



Stanwell Corporation
Electricity Retail Licence Application

Prepared for
Victorian Essential Services Commission

September 2014

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Introduction

Stanwell Corporation Limited (Stanwell) is an integrated energy company owning and operating approximately 4200 MW of electricity generation throughout Queensland. It also has ownership interests in coal and gas fields, and retails electricity to medium and large energy users in Qld and NSW.

Stanwell has been a market participant in the NEM since its inception and has been an active participant in the recent development and launches of the Brisbane Short Term Trading Market, and the Wallumbilla Gas Trading Hub.

Stanwell is expanding its retailing business and plans to service businesses in Victoria. Stanwell will be targeting customers with average usage above 4 GWh per year, and will **not** be retailing to small customers (as defined under the Electricity Industry Act).

Applicant and Application

Details

The details of the applicant are as follows:

Name: Stanwell Corporation Limited

ABN: 37 078 848 674

Registered and principal address: Level 13, 42 - 60 Albert Street, Brisbane, Qld, 4000

Postal Address: GPO Box 800, Brisbane, QLD, 4001

Contact Person

The contacts in relation to this application are:

Marc Berry
Senior Commercial Advisor
Ph. (07) 3228 4445
Fax (07) 3228 4300
Marc.Berry@stanwell.com

Tanya Mills
EGM, Trading & Commercial Strategy
Ph. (07) 3228 4352
Fax (07) 3228 4300
Tanya.Mills@stanwell.com

Structure

Corporate Structure

Due to its ownership of both electricity generation and coal fields, Stanwell has a number of subsidiaries that hold assets. However, Stanwell's wholesale energy trading and retail businesses are operated through the parent company, Stanwell Corporation Limited. The corporate structure is shown as Commercial-in-Confidence in Appendix 1.

Incorporation Details

Stanwell is a Queensland Government Owned Corporation, formed on 1 July 1997 under the *Government Owned Corporations Act 1993* and registered under the *Corporations Act 2001*. It has two shareholding Ministers, who are:

- The Hon. Tim Nicholls MP, Treasurer and Minister for Trade
- The Hon. Mark McArdle MP, Minister for Energy and Water Supply

Attached at Appendix 2 is Stanwell's Certificate of Registration.

Details of Licence Sought

Stanwell is applying for a restricted Victorian Electricity Retail Licence for the sale of electricity to large customers only.

In relation to whether Stanwell seeks any non-standard licence terms and conditions, Stanwell specifically request that its licence only allows it to retail to large *business* customers, i.e. large customers that are not domestic customers. The rationale for this is that Stanwell does not wish to put in place compliance procedures to deal with the unlikely situation where it retails to a large customer that is a domestic customer.

Stanwell would like to have the licence in place at the earliest opportunity, but is targeting its Victorian marketing to commence by 1 December 2014.

Stanwell holds the following electricity licences:

- Queensland Generation Authorities for its generation plant;
- Queensland Electricity Retail Authority – number R02/99 (refer to Appendix 3);
- Previously held a NSW Electricity Retail Licence (no longer applicable following NSW introduction of NECF in July 2013); and
- National Retailer Authorisation (AER Reference: TE12038) under the NECF by virtue of being transitioned to a retailer authorisation under the National Energy Retail Regulations. This allows Stanwell to retail in NSW, ACT, SA and Tasmania (refer Appendix 4)

To date Stanwell has not been unsuccessful in licence applications in any jurisdictions.

The Commission's Objectives

Sections 8(1) and 8(2) of the Essential Services Commission Act 2001 sets out the objectives of the Commission which are to promote the long term interests of Victorian consumers, having regard to the price, quality and reliability of essential services. Through the granting of an electricity retail licence, Stanwell will assist in meeting these objectives in the following ways.

Efficiency in the industry

As an existing large generator in the National Electricity Market, Stanwell is able to realise a number of efficiencies across its business activities that result in efficiencies and therefore reductions in costs for consumers.

- Through its generation portfolio, Stanwell has the ability to offset AEMO's prudential requirements relating to its retail load. The efficiency of this is that there is not added funding costs incurred to fund these prudential requirements, thereby reducing the cost to serve, and ultimately the price for its customers
- Stanwell already has many of the systems, infrastructure, processes and personnel in place to perform the functions required of an electricity retailer in the National Electricity Market. These include trading in the wholesale electricity market, risk management policies and practices, settlement function for the wholesale electricity procurement, and regulatory compliance and monitoring.

Financial viability of the industry

Through the efficiencies detailed above, and also as a result of its government ownership, Stanwell's operations are more economically viable than a number of its competitors. By its very nature, Stanwell's economic and financial viability results in an increased financial viability and stability of the electricity industry.

Enhance competition

Providing Victorian consumers with a choice of retailers will assist in driving efficiencies in pricing and customer service. Through an increase in the number of electricity retailers, pricing will become more competitive, and the quality and reliability of offerings will increase. This will ensure that Victoria's energy consumers receive value for their energy purchases.

Stanwell will only be retailing to large use Victorian energy consumers (>160MWh pa), and will provide these customers with tailored solutions to cater for the varied ways in which consumers manage their energy costs. These tailored solutions will provide large use energy consumers with a quality offering that is suited to their needs.

Promote consistent regulation across multiple jurisdictions

Stanwell currently retails to larger customers in both Queensland and NSW. To enable increased efficiencies and reduced costs, Stanwell supports the introduction of the National Energy Customer Framework (NECF) which reduces the regulatory monitoring and compliance with the numerous state-based Acts. Stanwell is cognisant of the ESC's recent NECF-harmonisation projects, but supports the adoption by Victoria of the NECF, which will in turn assist the Commission in achieving its objective of consistency in regulation between States and on a national basis.

Financial Viability

Stanwell Corporation is in a position to meet all applicable statutory and prudential financial requirements to operate with Network Service Providers, the Australian Energy Market Operator (AEMO) and the Australian Securities and Investment Commission (ASIC) and the company is not aware of any factor which would affect the ability to securely finance the activities to be performed under this licence.

Solvency

Under its Australian Financial Services Licence (AFSL), Stanwell continually meets the requirement to prepare cashflow projections that provide ASIC with assurance that the company will have sufficient funds to meet its financial obligations as and when they arise. As part of the Base Level Financial Requirements under its Australian Financial Services Licence, Stanwell must:

- Be able to pay all its debts as and when they become due and payable; and
- Have total assets that exceed total liabilities, or adjusted assets that exceed adjusted liabilities, as shown in its most recent balance sheet lodged with ASIC; and
- Have no reason to suspect that both its total assets would not exceed its total liabilities and its adjusted assets would not exceed its adjusted liabilities on a current balance sheet; and
- Prepare a projection of cash flows over at least the next 3 months

Stanwell has provided its most recent audit report (at Appendix 5) in relation to maintaining these obligations under its AFSL.

Financial Position

The Annual Reports for Stanwell Corporation Limited for the past 3 years can be found on Stanwell's website at the following address. This contains audited financial statements, and the independent auditor's report.

<http://www.stanwell.com/annual-reports.aspx>

Additionally, Stanwell's Annual Reports for the past 3 years are attached in the following appendices.

- Appendix 6 – Annual Report for 2011/12
- Appendix 7 – Annual Report for 2012/13
- Appendix 8 – Annual Report for 2013/14

Stanwell has also provided the ESC with a statutory declaration at Appendix 29 by its CFO disclosing:

- Any material change in Stanwell's financial position that has occurred since the end of the 2014 financial year; and
- Any likely changes in the structure, operation, or financing of the company or its retail operations that could materially affect its financial viability.

The financial statements for the year ending 30 June 2014 show that Stanwell, across its electricity generation and retail, coal and gas operations returned significant after tax profits to its shareholder. This demonstrates that Stanwell is a financially viable participant that has a sustainable business underlying its electricity retail operations. This sustainability will benefit Victorian electricity retail customers through the provision of an additional choice of a stable, financially viable retailer.

Stanwell has financing arrangements in place with Queensland Treasury Corporation (QTC) that cover the organisation as a whole. It has a \$60m working capital facility, substantial cash reserves and a managed medium to long term debt portfolio. These arrangements are utilised by the organisation as a whole, with Stanwell's retail expansion activities being absorbed as Business as Usual costs.

5 Year Business Plan

Stanwell has provided a Retail Business Plan, Financial Model and Financial Analysis Review as Commercial-in-Confidence as Appendices 9, 10 and 11 respectively, relating specifically to its Retail operations. This details the financial viability of the proposed activities within Victoria in the context of Stanwell's overall Retail activities.

Credit Support Obligations

Stanwell currently has a number of guarantees that it has issued through its financier, Queensland Treasury Corporation. A list of these is provided as Commercial-in-Confidence at Appendix 12.

Due to its AA credit rating, Stanwell is an acceptable counterparty to all the organisations it deals with in the electricity market (AEMO, trading counterparties etc). Stanwell is in the process of negotiating the necessary Use of System Agreements with the Victorian distribution companies, but it appears unlikely that it will be required to provide credit support under these arrangements.

Stanwell will not be required to supply funds or guarantees to AEMO to cover its retail Prudential Requirements as this will be more than offset by its generation activities.

Credit Rating

Stanwell holds a public credit rating issued by Fitch Ratings of AA (Negative Outlook). This is reflective of Stanwell's successful business operations as well as its ownership and financing by the Queensland government and its funding arm, Queensland Treasury Corporation (QTC). A copy of this is attached as Commercial-in-Confidence at Appendix 13.

Technical Capacity

Retail Competence

Stanwell Corporation is one of the largest electricity generators in Australia and the retailer of choice for an exclusive group of large blue-chip commercial and industrial retail customers.

Owned by the Queensland Government and boasting a diverse and strategically located range of assets, Stanwell is well placed to provide efficient, reliable and competitive power to customers. With generation assets valued at more than \$2 billion, a combined generating capacity of more than 4200 MW, and 10 coal, gas and hydro power stations, it can supply more than 15 per cent of the eastern seaboard's peak power needs.

Stanwell has a dedicated team focused on managing and growing the retail business with critical support provided from relevant areas across the organisation.

Stanwell's retail operations were designed and developed to meet the needs of large, sophisticated purchasers of electricity. Stanwell's current customer base is comprised of a relatively small number of large blue-chip commercial and industrial companies in both Queensland and New South Wales. This focused approach has enabled Stanwell to leverage its expertise to tailor sophisticated and workable electricity sale agreements that meet the needs of its individual customers.

Stanwell's dynamism, flexibility and capability ensure that it is well-placed and willing to work collaboratively to develop these solutions further and specifically tailor them to customer needs. To ensure Stanwell differentiates itself from its competitors in the areas of service and product offering, it has developed systems and processes which:

- ensure efficient execution of contracts;
- ensure accurate and on-time transfer of National Metering Identifiers (NMIs);
- provide accurate, timely and flexible billing;
- provide meaningful market information;
- monitor and report customer's electricity usage against contractual parameters; and
- provide proactive customer management including regular market and regulatory briefings.

Stanwell's Trading Capabilities

Stanwell's retail activities are supported by its extensive trading capabilities across a number of markets. By contracting with Stanwell, customers gain direct access to the Stanwell energy trading desk. Comprised of highly skilled, multi-disciplined and experienced individuals, the team has a reputation with customers, counterparties and shareholders as being innovative, professional and ethical in its market operations and dealings.

The Energy Trading team is specifically responsible for:

- hedging Stanwell's electricity market exposures through trading financial instruments in the OTC, NEM and associated financial markets;
- managing Stanwell's exposures to a range of environmental schemes and products including hedging and trading LGCs, STCs and ESCs; and
- managing Stanwell's current or potential exposures to a range of different commodities including coal, diesel, fuel oil and gas, including any associated foreign exchange exposures.

Skills, Experience and Knowledge of Key Personnel

Directors

Stanwell has an experienced Board of Directors that individually and collectively bring a level of skill, knowledge and experience that enables the Board to discharge its roles and responsibilities effectively. At the date of this application, the Board consisted of the following:

Russell James Kempnich BEng (Mech). **Non-executive Acting Chairman**

Mr Kempnich is an engineer with more than 30 years' experience in coal resource evaluation, process plant design, construction and commissioning. He is a founding partner, past Managing Director and, currently, non-executive Chairman of Sedgman Limited.

Following the sudden passing of Stanwell's Chairman The Hon. Warwick Raymond Parer AM in March 2014, the Board of Stanwell delegated the role, responsibilities, power and authority of the Chairman to Mr Kempnich, until such time that an official appointment of a Chairman is made by the Governor in Council.

Ann Allison Fitzpatrick BA, LLB, GAICD. **Non-executive director**

Ms Fitzpatrick has practiced as a lawyer for more than 25 years. She retired from private practice in 2008, however, prior to this was a partner in two major law firms, specializing in industrial law and commercial litigation. She currently sits as sessional member of the Queensland Civil and Administrative Tribunal and practices as a mediator.

Kym Louise Collins MBA, BEng (Elec), GAICD **Non-executive director**

Ms Collins is an experienced electrical engineer and project manager from the commercial construction industry and at one time led the Siemens Limited Building Automation in Queensland.

Ms Collins has previously held the positions of Chairman and Director of Tarong Energy Corporation Limited and also served as a committee member of the Institute of Hospital Engineers, Little Athletics, St Aidan's Old Girls Association and C&K Kindergartens. She is currently Chairman of Green Cross Australia and President of Carina C&K Kindergarten.

Paul Breslin BSc (Hons), BEcon. **Non-executive director**

Mr Breslin has previously held the positions of Chief Executive Officer and Director of the economic consulting firm ACIL Tasman as well as the leader of ACIL Tasman's extensive energy practice. His consultancy work covered policy analysis, business regulation, competition policy and commercial analysis of markets to inform business decisions, mostly covering the energy and resources industries.

Mr Breslin is also a former Director General of the Queensland Department of Minerals and Energy and in 2002 was part of the four member Council of Australian Government's Review into the Australian Energy Market.

Stephen Robert Rochester BEc. MAICD, FFTP, **Non-executive director**

Mr Rochester is an established leader in public sector financing, the banking and finance industry, and the global financial markets, with a career spanning more than 35 years. He has held the positions of Chief Executive and Chairman at Queensland Treasury Corporation, Director of Tarong Energy Corporation Limited and Chief Executive of Sun Retail.

Mr Rochester is currently Chairman of Powerlink Queensland.

Key Personnel

Stanwell's main business is the generation and sale of electricity in the Australian market. Over the 17 years since its incorporation, Stanwell has continually provided its shareholders with significant dividends through the successful generation and sale of electricity. This sale of electricity is via multiple channels, one of which is retailing to large customers. Stanwell has been successfully retailing in Qld and NSW since 2008 and in 2014 has customer load of more than 4.4GWh pa. By

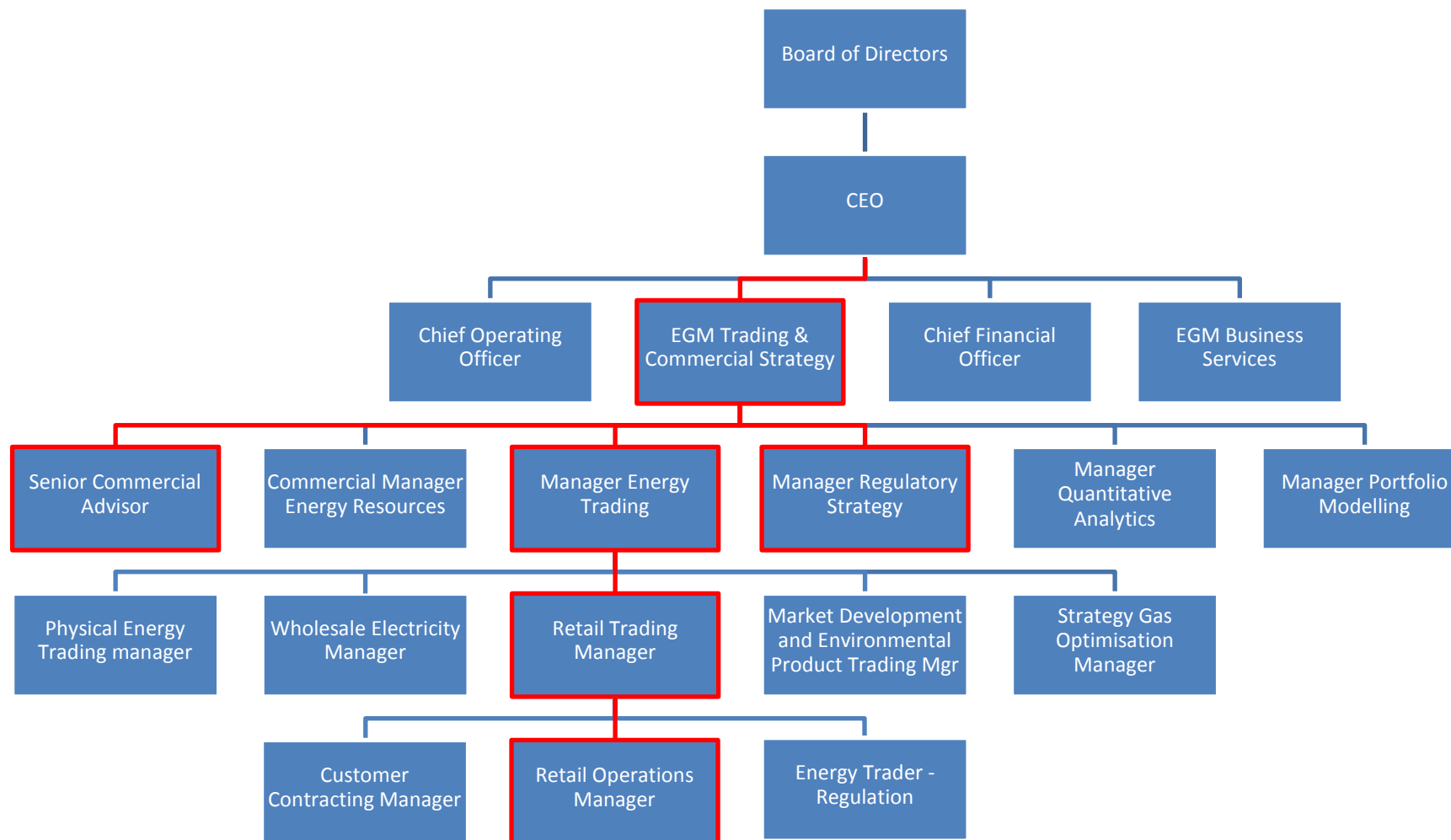
virtue of this success, Stanwell is able to demonstrate that as an organisation it possesses the expertise, knowledge and skill base to operate a viable business in the electricity sector.

Stanwell's retail business is staffed by experienced personnel, and works in conjunction with its Wholesale Trading, Risk and Settlements and Regulatory Compliance teams. The key personnel involved across these areas and details of their skills and experience are set out as Commercial-in-Confidence in Appendix 14.

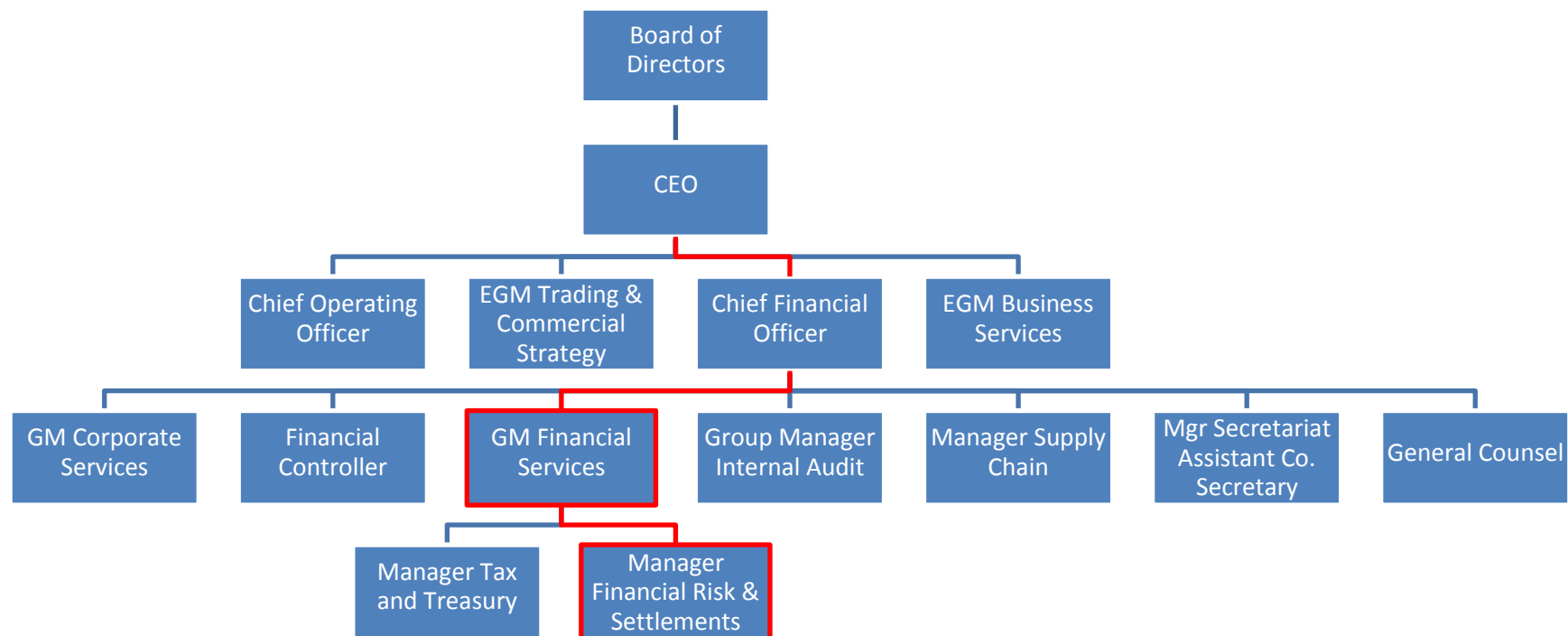
Organisational Chart

Stanwell employs approximately 800 people across both its corporate office and its power stations and therefore the reproduction of the entire organisational structure for the purpose of this application is not relevant. The pertinent parts of the organisational structure for this application have been shown below. The roles belonging to the key personnel listed in Appendix 14 are highlighted in red within the organisational charts.

Extract of the Organisational Structure (Electricity Trading and Commercial Strategy focus)



Extract of the Organisational Structure (Risk and Settlements focus)



Contracts With External Parties

Outsourced billing and customer transfer management

Stanwell is in negotiations with Serviceworks, a Computershare company, to outsource the customer billing and transfer management associated with its retail customers. Serviceworks is the leading provider of retail billing services within the Australian electricity market, servicing a large number of well known electricity participants. Please find attached as Commercial-in-Confidence in Appendix 15 the Serviceworks Capability Statement.

Stanwell's Retail Operations Manager will manage the contractual terms and conditions of the contract including the performance measures that are being put in place.

Customer contracts

Stanwell enters into individual contracts with each of its customers, based on the negotiations around terms and conditions. However it has a customer supply agreement that is used for more standard customer supply contracts. This is attached as Commercial-in-Confidence in Appendix 16.

Dispute resolution scheme

Stanwell has had initial discussions with the Energy and Water Ombudsman of Victoria (EWOV), and intends to become a member of EWOV on granting of the retail electricity licence. EWOV will act as an external dispute resolution scheme in the event that Stanwell's customers cannot resolve any disputes directly with Stanwell.

Use of Service Agreements

Stanwell has been in discussions with all five Victorian distribution companies to commence the process of entering into Use of Service Agreements. These are at various stages of progression, although they are dependant on the granting of the retail electricity licence before they can be signed.

Internal Controls, Policies and Procedures

Stanwell has a robust governance framework and supporting policies and procedures that have been developed through its participation in the electricity market over many years. These documents assist in supporting the compliance and risk minimisation activities associated with the operations of the business. To assist the Commission in understanding the framework, policies and procedures that Stanwell utilises, we have attached a number of the relevant documents. These are provided on a Commercial-in-Confidence basis, and include:

- Legal and Regulatory Compliance Framework – refer Appendix 17
- Legal and Regulatory Compliance Policy – refer Appendix 18
- Code of Conduct – refer Appendix 19
- Confidential Information Policy – refer Appendix 20
- Conflicts of Interest Policy – refer Appendix 21
- Fraud Prevention Policy – refer Appendix 22
- Risk Management Policy – refer Appendix 23
- Privacy Procedure – refer Appendix 24
- Records Management Procedure – refer Appendix 25
- Storage of Records Procedure – refer Appendix 26

Australian Financial Services Licence

Stanwell holds an AFSL (Licence No. 238463) which authorises it to:

- **provide financial product advice** for derivatives, carbon units, Australian carbon credit units and eligible international emissions units;

- **deal in a financial product** by issuing, applying for, acquiring, varying or disposing of a financial product in respect of derivatives and foreign exchange products;
- **make a market** in derivatives, carbon units, Australian carbon credit units and eligible international emission units.

These activities can only be provided to wholesale clients.

A copy of this Licence is attached in Appendix 27.

Management of Compliance Obligations

In addition to retailing to large electricity customers in Qld and NSW, Stanwell owns and operates electricity generation plant in Queensland and trades the output of its generation assets in the National Electricity Market (NEM). Trading is a key part of Stanwell's business, which provides Stanwell with opportunities to optimise the value of its generation output.

Stanwell's spot trading activities are regulated by the National Electricity Law (NEL) and National Electricity Rules (NER) although the Competition and Consumer Act 2010 (Cth) (CCA) (cartel provisions) and Corporations Act 2001 (Cth) (insider trading provisions) also have application.

Stanwell has an Australian Financial Services Licence under the Corporations Act 2001 (Cth). Stanwell is required to comply with its obligations under its Financial Services Licence and the other requirements of the Corporations Act 2001 (Cth) when engaging in contract trading activities. Stanwell has developed a Trading Compliance Framework to ensure that Stanwell complies with the legal obligations relevant to trading. As part of this, a Trading Compliance Program exists and sits under Stanwell's Legal and Regulatory Compliance Policy and Energy and Market Risk Policy.

Stanwell's retailing activities are subject to compliance with a number of Acts and other statutory and regulatory instruments across the following jurisdictions.

Queensland

- Electricity Act 1994 (Qld) - Solar Bonus Scheme, Retail Authority

NSW, ACT

- Electricity Supply Act 1995
- Electricity Supply (General) Regulation 2014
- National Energy Retail Law (Adoption) Act 2012 No 37
- National Energy Retail Law (ACT) Act 2012
- National Energy Retail Law (ACT) Regulation 2012
- Energy Efficiency (Cost of Living) Improvement Act 2012

Victoria

- Electricity Industry Act 2000 (Vic) (Act)
- Electricity Retail Licence
- Electricity Distribution Code
- Electricity Customer Metering Code
- Electricity Customer Transfer Code
- Electricity System Code
- Energy Retail Code
- Electricity Industry Guideline No 17 – Electricity Ring-Fencing
- Guideline No 22 – Regulatory Audits of Energy Businesses
- AMI Cost Recovery Order

- AMI Specifications Order
- Victorian Energy Efficiency Target Act 2007 (Vic) (VEET Act)
- Victorian Energy Efficiency Regulations Act 2008 (Vic) (VEET Regulations)
- Victorian Energy Efficiency Target Guidelines (VEET Guidelines).

Stanwell's current compliance and reporting obligations across its generation and retail activities, (including its environmental scheme compliance obligations) are managed by the Regulatory Strategy team. The additional obligations relating to Victorian retailing will also be managed by this team under Stanwell's Legal & Regulatory Compliance Framework. Responsibility for these compliance obligations rests with the Manager Regulatory Strategy.

Where compliance and reporting obligations involve regular or ad hoc events, Stanwell utilises a system to record and manage such obligations. The Event, Audit, Risk and Compliance System (EARS) is used by staff across all sites to effectively and efficiently manage and report on events (including but not limited to health and safety, environment, quality, financial, commercial and trading), audit, compliance and risk. The system provides consolidated management and reporting of events, risks, audits and compliance obligations, tasks and issues (including breaches) notifying business owners and senior management of relevant information such as review dates for risk management plans, due dates for compliance tasks, outstanding audits and overdue actions.

Appendices

Following is a list of appendices relating to the application for an Electricity Retail Licence. All appendices are provided on a Commercial-in-Confidence basis, except appendices 2 - 8, and 27 - 29.

- Appendix 1 – Stanwell Corporation Corporate Structure
- Appendix 2 – Certificate of Company Registration
- Appendix 3 – Stanwell’s Queensland Electricity Retail Authority
- Appendix 4 – National Retailer Authorisation
- Appendix 5 – Audit Report relating to AFSL Compliance
- Appendix 6 – Stanwell Corporation Annual Report 2011/12
- Appendix 7 – Stanwell Corporation Annual Report 2012/13
- Appendix 8 – Stanwell Corporation Annual Report 2013/14
- Appendix 9 – Stanwell Retail Business Plan
- Appendix 10 – Stanwell Retail Business Financial Model
- Appendix 11 – Stanwell Retail Business – Financial Analysis Review
- Appendix 12 – Guarantees issued
- Appendix 13 – Fitch Ratings Credit Rating of Stanwell Corporation Limited
- Appendix 14 – Details of Key Personnel
- Appendix 15 – Serviceworks Capability Statement
- Appendix 16 – Standard Customer Contract
- Appendix 17 – Stanwell’s Legal and Regulatory Compliance Framework
- Appendix 18 – Legal and Regulatory Compliance Policy
- Appendix 19 – Code of Conduct
- Appendix 20 – Confidential Information Policy
- Appendix 21 – Conflicts of Interest Policy
- Appendix 22 – Fraud Prevention Policy
- Appendix 23 – Risk Management Policy
- Appendix 24 – Privacy Procedure
- Appendix 25 – Records Management Procedure
- Appendix 26 – Storage of Records Procedure
- Appendix 27 – Australian Financial Services Licence
- Appendix 28 – Statutory Declaration re Contents of Application
- Appendix 29 – Statutory Declaration re Material Change in Financial Position