

## **ELECTRICITY RETAIL LICENCE APPLICATION**

This is an application by International Power Australia (**IPR-A**) for a retail licence to sell electricity to all classes of customers in Victoria under the provisions of the *Electricity Industry Act 2000* (VIC) (the **EI Act**). IPR has a number of related entities in Australia (refer to paragraph 8 below). The electricity retail licence is being sought for International Power (Retail) Pty Ltd, ACN 107 548 854 (**IPR Retail**), a company registered in Victoria under the Corporations Act 2001.

IPR Retail is a wholly owned subsidiary of International Power (Australia) Holdings 2 Pty Ltd, a subsidiary of International Power Plc (**IPR**), a public listed company based in the United Kingdom. International Power (Australia) Holdings 2 Pty Ltd is a holding company for all of IPR's interests in Australia. IPR Retail was formed for the purposes of retailing electricity to all classes of customers in jurisdictions within the National Electricity Market (**NEM**).

This application has been made in accordance with the guidance notes for electricity retail licences published by the Essential Services Commission (**ESC**) dated November 2002.

It is considered that IPR Retail has the necessary financial viability and technical capability to operate a successful electricity retail business in Victoria, and the granting of a licence will be consistent with the ESC's objectives as cited in the EI Act and the *Essential Services Commission Act 2001* (**ESC Act**).

Subject to meeting all licensing provisions, the completion of agreements with licensed distributors, registration with NEMMCO and other requirements, IPR Retail proposes to take up the licence immediately after approval by the ESC and to commence trading by 1 July 2004.

### **1 Introduction**

IPR Retail is a company incorporated in Victoria on 7 January 2004 under the Corporations Law and has its head office at Level 37, Rialto North Tower, 525 Collins Street, Melbourne, Victoria, 3000. It is a wholly owned subsidiary of International Power PLC (**IPR**).

IPR is a leading international independent power producer with 11,072 MW of generation capacity (net i.e. IPR share of 16,505MW of gross capacity) in operation and a further 1,609 MW under construction around the world.

The business has generation facilities in operation or under construction in Australia, the United States, the United Kingdom, the Czech Republic, Portugal, Turkey, Malaysia, Oman, Abu Dhabi, Pakistan, and Thailand.

IPR has the resources and skills to play an active role in all phases of the power generation chain, including development, construction, operation, and trading and marketing.

IPR shares are traded on the London Stock Exchange and as American Depositary Receipts on the New York Stock Exchange. A copy of IPR's financial report for 2003 has been appended to this application (**Annex A**) and may also be accessed on the website located at [www.ipplc.com](http://www.ipplc.com). The current market capitalisation of IPR on the London Stock Exchange is approximately AUD\$4.0 billion.

IPR-A owns and operates the largest private generation business in Australia, comprising Pelican Point Power Station (487MW) and the Synergen business in South Australia (360MW) and 92% of Hazelwood Power Station in Victoria (1640MW). IPR-A is also a partner in the SEA Gas pipeline between Victoria and Adelaide, and has recently reached financial closure on a 46MW wind farm in South Australia.

Accordingly, IPR-A is a significant investor and player in the National Electricity Market (**NEM**) in Australia and the related derivative over-the-counter and futures markets, trading for its assets and its proprietary trading business. IPR-A also manages a significant gas position associated with its South Australian generation assets.

Because of the size of its portfolio, IPR-A expects the bulk of its hedging activity for the immediate future to continue to be with existing retailers in the wholesale market. However, IPR-A wishes to extend and leverage its energy market activities in Australia to include an operation to sell electricity to retail customers within the NEM regions, including Victoria. This business will be undertaken by IPR Retail, which is seeking electricity retail licences for Victoria and South Australia. An application to retail electricity has already been lodged in South Australia.

It is anticipated that IPR Retail will also seek the appropriate electricity retail licences for New South Wales and Queensland in due course. Further details on our implementation plan for participation in the retail market are set out in the confidential annexures to this application.

IPR-A considers that its participation in the retail energy business is a natural extension of its existing business activities in Australia that will deliver benefits for end customers. In addition to the delivery of further competitive options for end consumers, benefits will also accrue in those segments where the overheads associated with conventional retail activity result in an adverse impact on costs. IPR has experienced a gravitation towards generation as the source of retail contracts for large users in other markets (notably in the UK).

In addition, retail participation would provide the following benefits for IPR-A:

- A natural hedge for our merchant generation position. This natural hedge has the potential to provide long-term revenue security for our existing generation business and to stabilise earnings volatility. This is necessary for a large, capital intensive infrastructure business such as IPR-A;
- The consolidation and vertical integration of energy retail businesses over the past few years has led to concentration of risk in our activities. IPR-A is excessively dependant on the remaining three players in our key markets of Victoria and South Australia; and
- Diversification of credit exposure to a large number of customers.

The operation of a retail business will consolidate IPR-A's position as a leading energy player in Australia.

## 2 Objectives of the Essential Services Commission

IPR-A considers that the proposed retail business will deliver significant benefits for end customers, and the granting of a retail licence is consistent with the objectives of the ESC as set out in the ESC Act, as described below.

- *Protect the long-term interests of Victorian consumers with regard to the price, quality and reliability of essential services.*

IPR has invested circa AUD\$3.1 billion in the Australian energy sector to date. It has been a significant player in the Australian electricity market since 1996, and this is expected to continue into the future. The granting of a retail licence to IPR Retail increases the number of competitors in the Victorian market, thereby further promoting competition, which it considers will benefit customers.

- *Facilitating efficiency in regulated industries and incentives for efficient long-term investment in regulated industries.*

The granting of a retail licence to IPR Retail will increase the number of competitors in the Victorian market, the resulting competition will drive increased efficiencies from existing market players. This is also consistent with the ESC's objective under the EI Act to promote full retail competition.

IPR is a growth business, and is continually seeking investment opportunities in the energy sector. The development of a retail business will provide a customer base capable of underpinning investment in areas such as new conventional and renewable generation capacity, co-generation and emission abatement.

- *Facilitating the financial viability of regulated industries.*

IPR Retail considers that increased contestability in the Victorian market will also increase efficiencies within the market. IPR has also demonstrated its long term commitment through high investment levels in the market and considers that a retailing opportunity will drive economies of scale to the benefit of the company and end users. IPR also considers that this will be achieved by the ESC through the assessment of financial viability under the licensing process.

- *Facilitate effective competition, promote competitive market conduct, prevent the misuse of monopoly or non-transitory market power and ensure that consumers and users (including low-income and vulnerable customers) benefit from competition and efficiency gains.*

These objectives will be achieved, as the granting of a retail licence to IPR Retail will increase the number of significant competitors in the Victorian electricity market. IPR will bring to the Victorian market its considerable knowledge and operational experience, combined with sound financial and management skills, that will promote competition by increasing the number of retailers and enhancing consumer choice.

- *Ensuring decisions account for the relevant health, safety, environmental and social legislation in each regulated industry*

IPR is committed to conducting business in a responsible manner wherever we operate. The business places a strong emphasis on environmental, health and safety performance,

and on valuing our shareholders, customers, employees, neighbours and suppliers. IPR has a strong commitment to risk management and corporate governance and this practice is consistent across all aspects of its global business. We note that this will be carefully assessed by the ESC under the licensing process.

### **3 Technical Capability**

IPR-A can satisfy the Commission's requirements to technical capacity as provided for in the guidance notes and the EI Act. The entity has the necessary knowledge, skills and expertise, management experience and controls to accommodate and ensure that its operations in the Victorian market are in accordance with world's best practice.

IPR-A has the necessary electricity industry expertise, experience and resources to operate a successful retail business. IPR-A has substantial experience of traded electricity markets worldwide, has operated in the Australian market since 1996 and can foresee no difficulty with meeting the following requirements associated with retail market activity:

- ❑ legal and regulatory;
- ❑ a knowledge and understanding of the relevant Codes and Guidelines published and amended from time to time by the commission that are applicable to retail operations;
- ❑ completion and performance of use of system agreements and registration with NEMMCO under the National Electricity Code;
- ❑ management systems and controls;
- ❑ experienced and credentialed management staff and personnel;
- ❑ a commitment to risk management and corporate governance;
- ❑ wholesale market settlement and customer billing systems including privacy requirements.

The expertise and resources available to IPR-A are described in summary form below.

#### **3.1 Skills and Experience**

The skills and experience of the relevant IPR-A directors and senior managers in Australia are summarised below.

##### ***Managing Director – Mr Anthony Concannon***

Tony Concannon is a Chartered Engineer with a Bachelor of Science (Hons) degree and is a member of both the Institute of Mechanical and Institute of Electrical Engineers. He joined the industry in 1982 and has worked for National Power plc and International Power (since the NP demerger in 2000) in a number of its business areas including operations, asset management, trading, and international business development (based in Asia). Tony headed up the IPR UK business from 2000 until 2003 (1,500MW coal and gas-fired CCGT plant). He is the Regional Managing Director of the IPR Australian business and was appointed onto the Board of IPR plc on 1 January 2004.

Tony has extensive experience in the longest-active electricity market in the world, including experience of the emergence of retail contestability and corresponding trends to vertical integration. This equips him with the level of understanding of the dynamics of regulated markets necessary to manage IPR-A's Australian business, including an emerging retail arm.

### *Commercial Director – Mr Stephen Orr*

As Commercial Director, Stephen is responsible for IPR-A's participation in the electricity spot and financial and gas markets, some business development activities, and participation in the NEM regulatory debate, and will be responsible for the management of the IPR-A retail business as part of this commercial team.

An engineer by training, Stephen's career in electricity spans 31 years in the former State Electricity Commission of Victoria (SECV) and the corporatised and privatised businesses that succeeded it. His early background was in power station maintenance, production and business management. From early 1993, Stephen has represented the generation sector in the formation and development of the Victorian and National Electricity markets, the associated contract hedging facilities and the market design and regulatory issues, a role that led to his current appointment. Consequently, Stephen has been a continuous and active contributor to the design of, and a key participant in, the Victorian and National Electricity Markets since their inception.

### *General Manager Finance – Mr David Walton*

David joined National Power in 1989 from AEI Cables (GE) following previous positions at British Telecom, British Gas and Ingersoll-Rand. He is a Fellow of the Institute of Chartered Management Accountants (UK) and has generally worked in Business and Finance for engineering based companies.

Initially, David was the Finance Manager for the Blyth 1100MW power station in the UK. He was then involved in several projects including, Pego (Portugal), Marmara (Turkey), NP divestment (Rugeley, West Burton & Ironbridge).

Following the initial implementation of the Marmara ownership JV, he was then seconded to Marmara, Istanbul, O&M for 2 years, mobilizing the O&M team and ensuring the first year of financial operations of the 480MW station.

In 1999, he was seconded to Adelaide for the mobilization of the Pelican Point Power Station project and subsequently transferred, to the International Power Australia office in Sydney and then Melbourne to manage the regional financial and management accounting together with general business activities.

In his current role David has specific responsibility for managing the International Power Australia Melbourne office for the consolidated regional group covering:

- ❑ Financial reporting and consolidation of regional performance against plans and budget;
- ❑ Financial control and reporting of the IPR Australian trading operation and the many support companies;
- ❑ Management of the IPRA back office and financial compliance functions; and
- ❑ General management support for HR activities

### *Trading Manager – Mr Steven Drapper*

Steve relocated from England to Australia in October 1997 following his appointment as Trading Manager for Hazelwood Power. He has over 12 years experience of commercial operation in traded electricity markets and is responsible for the physical and financial market trading activities associated with the Australian generating assets and the proprietary trading book. He is a Chartered Mechanical engineer, having gained an honours degree in Electrical

and Mechanical Engineering from Aston University. After completing an apprenticeship with Babcock Power in 1982, Steve commenced a combined degree and training program with the Central Electricity Generating Board. After graduating in 1986 Steve worked in engineering roles at Hinkley Point B and Heysham 2 nuclear power stations. He subsequently worked in a team setting up the arrangements for the England and Wales electricity market prior to privatisation of the industry and took up a role in electricity trading for Nuclear Electric (subsequently British Energy) in 1991.

#### *Retail Manager – Mr Domenic Capomolla*

Domenic has been actively involved in the deregulated and contestable power and gas markets in Australia and Singapore since 1997. Initially joining United Energy Marketing (UEMPL) as a Corporate Account Manager, Domenic progressed to lead the contestable Sales and Customer Service Team, Power and Gas. Domenic was also actively involved in the purchase and subsequent merger of the Ikon/Multinet gas business, specifically concentrating on the emerging contestable gas markets.

Joining SembCorp Power in 2001, Domenic was responsible for establishing a start up retail electricity company in the deregulating Singapore Electricity market. This involved understanding and negotiating all regulatory agreements, application for a retail license, customer billing and data management and full P & L responsibility.

Domenic holds a Bachelor of Education (Mathematics & P.E.) and a graduate Diploma in Applied Finance & Investment.

#### *Manager Regulation and Gas - Mr Michael Downey*

As Manager for Regulation and Gas, Michael manages natural gas fuel requirements for the power stations and responds to sovereign risk associated with regulatory developments in both the gas and electricity markets. This position has evolved through the integration of Synergen and International Power during the later half of 2000 including the completion and commissioning of Pelican Point power station.

Michael joined the Electricity Trust of South Australia in 1976 as an apprentice fitter and then held a number of positions including Technical Officer, Generation Services; Technical Services Engineer, Leigh Creek coal field; Research and Pricing Engineer, Demand Management; Generation Portfolio Contract Trading Analyst and ultimately Market Trading Manager in Synergen. In this final role Michael was instrumental in preparing Synergen for the emerging National Electricity Market and more importantly contributing to the establishment of this new generation business and preparing it for imminent privatisation.

After winning a full scholarship from the Electricity Trust of South Australia, Michael graduated with first class honours in Mechanical Engineering from the University of South Australia in 1990.

#### *Risk Manager – Mr Heath Saunders*

Heath Saunders joined International Power in April 2000 as the Risk Manager. He has a Masters degree in Applied Finance from the Macquarie University Global Program (based in Sydney), and a Bachelor of Commerce from the University of Adelaide.

Heath has recently returned from a secondment in the United States where he led the Risk Management department in our power & gas trading activities in the ERCOT (Texas) and NEPOOL (New England) markets from both wholesale generation and retail perspectives.

Heath has worked in a derivative trading environment since 1993. Initially with an Australian corporate managing foreign exchange exposure, then on a Trading desk managing the JGB & Samuiri debt book with Nomura International and in a Risk Management department for the European interest rate OTC derivative book with Deutsche Bank, both in London.

*Manager Information Technology – Mr Steve Harkins*

Steve is responsible for the management of all information technology and telecommunications for IPR-A. This includes software development and application/hardware support. He has 20 experience years in the electricity industry, including the past nine years at Hazelwood Power Station. Steve worked in Hazelwood's Sales and Marketing Department as the Revenue and Market Systems Manager for five years before taking up his current position.

*Financial Compliance Manager – Mr Andrew Bett*

Andrew joined Hazelwood Power's Sales and Marketing division in October 1996 with responsibility for establishing a programme to enable Hazelwood to enter into electricity derivative transactions in the newly formed wholesale electricity market. After 5 years as Hazelwood Power's Risk Manager, he is currently Financial Compliance Manager with accountability for credit, contract, commercial risk, financial compliance issues and settlements.

Prior to joining Hazelwood, Andrew was employed by Rio Tinto Limited where he held a variety of roles across many financial disciplines, ranging from senior financial analyst in the project finance division, senior dealer in the foreign exchange and money markets and in the administration of short and long term debt funding instruments.

He holds a Bachelor of Commerce from the University of Melbourne and a graduate diploma in Applied Finance and Investment from the Securities Institute of Australia.

### 3.2 Market Experience and Knowledge

IPR-A possesses the technical capacity to comply with the National Electricity Code and the terms of a Victorian electricity retail licence. IPR-A currently operates as an electricity generator in the NEM, and has extensive knowledge and experience of the operation of the physical and financial electricity markets in Australia and elsewhere in the world.

IPR-A has in place comprehensive policies and procedures to support its existing business and administrative processes in Australia. Additional documentation will be set in place for the retail business prior to the commencement of sales activity. Hazelwood's systems are also compliant with the Australian standard for Risk Management AS/NZS 4360 1999. This Standard provides for the establishment and implementation of the risk management process involving establishing the context, identification, analysis, evaluation, treatment, communication and ongoing monitoring of risks in our business.

An organisational chart for the IPR-A business structure is set out in the confidential annexures to this application.

Summaries of the technical capability of IPR-A to operate a retail business and capability to comply with regulatory requirements are set out below.

### 3.3 Capacity to Operate a Retail Business

#### 3.3.1 Managing supplier contracts

##### (i) Capacity to enter into electricity supply contracts and manage risk

IPR-A is an active participant in the wholesale electricity market and has the capacity to enter into contracts to manage the electricity market risk associated with a retail business, with the additional capability to directly offset risk through physical market participation in two states. It also has an active proprietary trading business, which provides a means of managing market risk in states where IPR-A does not currently have generating assets.

##### (ii) Capacity to enter into Use of System (UOS) Agreements.

IPR generation assets are current signatories to Transmission and Distribution UOS agreements, and have managed these without concern. IPR-A has reviewed the default UOS Agreements for the Victorian distributors and does not foresee any difficulties with completing the necessary commercial arrangements for the provision of network services. IPR-A has entered into discussions with the relevant distribution businesses.

##### (ii) Capacity to account for and settle energy purchases and network service charges

IPR-A currently settles energy purchases for its existing operations with benchmark people and systems capability. The business typically accounts for and settles 500-700 electricity related transactions per year, covering approximately 40TWh energy. It also manages significant gas commodity and transport contractual arrangements. The operation has the capacity to undertake the expanded activity and management of network service charges for a retail operation. As demand grows through increasing customer services, use of third party providers is likely.

##### (iii) Capacity to enter into contracts with meter service providers and meter data agents.

IPR-A currently manages contracts with meter service providers and meter data agents for its existing operations and has the capacity to undertake this activity for a retail operation.

##### (iv) Capacity to manage risk

IPR-A has a comprehensive risk management framework for its existing electricity and gas operations that will be extended to incorporate its retail operations. This process includes a global risk oversight, a local risk committee and policies covering the management of market, credit, legal, regulatory and legal risks.

Furthermore, IPR-A's existing businesses have been granted Australian Financial Services Licences (AFSL) by ASIC. The AFSL requires the applicant to certify and establish by way of evidence that it has established, and will maintain adequate risk management systems that take into account the nature, scale and complexity of its derivatives business, with a focus on its obligations under the financial laws. If required, an AFSL will be sought for IPR Retail.

##### (v) Establishing and managing customer accounts

IPR-A will incorporate the capability to manage customer contracts into its existing business operations. Whilst the proposed retail business requires the establishment and management of relatively small numbers of customer accounts, this can be achieved



through the recruitment of account management executives and with relatively minor modifications to existing systems.

In the event that mass market based sales strategies are implemented IPR-A will require the capability to establish and manage large numbers of customers. IPR-A has confirmed that it is possible to purchase off the shelf billing and customer information systems for internal implementation or alternatively to contract with third party providers for these services. Customer acquisition and call centre operations can also be provided by specialist organisations and these activities are also likely to be sub-contracted to reputable third party service providers. Suitable arrangements for dealing with large numbers of mass-market customers can be implemented relatively quickly and would be set in place prior to implementation of mass market sales strategies.

IPR-A recognises that membership of a dispute resolution scheme is a requirement of the Retail Licence. Following receipt of the Licence, IPR-A intends to apply for membership of a suitable scheme, such as the Energy and Water Ombudsman of Victoria.

#### (vi) Management systems

IPR-A currently has the necessary management systems and infrastructure to support a substantial generation business in Australia. These systems will be modified to support a new retail business.

### 3.3.2 Compliance with Regulatory Requirements

IPR-A will comply with all obligations, legislation and codes in relation to electricity retail activities, including the following:

- ☐ Trade Practices Act
- ☐ Privacy Act
- ☐ Electricity Industry Act
- ☐ Fair Trading Act
- ☐ Essential Services Commission Act
- ☐ Financial Services Reform Act
- ☐ National Electricity Code
- ☐ Victorian Distribution Code
- ☐ Victorian Electricity Retail Code
- ☐ Electricity Customer Metering Code
- ☐ Electricity Customer Transfer Code
- ☐ Code of Conduct for Marketing Retail Electricity in Victoria
- ☐ Any additional codes or guidelines arising from the Retail Licence

IPR Retail recognises that membership of an ombudsman scheme (Energy Water Ombudsman of Victoria – EWOV) is a requirement of the Retail Licence and accordingly IPR intends to apply for membership following the granting of the Licence.

IPR Retail understands that it may be directed by the ESC to enter into a community service obligation agreement with the Department of Human Services in accordance with section 47 of the EI Act.

## **4 Financial viability**

IPR Retail is a 100% owned subsidiary of IPR, through International Power (Australia) Pty Ltd. The proposed retail business forms part of IPR's strategic business intent in Australia and will be provided with appropriate financial support by the Australian parent and ultimate parent companies. IPR has a market capitalisation of approximately AUD\$4.0 billion and a Standard and Poors credit rating of BB/Stable. The financial statements for IPR-A's key businesses are set out in the confidential annexures to this application

IPR Retail is presently seeking registration from the National Electricity Market Management Company (**NEMMCO**) to participate in the NEM as a Market Customer. As such, IPR Retail will be required to meet the prudential requirements of the NEM. IPR Retail accepts that the ESC will wish to impose a condition of the licence that it complies with the National Electricity Code and the prudential requirements for registration as a participant in the NEM. IPR Retail further understands that this condition is sufficient to satisfy the ESC of IPR Retail's financial viability to operate as a retailer in Victoria under the EI Act.

As detailed in 3.3.1 above, Australian Financial Services Licences (**AFSL**) have been granted by ASIC so that IPR-A's existing businesses are able to continue to transact electricity derivative contracts. The AFSL application requires the applicant to certify that it has available, and will continue to have on an ongoing basis, sufficient resources to meet its obligations under the financial services laws, including financial resources, human resources and information technology resources. If required, an AFSL will be sought for IPR Retail.

As detailed in 3.3.1 (ii) above, IPR Retail intends to enter into Use of System agreements with the relevant distribution businesses in Victoria. IPR Retail is able to satisfy the credit support obligations under these agreements.

## **5 Safety Performance**

IPR is committed to achieving the best possible health and safety performance. Hazelwood, Pelican Point and Synergen are all certified to Australian Standard AS 4801-2001 (Safety Management).

## **6 Environmental Performance**

IPR recognises its responsibility to manage the potential impacts of its business on the environment. IPR Hazelwood, Pelican Point and Synergen are all certified to International Standard ISO 14001-1996 (Environmental Management). Hazelwood Power Station and Mine were granted Accredited Licensee status pursuant to section 26B of the Environment protection Act 1970 on 5<sup>th</sup> October 1999. A copy of the IPR Hazelwood Environmental Performance Report for 2002 has been appended to this application (**Annex B**) and is also available on the IPR Hazelwood website ([www.hazpower.com](http://www.hazpower.com)). It is intended to include all IPR-A assets in the Environmental performance Report for 2003.

## **7 Community Relations**

IPR considers the communities in which it operates to be one of its most important stakeholder groups. Our community involvement is targeted to improving economic, environmental and social well-being in both qualitative and quantitative terms.

Contributions to the community are in the form of leadership by initiating and steering community projects or in the form of donations of time, cash, equipment or facilities. In Victoria, Hazelwood provided funding support for a road safety and bike education facility in Morwell as well as being the major contributor and project manager in construction of the Morwell Community Playground.

## **8            Incorporation**

IPR Retail is incorporated in Australia. A copy of IPR Retail's Certificate of Registration has been appended to this application (**Annex C**). A diagram setting out the ownership structure of the companies related to IPR Retail is set out in the confidential annexures to this application.

## **9            Cross-ownership**

IPR Retail does not have a substantial or controlling interest in any licensee who has been granted a licence under the EI Act. IPR-A agrees to comply with the cross ownership provisions contained in Section 68 of the Act.

## **10          Licence conditions**

IPR Retail does not seek any non-standard licence conditions.

## **11          Confidentiality**

IPR Retail agrees to the contents of this licence application being made publicly available, with the exception of the additional information set out in the confidential annexures.