
- 4.2 Appendix 2 – Independent GreenPower Audit for Pacific Hydro 2010**
- 4.3 Appendix 3 – GreenPower Audit Opinion for Pacific Hydro 2010**
- 4.4 Appendix 4 – Recruitment and Selection – Role Approval and The Recruitment Process**
- 4.5 Appendix 5 – Internal Recruitment Procedure – Sep 2010**
- 4.6 Appendix 6 – Training and Development Policy – June 2010**
- 4.7 Appendix 7 – Pacific Hydro Internal Training and Induction List**
- 4.8 Appendix 8 – Pacific Hydro Retail Business Case**
- 4.9 Appendix 9 – Retail Business Case Board Paper**
- 4.10 Appendix 10 – Board Minute Extract Retail Approval**
- 4.11 Appendix 11 – Retail Compliance Strategy**
- 4.12 Appendix 12 – Retail Compliance Strategy – External Assurance**
- 4.13 Appendix 13 – Pacific Hydro Risk Management Policy**
- 4.14 Appendix 14 – Enterprise Wide Risk Management (EWRM) Framework**
- 4.15 Appendix 15 – Retail Business Risk Register**
- 4.16 Appendix 16 – Renewable Energy Hedging Policy**
- 4.17 Appendix 17 – Middle Office paper to the RET Committee**
- 4.18 Appendix 18 – Minutes of RET Committee Meeting – 29 March 2012**
- 4.19 Appendix 19 – Retail Pricing and Contracting Procedure (draft)**
- 4.20 Appendix 20 – Directors’ Declarations – Approval of Risk Management Strategy**
- 4.21 Appendix 21 – Directors’ Declarations – Approval and External Assurance – Compliance Strategy**
- 4.22 Appendix 22 – Standard Retail Sales Contract (draft)**
- 4.23 Appendix 23 – Pacific Hydro Insurances**
- 4.24 Appendix 24 – Kinetiq Letter of Intent**
- 4.25 Appendix 25 – Not used**
- 4.26 Appendix 26 – Kinetiq – Company Information**
- 4.27 Appendix 27 – Pacific Hydro Retail – AEMO Application**
- 4.28 Appendix 28 – Distribution Businesses – Use of System Agreements (drafts)**
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- 4.39 Appendix 39 – Statement from CFO declaring records of bankruptcy in any overseas jurisdiction**
- 4.40 Appendix 40 – Pacific Hydro Retail Director and Secretary addresses**
- 4.41 Appendix 41 – EWRMF Governance and Controls Pillar**
- 4.42 Appendix 42 – Pacific Hydro Constitution**
- 4.43 Appendix 43 – Pacific Hydro Delegation of Authority Policy**