

Application for Generation Licence

Macarthur Wind Farm

by

Macarthur Wind Farm Pty Ltd (ABN 19 106 134 507)
Meridian Wind Macarthur Pty Limited (ABN 60 124 383 688)
AGL Hydro Partnership (ABN 86 076 691 481)



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Introduction

Macarthur Wind Farm Pty Ltd, ABN 19 106 134 507 (**MWF**), Meridian Wind Macarthur Pty Limited, ABN 60 124 383 688 (**MWM**), and AGL Hydro Partnership, ABN 86 076 691 481 (**AGL Hydro**) are building a wind farm near Macarthur in the south west region of Victoria (**Macarthur Wind Farm**).

The **Macarthur Wind Farm** will be jointly owned by **MWF** and **MWM**, which are respectively wholly owned subsidiaries of AGL Energy Limited, ABN 74 115 061 375 (**AGL**) and Meridian Energy Limited, New Zealand Company Number 938552 ARBN 151 800 396 (**Meridian**).

MWF and **MWM** have appointed **AGL Hydro** as the operator of the **Macarthur Wind Farm**.

MWF, **MWM** and **AGL Hydro** are jointly applying for the issue of a Generation Licence for the **Macarthur Wind Farm** in the name of the three parties (the **Applicant**).

The **Applicant** (or proposed 'licensee') for the Generation Licence for the **Macarthur Wind Farm** provides the following application details in accordance with the 'Guidance Note for Application for Electricity Licences' issued by the Essential Services Commission of Victoria in 2006.

1 Information on Applicant and Nature of Application

1.1 Applicant Details

Macarthur Wind Farm Pty Ltd, ABN 19 106 134 507

Meridian Wind Macarthur Pty Limited, ABN 60 124 383 688

AGL HP1 Pty Limited, ABN 86 080 429 901
AGL HP2 Pty Limited, ABN 75 080 810 546
AGL HP3 Pty Limited, ABN 22 080 735 815
as partners in the
AGL Hydro Partnership, ABN 86 076 691 481

1.2 Registered Office

Macarthur Wind Farm Pty Ltd
AGL
Level 22
101 Miller Street
North Sydney NSW 2060

Meridian Wind Macarthur Pty Limited
Level 29
530 Collins Street
Melbourne VIC 3000

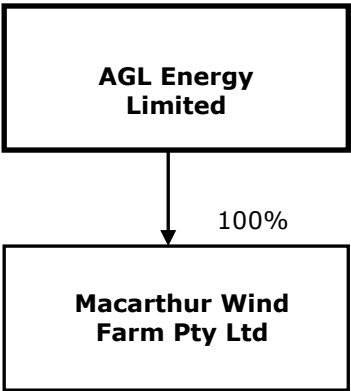
AGL Hydro Partnership
AGL
Level 22
101 Miller Street
North Sydney NSW 2060

1.3 Contact Person

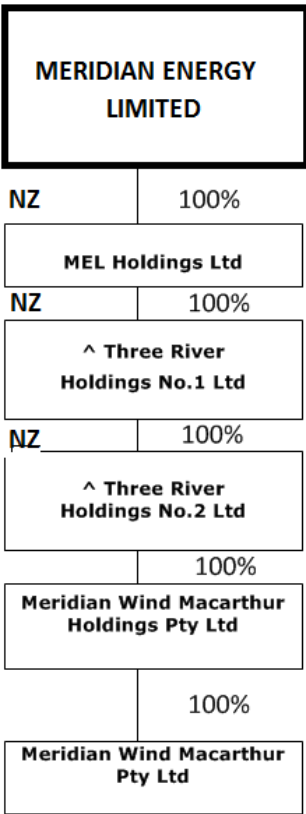
Kong Min Yep
Manager Electricity Market Development
120 Spencer Street
Melbourne 3000
Mob. 0402 060 759
Kongmin.yep@agl.com.au

1.4 Corporate Structure

1.4.1 Macarthur Wind Farm Pty Ltd

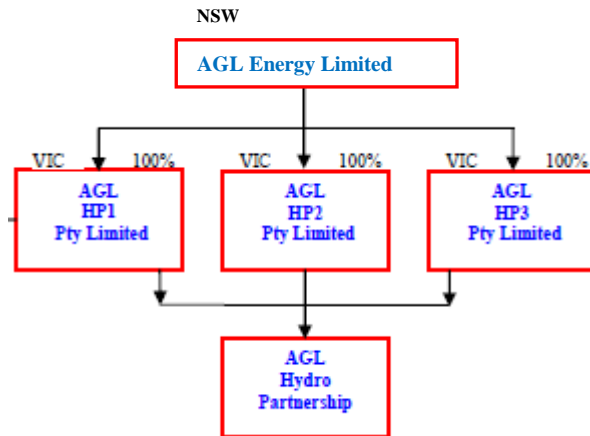


1.4.2 Meridian Wind Macarthur Pty Limited



1.4.3 AGL Hydro Partnership

The corporate structure for **AGL Hydro** is shown in the following chart:



Note that since 31 May 2011, all shares in **AGL Hydro** entities (AGL HP1 Pty Ltd, AGL HP2 Pty Ltd and AGL HP3 Pty Ltd) were transferred to **AGL** and the following entities relating to the ownership of **AGL Hydro** were deregistered:

AGL Southern Hydro Pty Limited, ABN 89 088 976 327;
AGL Southern Hydro Investment Pty Limited, ABN 98 104 071 829;
AGL Southern Hydro Holdings Pty Limited, ABN 78 104 646 424; and
AGL (SHL) Pty Limited, ABN 39 116 830 285.

Australian Energy Ltd, of which AGL HP1 was the owner, was also deregistered as part of this corporate restructure.

AGL Hydro is currently a partnership of three fully owned subsidiaries of **AGL** and is part of the **AGL** consolidated group. The **AGL** group has in place a Deed of Cross Guarantee which was entered into as a condition of the ASIC Class Order 98/1418 being granted. Each member of the **AGL Hydro** partnership (AGL HP1 Pty Limited, AGL HP2 Pty Limited and AGL HP3 Pty Limited) is a party to the Deed of Cross Guarantee.

The effect of the cross guarantee is to guarantee to each creditor of entities within the relevant group, payment of any obligations should a particular entity enter liquidation or be wound up in specified circumstances. The cross guarantee therefore provides financial support to **AGL Hydro** on the basis that its partners would meet any debt obligations attributable to **AGL Hydro**.

Further financial and commercial information in relation to **AGL Hydro** is provided in **Annexure B**.

1.5 Organisation Structure

The organisation chart of AGL and the Meridian executive team is attached at **Annexure A**.

1.6 Experience of Key Executives

1.6.1 AGL Energy

Michael Fraser

BCom, CPA, FTIA

Managing Director and Chief Executive Officer

Michael has more than 25 years' energy industry experience, including having established AGL as the country's largest energy retailer, and led the rapid expansion of AGL's upstream energy interests in renewables, thermal power generation and upstream gas exploration and development.

Stephen Mikkelsen

CA, BBS

Chief Financial Officer

Stephen has over 14 years' experience in senior financial positions in Australia's and New Zealand's electricity markets. Previously, he worked in treasury activities in banking and finance.

Paul McWilliams

BA (Accounting), MAppFin, GradDipACG, ACA

Head of Corporate Support Services and Company Secretary

Paul has had more than 30 years' experience across a variety of roles in the Australian Taxation Office, chartered accounting and listed public companies. He has been with AGL for six years and in his current role for the last four years.

Anthony Fowler

BSC (Hons), MAppFin, Harvard AMP, FFin

Group General Manager - Merchant Energy

Anthony has 15 years of experience at energy businesses in Australia and the US. He joined AGL in late 2002. Previously, he was General Manager Energy Portfolio Management and Head of Wholesale Energy Risk Management. Prior to AGL, Anthony worked in the United States of America at Aquila Energy including Vice President, Strategy and Director of Trading Risk Management.

Michael Moraza

BE (Chem. Eng), MBA

Group General Manager Upstream Gas

Before joining AGL, Michael had a background in the upstream oil and gas industry working for Bridge Oil, later known as Parker and Parsley Australasia. Prior to that, Michael was with the Geneva-based SGS Group, providing services to the petroleum industry.

Prof. Paul Simshauser

BEcon, BCom (Accounting & Finance), PhD (Economics), CPA, FAICD, AFMA Acc. Dealer

Chief Economist and Group Head of Corporate Affairs

Paul has worked in the energy industry for 20 years, having held senior executive positions with Stanwell Corporation, NewGen Power and Babcock & Brown. He is also Professor of Finance at Griffith University's Business School.

Ken Hodgson

BEcon

Group General Manager Retail Energy

Ken joined AGL in 2008 and has overall responsibility for the growth and development of AGL's more than three million customer accounts. This includes managing AGL's commitment to customer engagement and various community support programs and sponsorships. Prior to joining AGL, Ken spent five years with Westpac Banking Corporation as General Manager for Consumer Financial Services.

Owen Coppage

Chief Information Officer and Group General Manager Customer Operation

Owen has many years of experience as a senior accounts executive in the energy industry, including roles interfacing directly with residential and large industrial customers. He has over 20 years' management and operations experience in high-voltage transmission, distribution and hydro generation. Owen has implemented a range of customer information system within the energy sector.

Jane Thomas

BBus (Hons), LLB (Hons), Grad. Dip. Leg Prac, Masters Org Coaching
Group Head of People and Culture

Jane has more than 15 years' experience in human resources, organisational development and employee relations in large organisations including PepsiCo International, Westpac Banking Corporation and Philips. She is also a non-executive director of the Animal Welfare Board.

1.6.2 Meridian Energy

Mark Binns

Chief Executive

Prior to joining Meridian Energy Limited, Mark was Chief Executive – Infrastructure at Fletcher Building Limited. Mark joined Fletcher Challenge Limited in 1989 from the partnership of a large Auckland law firm. Following roles in Fletcher Property, he became Chief Executive of Fletcher Construction and also had responsibility for all property related activities of Fletcher Building.

Neal Barclay

General Manager, Markets and Production

Neal has headed up Markets and Production since October 2009. He joined Meridian in July 2008 as Chief Financial Officer. Prior to joining Meridian Neal, a chartered accountant (NZICA), held a number of general manager roles in a 13-year career with Telecom New Zealand. Neal is accountable for the Company's New Zealand asset portfolio, comprising nine hydro power stations and three wind farms that deliver around 30% of New Zealand's electricity generation, and for the company's wholesale trading and risk position.

Paul Chambers

Chief Financial Officer

Before taking up his role at Meridian in 2009, Paul was Chief Financial Officer of Transfield Services New Zealand. Paul has extensive senior finance experience in a variety of industries, including ports, manufacturing and retail, both in the UK and France. Paul is a chartered accountant (NZICA and ICAEW). Paul's team has responsibility for strategy coordination, performance measurement, external reporting, funding, risk management coordination, procurement and financial transaction services.

Bill Highet

General Manager, Retail

Bill was Chief Operating Officer of Whisper Tech Limited from 2001 to 2008, having previously helped to establish the company while New Ventures Manager at Southpower (now Orion) in 1995. Prior to joining Southpower in 1993, Bill held engineering, project management, commercial and business development

roles, all in the electricity industry. He has also filled general manager roles at Enerco (a natural gas company) and at Telecom NZ. Bill is a past director of Whisper Tech Limited, Network Waitaki Limited, Pulse Business Solutions Limited, CallSouth Limited and Connetics Limited. He was also a non-executive director of Meridian subsidiary, Arc Innovations, from its establishment in 2006 until early 2008. Bill was CEO of Flight Experience Group Limited prior to taking up his appointment as General Manager for Retail, Meridian Energy in October 2009. Bill's team is focused upon delivering a profitable and differentiated offer and service to our customers.

Glen McLatchie

General Manager, Information and Communications Technology

Glen joined Meridian as General Manager for Information Communication and Technology (ICT) in May 2010. Glen has an extensive background in delivering business and information technology change on a global scale, having held a number of general management positions on both the client and vendor side of ICT. Just prior to joining he was the Director of ICT Transformation and Strategic Planning for Contact Energy. Glen has also held several senior management roles with global responsibility over a 13-year period with BP Oil International, with the majority of this time based out of Melbourne and London. Glen and his team are responsible for ensuring Meridian has the ICT infrastructure, data, processes and applications to properly manage the business and its operations.

Kate Peterson

General Manager, Culture and Change

Kate Peterson joined the Meridian Management team in early 2009. She brings to her role a strong background in people and operations management, having spent many years with Lion Nathan and more recently with PGG Wrightson and the Gough Group during periods of significant change. At Meridian, Kate and her team have a particular focus on developing strategies to further build the capabilities and skills of Meridian's people, so that the company can deliver its business objectives and aspirations.

Andrew Robertson

General Manager, Business Development

Andrew has extensive experience in the New Zealand electricity industry. Prior to taking on his current role, Andrew operated in senior generation business development roles in Meridian's asset management and growth areas. Before joining Meridian, Andrew held numerous roles with ECNZ, including management roles in finance and operations, before participating directly in the industry reform that led to the formation of Meridian. As General Manager of Business Development, Andrew is responsible for leading the adoption and commercialisation of renewable energy technologies and solutions to create and capture future value.

Ken Smales

General Manager, Renewable Development

Ken has 40 years' experience in the New Zealand electricity generation industry, including design, construction, commissioning and operations and maintenance. Ken was Generation Director from the Company's establishment until taking up his Renewable Development role in January 2004. Ken's team has primary responsibility for delivering on Meridian's strategic goal of delivering more renewable generation growth, and cementing Meridian's place as the premier Australasian developer of renewable generation in New Zealand and overseas.

Guy Waipara

General Manager, External Relations

Guy is responsible for Meridian's corporate reputation, which includes company brand, relationship management, regulatory and external communications. Guy has previously held roles in Meridian in offshore business development and setting company strategy. He

has over 20 years experience in the electricity sector and previously worked at Transpower in roles responsible for transmission planning and network development.

Jason Stein
General Counsel

Jason Stein is a lawyer and has had in-house roles within financial institutions and the energy sector, including at vice president and senior counsel levels. Jason has been working in the New Zealand energy sector since 2004. He joined Meridian in 2008, and took on his current role in 2010. Jason's team is responsible for providing and managing the company's legal services and providing the corporate governance and company secretariat functions to the company, the Board and the Management Team.

1.7 Contracts and Agreements

MWF and **MWM** have appointed **AGL Hydro** to be the operator of the **Macarthur Wind Farm**.

AGL Hydro will be responsible under the terms of its appointment for:

- the entire operation and maintenance of the **Macarthur Wind Farm**; and
- compliance with all relevant electricity laws, rules, regulations and codes.

AGL Hydro, through the **AGL** divisions identified in Section 4 below, will provide all the expertise and resources required to operate the **Macarthur Wind Farm**.

AGL Hydro has appointed Vestas to provide on-site maintenance and day-to-day running services for the generating units which will make up the **Macarthur Wind Farm**.

AGL Hydro has also entered into a transmission use of system agreement with AEMO and a transmission connection service agreement with SP AusNet.

All output from the **Macarthur Wind Farm** will be acquired by **AGL Hydro** from **MWF** and **MWM**. **AGL**'s Energy Portfolio Management group (see Section 4 below), on behalf of **AGL Hydro**, will manage the output and all sales within its portfolio of customers and Renewable Energy Certificate liabilities.

1.8 Details of Incorporation

A copy of the Certificates of Registration for **MWF**, **MWM** and **AGL Hydro** are attached at **Annexure B: Public Financial and Commercial Information**.

1.9 Details of Partnership, Trust or Joint Venture

A copy of the unincorporated joint venture agreement between **MWF** and **MWM** is attached at **Annexure D: Strictly Confidential Information**.

1.10 Operation

AGL Hydro will be fully responsible under the terms of its agreements with **MWF** and **MWM** for the operational aspects of the **Macarthur Wind Farm** including ensuring full compliance with the Generation Licence and all relevant electricity laws, rules, regulations and codes.

1.11 Shareholders

MWF, MWM and **AGL Hydro** are not publicly listed. The shareholders and partners of the companies are shown in Section 1.4 and the registry in **Annexure B 7.7**.

Names and addresses of the shareholders and partners are as follows:

AGL Energy Limited, ABN 74 115 061 375
AGL HP1 Pty Limited, ABN 86 080 429 901
AGL HP2 Pty Limited, ABN 75 080 810 546
AGL HP3 Pty Limited, ABN 22 080 735 815

Level 22, 101 Miller Street
North Sydney NSW 2060

Meridian Energy NZ Limited, NZ company number 938552
MEL Holding NZ Limited, NZ company number 1851380
Three River Holdings No 1. NZ Limited, NZ company number 1920517
Three River Holdings No 2. NZ Limited, NZ company number 1920515

33 Customhouse Quay
PO Box 10840
Wellington 6143
New Zealand

Meridian Wind Macarthur Holdings Pty Limited, ABN 40 124 445 094
Level 29, 530 Collins Street
Melbourne VIC 3000

1.12 Regulatory Issues

AGL advises that in December 2010 it commenced proceedings in the Federal Court of Australia seeking orders directing the Australian Competition and Consumer Commission (**ACCC**) to withdraw a notice issued under section 155 of the *Trade Practices Act 1974* (Cth) (as it was then known) (the **Notice**).

The Notice was issued on 3 November 2010 and follows an earlier notice issued by the ACCC in May 2010. That earlier notice was later revoked on 22 June 2010 after **AGL** had informed the ACCC that the notice was defective in a number of respects and that **AGL** would seek court orders to have it set aside if it was not withdrawn.

The Notice alleges that **AGL** has taken advantage of market power in the South Australian wholesale electricity market for the “substantial purpose” of preventing other electricity retailers from engaging in competitive conduct in the South Australian retail electricity market.

The Notice asserts that, on various dates during the summer months of 2008, 2009 and 2010, AGL:

- bid significant amounts of offered capacity at Torrens Island Power Station into the National Electricity Market (**NEM**) at prices greater than \$9,000 per megawatt hour and
- on certain unspecified dates, AGL prevented or hindered electricity retailers in South Australia from obtaining hedge contracts at reasonable commercial prices by refusing to supply hedge contracts to those other retailers.

The Notice further asserts that the consequence of the alleged conduct was that retailers in South Australia were required to pay prices close to the spot price for wholesale electricity on days of high demand and higher prices for forward hedge contracts in South

Australia.

AGL rejects the assertions in the Notice that it has engaged in any conduct for the purpose of reducing competition in South Australia. **AGL's** operations in the wholesale electricity market were in keeping with the rules governing the operation and design of the NEM.

AGL is challenging the validity of the Notice.

1.13 Licence

1.13.1 Types of Licence

The **Applicant** seeks a licence to generate at the **Macarthur Wind Farm** and sell and supply electricity generated at the **Macarthur Wind Farm** in Victoria.

1.13.2 Date of Licence

The date of application for the licence is December 2011.

1.13.3 Nature and Scope of Licensed Operations

A licence is being sought by the Applicant for the generation of electricity by the Applicant at the **Macarthur Wind Farm** for sale or supply in Victoria.

The **Macarthur Wind Farm** will consist of 140 wind turbines (rated at 3 MW each) capable of generating a combined total of 420 MW. The **Macarthur Wind Farm** will be located 16km east of the town of Macarthur and 45km North West of Warrnambool in Victoria. The **Macarthur Wind Farm** will be constructed on approximately 60km² of grazing land leased from local landowners.

Construction of the **Macarthur Wind Farm** commenced in November 2010 and is expected to be completed by January 2013. **AGL Hydro** is contracted by **MWF** and **MWM** to provide on-going operation and maintenance services for the **Macarthur Wind Farm** (including ensuring full compliance with the Generation Licence and all relevant electricity laws, rules, regulations and codes).

The electricity generated at the **Macarthur Wind Farm** will be sold into the National Electricity Market through a connection point to the transmission grid. **AGL Hydro** will be the registered Market Participant and Generator under the National Electricity Rules for the **Macarthur Wind Farm**.

AGL Hydro will also be the intermediary for **MWF** and **MWM**.

1.13.4 Previous Licence Applications

None of the companies which comprise the **Applicant** have previously been unsuccessful in an application for the grant of a licence in any jurisdiction.

1.13.5 Current Licence

AGL Hydro currently holds electricity generation licences for the following power stations:

Victoria: McKay Creek, West Kiewa, Dartmouth, Eildon, Clover, Rubicon, Lower Rubicon, Royston, Rubicon Falls, Cairn Current, Banimboola, Bogong and Oaklands Hill Wind Farm.

South Australia: Hallett 5 Wind Farm, Hallett 4 Wind Farm, Hallett 2 Wind Farm, Wattle Point Wind Farm.

MWF and **MWM** do not hold any electricity generation licences.

1.13.6 Licence Conditions

The **Applicant** seeks the standard licence conditions.

1.13.7 Electricity Industry Participation

AGL is a member of both the Energy Retailers Association of Australia and the Private Generators Group. It is an active participant in the NEM developments and seeks representation on all relevant committees, for example, the Dispatch and Pricing Reference Group and Settlement Residue Committee.

2 The Commission's Objectives

The **Applicant** believes that the granting of the licence is consistent with the Commission's objectives set out under sub-sections 8(1) and (2) of the ESC Act for the following reasons:

2.1 To protect the long term interest of Victorian consumers with regard to the price, quality and reliability of essential services

The granting of the licence is consistent with this objective because the granting of the licence will increase renewable electricity generation capacity in Victoria which will, in turn:

- provide more low marginal cost energy thereby reducing the overall energy cost in the market;
- increase the renewable energy provided from Victoria, potentially lowering the cost of Renewable Energy Certificates, which is part of the price of electricity paid by consumers; and
- increase the overall reliability of supply due to the increase sources of supply.

Quality of supply will be maintained as the **Macarthur Wind Farm** will be required under the terms of its registration under the National Electricity Rules to comply with generator performance standards approved by AEMO.

2.2 To facilitate efficiency in regulated industries and the incentive for long-term investment

The granting of the licence is consistent with this objective because the **Macarthur Wind Farm** and the associated augmentations to the AEMO transmission system represent efficient long term electricity industry investments and will facilitate future electricity industry investments.

2.3 To facilitate the financial viability of regulated industries

The granting of the licence is consistent with this objective because it will improve the financial viability of the Victorian electricity generation industry.

2.4 To ensure that the misuse of monopoly or non-transitory market power is prevented

The granting of the licence is consistent with this objective because it will result in the creation of a new electricity generation group in Victoria.

2.5 To facilitate effective competition and promote competitive market conduct

The granting of the licence is consistent with this objective because it will result in the creation of a new electricity generation group in Victoria.

2.6 To ensure that regulatory decision making has regard to the relevant health, safety, environmental and social legislation applying to the regulated industry

The granting of the licence is consistent with this objective because the development and operation of the **Macarthur Wind Farm** will be subject to all relevant health, safety, environmental and social legislation applying to the Victorian electricity industry.

2.7 To ensure that users and consumers (including low-income or vulnerable customers) benefit from the gains from competition and efficiency

The granting of the licence is consistent with this objective for the reasons outlined in paragraph 2.1 above.

3 Information on Financial Viability

Under Section 19(3) of the *Electricity Industry Act 2000* (Vic) (the **Act**), for non-retail licence applications, the **Commission** does not need to be satisfied with an applicant's financial viability if the licence conditions require the compliance with the National Electricity Rules and the National Electricity Rules include prudential requirements.

The **Applicant** acknowledges the **Commission's** view that there is an expectation that prior to AEMO granting full registration to **Macarthur Wind Farm** as a Generator, it is necessary for the **Commission** to consider the issue of financial viability as part of the licence application process. On this basis, the **Applicant** provides the following financial information.

3.1 Financial Information

MWF is a wholly owned subsidiary of **AGL**.

MWM is a wholly owned subsidiary of **Meridian**.

AGL Hydro is a partnership of wholly owned subsidiaries of **AGL** (see Sections 1.4 and 1.11).

The financial resources of the **Applicant** are provided by its parent companies, **AGL** and **Meridian**.

AGL Hydro has been operating as a financially viable business for many years and as a current generation licence holder for over 800 MW in Victoria and South Australia. As a registered Market Participant in the NEM, **AGL Hydro**, together with other **AGL** companies are offering over 3,000 MW of electricity generation in Australia.

AGL is one of Australia's top 50 listed companies and is Australia's largest private owner, operator and developer of renewable generation assets. **AGL** has Australia's largest retail energy and dual fuel customer base, retailing natural gas, electricity and energy-related

products and services to over 3.2 million customer accounts. **AGL** has three operating divisions - Retail, Merchant Energy and Upstream Gas and FY11 revenue of \$7 billion.

Meridian is the largest state-owned electricity generator in New Zealand, providing around 30% of New Zealand's total generation. **Meridian** also retail electricity to more than 180,000 customers in New Zealand. **Meridian** has two operating divisions of Energy Sales and Energy Related services with FY10 revenue of NZ\$2,061.9 million.

Meridian, which is a large energy provider with substantial assets and turnover as evidenced through audited financial statements available in the provided annual report, as well as displayed by other financial information provided in this application including an independent credit rating report from Standard & Poor's.

The **Applicant** is therefore capable of meeting the financial viability requirements of operating the **Macarthur Wind Farm**.

The financial viability of the **Applicant** is further stated through the public (**Annexure B**) and strictly confidential (**Annexure D**) information relating to its parent companies **AGL** and **Meridian**, in addition to the information provided in relation to **AGL Hydro**.

Further financial and other company information can be found at www.agl.com.au and www.meridianenergy.co.nz.

4 Competency in Operation

MWF and **MWM** have appointed **AGL Hydro** to be the operator of the **Macarthur Wind Farm** under an unincorporated joint venture agreement (**UJV**).

Under this agreement, **AGL Hydro** will provide all the expertise, knowledge and skill required to operate the **Macarthur Wind Farm** and register as a Market Participant and Generator in the NEM.

The **Applicant** therefore provides the following information in relation to its technical competency, noting that **AGL Hydro** will be the operator of the **Macarthur Wind Farm**.

AGL Hydro is already a registered Generator in the NEM and the operator of over 800MW of electricity generation. **AGL Hydro** is one of the corporate entities fully owned and controlled by **AGL**. As the chief entity of the **AGL** group, **AGL** has set up an organisation that performs its functions, roles, responsibilities, legal and regulatory obligations of its subsidiary entities on the basis that it has a 100% controlling interest in this entities. The directors and company secretaries of these entities are appointed from the executive ranks of **AGL**. These entities include those that hold electricity generation and retail licences, as well as generation and intermediary registrations as market participants in the NEM. The relevant people, systems and processes (for example Information Technology and Human Resources services) that carry out the business operation is provided by the **AGL** group and shared amongst all entities within the **AGL** group that hold licences and registrations for electricity retail and generation.

AGL Hydro does not exist as a separate organisation. Its roles, functions and responsibilities are performed by the Merchant Energy operating division in **AGL (Merchant Energy)**.

Through Merchant Energy, **AGL** currently offers more than 3,000 MW of electricity to the market through **AGL Hydro**, AGL Power Generation (Victoria) Pty Ltd, AGL SA Generation and AGL Energy Services (Queensland).

MWM is part of the wider **Meridian** organisation. **Meridian**, through an Australian subsidiary, operates the 70 MW Mt Millar Wind Farm in South Australia. **Meridian** operates 13,800 MW of generation in New Zealand including 1,000 MW of wind generation.

The **Applicant** therefore has the expertise, knowledge and skill base to operate **Macarthur Wind Farm**.

4.1 Experience and Knowledge of Industry

Annexure C shows the organisation chart of the leadership team of Merchant Energy. There are approximately 560 employees in Merchant Energy led by Anthony Fowler.

The following provides a summary of the experience and knowledge of the key groups in Merchant Energy: Power Development, Merchant Operations and Energy Portfolio Management.

4.1.1 Power Development

AGL's Power Development group is responsible for delivering all upstream electricity generation development projects and for creating new development opportunities. Completed projects are then managed by **AGL's** Merchant Operations group.

The Power Development group is responsible for the following recent electricity generation projects:

- 94 MW Hallett 1 Wind Farm in South Australia (completed in 2008);
- 160 MW Bogong Hydro Power Station in Victoria (completed 2009);
- 71 MW Hallett 2 Wind Farm in South Australia (completed 2010);
- 132 MW Hallett 4 Wind Farm in South Australia (completed in 2011);
- 52 MW Hallett 5 Wind Farm in South Australia (due for completion in 2012); and
- 67 MW Oaklands Hill Wind Farm in Victoria (due for completion in 2012).

4.1.2 Merchant Operations

AGL's Merchant Operations group is responsible for the physical operation and maintenance of **AGL's** growing portfolio of wind, water and gas fired generation plants.

The Merchant Operations group ensures that these plants are available when generation is required, properly maintained, and deliver operating efficiencies across the growing asset portfolio.

The generation assets portfolio under **AGL's** control is over 3,000 MW. The following are some of the power stations that are under the control and operation of the Merchant Operations group:

In South Australia:

- 1,280 MW Gas-fired Torrens Island Power Station;
- 90 MW Wattle Point Wind Farm;
- 94 MW Hallett 1 Wind Farm;
- 71 MW Hallett 2 Wind Farm;
- 132 MW Hallett 4 Wind Farm; and
- 52 MW Hallett 5 Wind Farm.

In Victoria:

- 150 MW Gas-fired Somerton Power Station;
- 180 MW Dartmouth Hydro Power Station;
- 135 MW Eildon Hydro Power Station;
- 160 MW Bogong Hydro Power Station;
- 150 MW McKay Creek Hydro Power Station;
- 62 MW West Kiewa Hydro Power Station; and
- 67 MW Oaklands Hill Wind Farm.

The Merchant Operations group is undertaking a continuous improvement and innovation program to enhance maintenance activities and reduce outage times and associated costs, to improve workplace safety and to continue to increase workforce flexibility. A comprehensive 'whole of life' asset management plan is in place to ensure the ongoing safe, reliable and cost-effective performance of the generation assets.

4.1.3 Energy Portfolio Management

AGL's Energy Portfolio Management group is responsible for managing the risks associated with procuring gas, electricity and environmental market certificates, particularly Renewable Energy Certificates (**RECs**). This is achieved through participation in physical commodity markets (Power Generation) and the use of financial instruments such as primary and derivative contracts. The integrated portfolio allows **AGL** to build an in-depth understanding of the inter-relationships that exist between these markets.

The portfolio is benefiting from the increased renewable energy target and our ability to offer structured long-term renewable products to key customers. Over the past two years, **AGL** has announced three major renewable energy supply contracts in respect of:

- Victoria's \$3.5 billion desalination plant;
- South Australia's desalination plant; and
- Melbourne Water Corporation.

These projects provide **AGL** with a fixed revenue stream for renewable energy and increase the value of our development portfolio.

The Energy Portfolio Management group operates under **AGL's** policy, procedure, compliance plan and risk management framework. This approach ensures the staff and the companies are consistently acting within the legal, regulatory and financial requirements of operating in the electricity and financial markets.

4.2 Contracts

4.2.1 Contracts with Service Providers

Refer to Section 1.7.

4.2.2 Contracts with Customers

Refer to Section 1.7.

4.2.3 Internal Control, policies and procedures

The operation of **Macarthur Wind Farm** is subject to comprehensive internal control policies and procedures that apply to generation facilities operated and/or controlled by **AGL** companies to ensure that **AGL** meets all of its legal, regulatory and financial requirements. These include the:

- AGL Compliance Policy;
- Wholesale Energy Risk Management Policy;
- Wholesale Energy Risk Management Framework;
- Generation Bidding Procedure;
- Generation Bidding Policy;
- Financial Services Compliance Plan; and
- Asset Management Policy and Strategy.

4.2.4 Business Model and Plan

AGL and **Meridian's** corporate strategy and plan are provided in the annual reports.

4.2.5 Risk Management Policies

AGL is committed to ensuring that risk management practices are entrenched in all of **AGL's** business processes and operations to drive consistent, effective and accountable action, decision making and management practices. **AGL's** underlying risk principles are consistent with ISO 31000 (Risk Management – Principles and Guidelines) and the COSO standard for Enterprise Risk Management.

AGL Risk Management Policy is supported by the **AGL** Risk Management and Assessment Framework that provide guidance with regard to the processes that underpin effective and consistent risk management. **AGL** is committed to an integrated risk management approach, whereby each business area is responsible for meeting their objectives, and for identifying and managing the risks in relation to those objectives. **AGL** considers that risk management is embedded in strategy setting, operational processes, the audit function and integrated with issues and compliance management.

4.2.6 Governance Policy

AGL governance policy is consistent with the ASX Corporate Governance Council's 'Corporate Governance Principles and Recommendations' namely:

- Principle 1: Lay solid foundations for management and oversight by the Board;
- Principle 2: Structure the Board to add value;
- Principle 3: Promote ethical and responsible decision making;
- Principle 4: Safeguard integrity in financial reporting;
- Principle 5: Make timely and balanced disclosure;
- Principle 6: Respect the rights of shareholders;
- Principle 7: Recognise and manage risk; and
- Principle 8: Remunerate fairly and responsibly.

For maximum transparency, the **AGL** Board has responded in turn to each of the above eight principles of good corporate governance.

4.2.7 Australian Financial Services Licence

AGL Hydro is the holder of a Financial Services Licence for the following authorised activities. The authorised activities apply to derivative contracts and for defined wholesale clients only:

- Financial product advice;
- Deal in financial products (Authorised to deal in a financial product by issuing, applying for, acquiring, varying or disposing of a financial product); and
- Market making.

AGL Hydro's AFSL is provided at **Annexure B: Public Financial and Commercial Information**.

Meridian Wind Macarthur Holdings Pty Ltd (**MWMH**) is the holder of a Financial Services Licence for the following authorised activities. The authorised activities apply to non-cash payment products, derivative contracts and foreign exchange contracts, and for defined wholesale clients only:

- Financial product advice;
- Deal in financial products (Authorised to deal in a financial product by issuing, applying for, acquiring, varying or disposing of a financial product); and
- Market making.

MWMH's AFSL is provided at **Annexure B: Public Financial and Commercial Information**.

MWM has entered into an Intermediary Authorisation Agreement (dated 11 August 2010) with **MWMH** (of which **MWM** is a direct subsidiary) under section 911A(2)(b) of the *Corporations Act 2001* (Cth), permitting **MWMH** to arrange necessary dealings in financial products for **MWM's** involvement in **Macarthur Wind Farm**.

5 Information in support of generation licence application

5.1 Experience and Knowledge of Industry

Refer to Section 4.1.

5.2 Skills and Experience

Refer to Sections 1.5, 1.6 and 4.1.

5.3 Compliance with Licence Conditions, Codes and Guidelines.

The **Applicant** has demonstrated and confirms that it is capable of complying with all licence conditions and relevant codes and guidelines applying to electricity generation in Victoria.

AGL Hydro, as a current licence holder and/or operator of electricity generation facilities (see Section 4.1.2), has been operating successfully for many years as part of the **AGL** business.

AGL currently has in place comprehensive compliance and risk management programs and policies which ensure all of its businesses comply with their legal, technical, financial and regulatory requirements (see Sections 4.2.3, 4.2.5, and 4.2.6).

5.4 Interaction with AEMO

AGL Hydro entered into a Use of System Agreement with AEMO on 12 November 2010. The 500kV Tarrone Terminal Station which is the connection point for the **Macarthur Wind Farm** project is currently under construction. **AGL Hydro** has submitted necessary technical information to AEMO including the generator model, releasable user guide, model source code and generator data sheets. Discussions with AEMO regarding these items are on-going. The application form for registration of **AGL Hydro** as the Generator for the **Macarthur Wind Farm** has been completed and will be submitted in January 2012.

5.5 Third Party Service Providers

Refer to Section 1.7.

5.6 Planning and Environmental Approval

The **Macarthur Wind Farm** has been approved under Planning Permit No PL-SP/05/0283 as amended on 7 April 2011. The Endorsed Plans required by the Planning Permit were approved by the Victorian Department of Planning and Community Development in October 2010. All lower level permits are either in place or will be attained when required (including building permits, dangerous goods transport licences etc).

5.7 Risk, governance and compliance management

Refer to Sections 4.2.3, 4.2.5 and 4.2.6.

5.8 Operating a successful business

The **Applicant** is capable of operating a successful business within the electricity industry. **AGL** and **AGL Hydro** have been operating in the electricity business for many years and currently offer over 3,000 MW of electricity generation into the National Electricity Market (see Sections 4.1.2 and 4.1.3).

5.9 Cross Ownership

The **Applicant** has requested the Essential Services Commission of Victoria make a determination under section 68(8A) of the Act in relation to the **Macarthur Wind Farm**.

The **Applicant** notes that each of the criteria set out in sections 68(8A)(a) – (d) of the Act are satisfied with respect to the **Applicant** and the **Macarthur Wind Farm**.

The **Applicant** therefore expects that the Essential Services Commission will make a determination under section 68(8A) of the Act in relation to the **Macarthur Wind Farm** as requested.

Once a section 68(8A) determination is issued by the Essential Services Commission, neither **AGL** nor **Meridian** will be treated as holding a prohibited interest (within the meaning of section 68(3) of the Act) by reason only of holding a controlling interest in any of the entities who jointly hold the generation licence for the **Macarthur Wind Farm**.

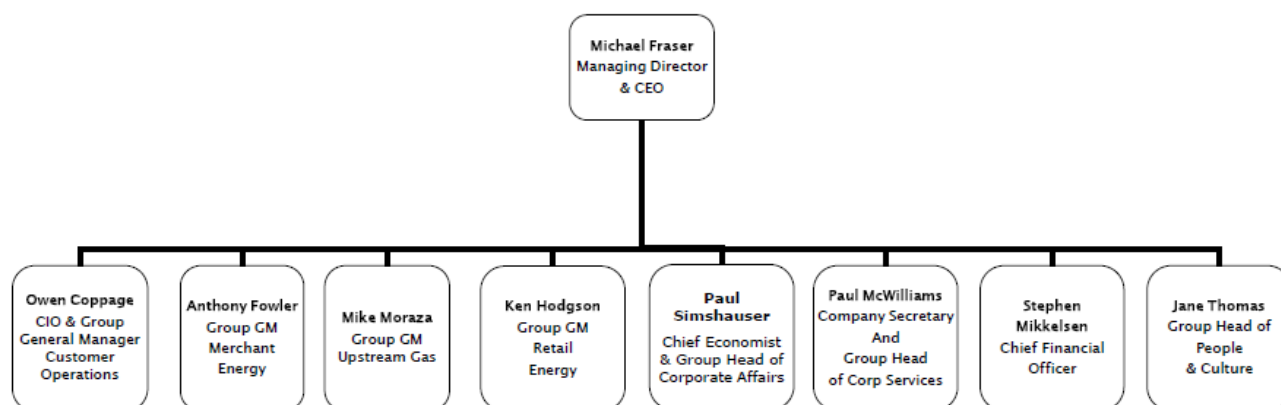
We understand that this is the combined effect of section 68(3) and section 68(8A) of the Act once the Essential Services Commission issues a determination with respect to the Applicant and the **Macarthur Wind Farm** under section 68(8A) of the Act.

We confirm that **AGL Hydro** and **AGL** has obtained independent legal advice Minter Ellison concerning the application of Part 3 of the Act to the **Macarthur Wind Farm** and that independent legal advice has confirmed that no cross-ownership issues will arise under Part 3 of the Act if:

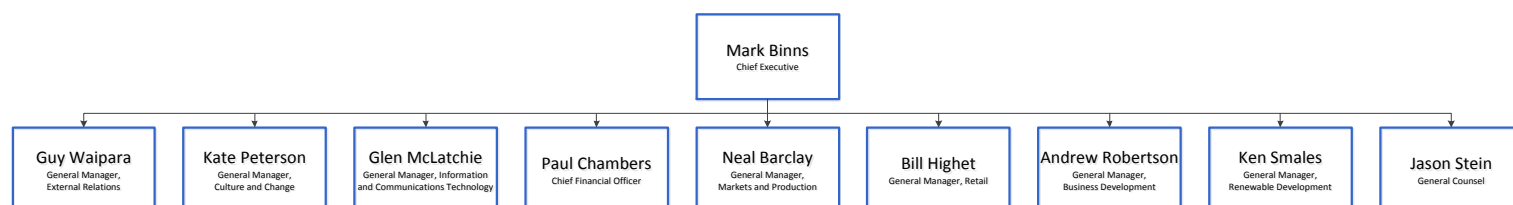
- a generation licence is issued to the Applicant for the **Macarthur Wind Farm**; and
- the Essential Services Commission makes a determination with respect to the Applicant and the **Macarthur Wind Farm** under section 68(8A) of the Act.

Annexure A: Organisation Structure

AGL Energy Executive Team



Meridian Energy Executive Team



Annexure B: Public Financial and Commercial Information

1. MWF and AGL Hydro

MWF has entered into a Deed of Cross Guarantee with **AGL**, pursuant to ASIC Class Order 98/1418, that provides a financial guarantee under the *Corporations Acts 2001* (Cth) (see Note 46 of the attached **AGL Annual Report**). As a wholly owned subsidiary of **AGL** (see section 1.4 of this application), **MWF** does not prepare and lodge audited financial statements. **AGL** produces statutory financial statements and annual report in a consolidated account.

AGL Hydro is a fully owned subsidiary of **AGL** and is part of the **AGL** consolidated group (see section 1.4). **AGL Hydro** is not a party to the Deed of Cross Guarantee and lodges its own Statutory Financial Statements. **AGL** provides its financial support to **AGL Hydro** through a representation letter provided in connection to the audit of the financial report of **AGL Hydro**. The Statutory Financial Report for **AGL Hydro** and the letter of support from **AGL** to **AGL Hydro** is attached at **Annexure D**.

Accordingly, the information provided in the **AGL Annual Report 2011 (AGL Annual Report)** for consolidated **AGL** groups of companies and Statutory Financial Report for **AGL Hydro June 2011 (AGL Hydro Report)** is used to support the financial viability requirements of this application.

The current financial viability of **MWF** and **AGL Hydro** is supported by the public statements in the Directors' Declaration on page 133 of **AGL Annual Report** and in the Partners' Declaration on page 37 of **AGL Hydro Report**.

2. MWM

As a wholly owned subsidiary, **MWM** will draw its financial resources from its parent company **Meridian**, a large energy provider with substantial assets and turnover as evidenced through audited financial statements available in the provided annual report, as well as displayed by other financial information provided in this application including an independent credit rating report from Standard & Poor's.

3. Current Balance Sheet and financial data

The current balance sheet and financial data is provided in the **AGL Annual Report, AGL Hydro Report** and **Meridian Annual Report**.

These are verified public documents which demonstrate the financial performance, position and cash flow of the companies.

4. Significant Contracts

Refer to Sections 1.7, 1.9 and 4.2 and **Annexure D**.

5. Annual Reports

The **AGL Annual Report, AGL Hydro Report** and **Meridian Annual Report** are attached.

6. Standard and Poor's Rating

The Standard and Poor's Corporate rating for **AGL** is BBB Stable and **Meridian** is BBB+ Stable.

Copies of the rating reports are attached.

7. Statement from internal/external auditor

Statements from the external auditors can be found in the Independent Auditor's Report of the **AGL Annual Report** on page 134, the **AGL Hydro Report** on pages 38 and 39 and **Meridian Annual Report** on pages 104-105.

8. Statement of assets and liabilities

The statement of assets and liabilities is provided in the **AGL Annual Report**, **AGL Hydro Report** and **Meridian Annual Report**.

9. Shareholder register

The Shareholder Registers for **MWF**, **MWM** and **AGL Hydro** are attached.

10. Certificate of Registration and Partnership Agreement

The Certificates of Registration for **MWF**, **MWM** and **AGL Hydro** are attached. The Partnership Agreement for **AGL Hydro** is attached at **Annexure D**.

11. Statement from bankers/financiers

Macarthur Wind Farm is funded jointly by **AGL** and **Meridian**.

AGL has entered into a Deed of Cross Guarantee with **MWF** that guarantees the provision of all financial resources required for the project.

Financial support required by **MWM** will be provided by **Meridian**.

The financial resources for the on-going operation of **Macarthur Wind Farm** are provided by **AGL Hydro** and **AGL** through a letter of support from **AGL**.

12. Guarantees

MWF has entered into a Deed of Cross Guarantee with **AGL**, pursuant to ASIC Class Order 98/1418, that provides a financial guarantee under the *Corporations Act 2001* (Cth) (see Note 46 of the attached **AGL Annual Report**).

AGL provides its financial support to **AGL Hydro** through a representation letter provided in connection to the audit of the financial report of **AGL Hydro**. Attached is a copy of the letter of representation.

Meridian does not provide financial guarantee to **MWM** but will provide the necessary financial support required by **MWM**.

13. Australian Financial Services Licence

AGL Hydro is a holder of an Australian Financial Services Licence (**AFSL**). Details of the licence are shown below:

SCHEDULE 1: LICENSED AGL ENTITIES AND AUTHORISED ACTIVITIES

AGL Entity	Abbreviation	ABN	FSL	Authorised Activities		
				Provide Financial Advice	Deal in a Financial Product*	Market Making
AGL Hydro Partnership (AGL HP1 Pty Ltd & AGL HP2 Pty Ltd & AGL HP3 Pty Ltd)	AHP	86 076 691 481	247 091	✓ Financial Product Advice	✓	✓

Notes:

Authorised activities apply to **derivative contracts** and for defined **wholesale clients** only.

*Authorised to deal in a financial product by issuing, applying for, acquiring, varying or disposing of a financial product

A copy of the AFSL is attached.

Meridian Wind Macarthur Holdings Pty Ltd is a holder of an AFSL. Details of the licence are shown below:

Meridian Entity	Abbreviation	ABN	FSL	Authorised activities		
				Provide financial advice.	Deal in a financial product*	Market Making
Meridian Wind Macarthur Holdings Pty Ltd.	MWMH	40 124 445 094	330301	✓	✓	✓

Notes: Authorised activities apply to **Derivative Contracts**, **Foreign Exchange Contracts** and **non-cash payment products** and for defined wholesale clients only.

*Authorised to deal in a financial product by issuing, applying for, acquiring, varying or disposing of a financial product.

A copy of the AFSL is attached.

14. Financial Assurance

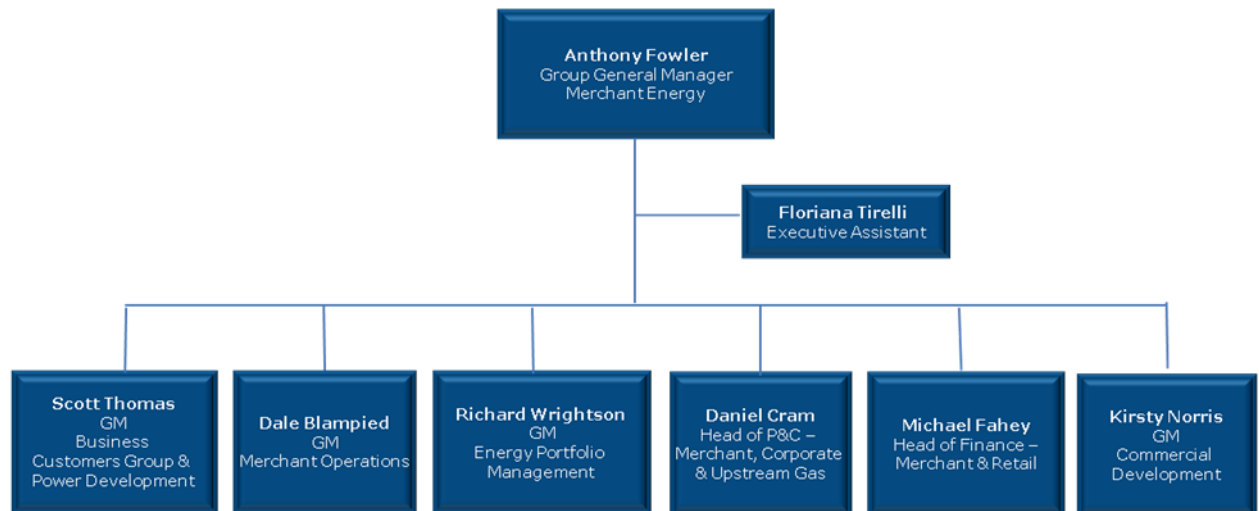
The financial resources required by the **Applicant** to sustain the operations of **Macarthur Wind Farm** are derived from **AGL Hydro** and **AGL**, the latter of which has a credit rating of BBB stable. The prudential requirements required by AEMO for the National Electricity Market will be provided by **AGL** on behalf **AGL Hydro** which will be the registered Market Participant for the **Macarthur Wind Farm**.

15. Credit Support Arrangement with Network

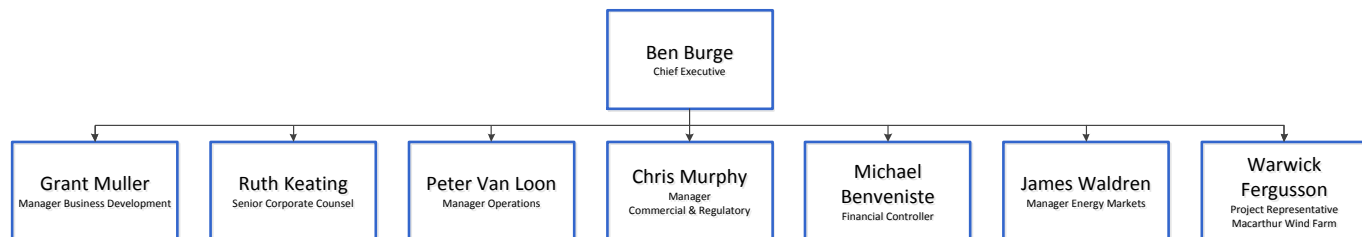
The credit support arrangement with the AEMO and SP Ausnet are on the basis that **AGL** has a credit rating of BBB stable.

Annexure C: Organisation Charts of Key Personnel

AGL Merchant Energy Leadership Team



Meridian Energy Australia Pty Ltd management structure



Annexure D: Strictly Confidential Information

All documents contained in this **Annexure D** are provided to the Essential Services Commission of Victoria (the **Commission**) on the understanding that they are to be treated as 'STRICTLY CONFIDENTIAL' and the confidentiality of all information provided herein is retained by the **Commission** under the common law. No part of the documents can be provided to any third parties or used in any other way other than for the purpose of the licence application, without the prior consent of the **Applicant**.

Documents attached to **Annexure D** are:

1. Macarthur Wind Farm Unincorporated Joint Venture Deed
2. Macarthur Wind Farm Operation Agreement
3. AGL Hydro Statutory Financial Report June 2011
4. Letter of Financial Support – AGL Hydro
5. AGL Hydro Partnership Agreement

Statutory Declaration

I, *(insert name)*..... of

AGL Energy Limited, Level 22, 101 Miller Street, North Sydney NSW 2060

being the *(insert position)*

..... of Macarthur Wind Farm

Pty Ltd, ABN 19 106 134 507

Hereby DECLARE that the information contained in this application, and attachments thereto relating to AGL Energy Limited and Macarthur Wind Farm Pty Ltd upon which I have placed my signature, for the grant of a electricity generation licence under the *Electricity Industry Act 2000* (Vic) is true and correct and that I make this declaration conscientiously believing the same to be true and in the belief that a person making a false declaration is liable to the penalties of perjury⁶

Declared at in the State of New South Wales

Signature of Declarant

This day of day of 2011

.....

.....

Before me

(A person authorised by section 107A of the Evidence Act 1958 (Vic))

⁶ Refer to section 107 of the *Evidence Act 1958* (Vic).

Statutory Declaration

I, *(insert name)*..... of

AGL Energy Limited, Level 22, 101 Miller Street, North Sydney NSW 2060

being the *(insert position)*

..... of AGL HP1 Pty Limited

ABN 080 429 901, AGL HP2 Pty Limited ABN 86 080 810 546, AGL HP3 Pty

Limited ABN 75 080 735 815, as partners in the AGL Hydro Partnership, ABN

22 86 076 691 481

Hereby DECLARE that the information contained in this application, and attachments thereto relating to AGL Energy Limited and AGL Hydro Partnership upon which I have placed my signature, for the grant of a electricity generation licence under the *Electricity Industry Act 2000* (Vic) is true and correct and that I make this declaration conscientiously believing the same to be true and in the belief that a person making a false declaration is liable to the penalties of perjury⁶

Declared at in the State of New South Wales

Signature of Declarant

This day of day of 2011

.....

.....

Before me

(A person authorised by section 107A of the Evidence Act 1958 (Vic))

⁶ Refer to section 107 of the *Evidence Act 1958* (Vic).

Statutory Declaration

I, *(insert name)*..... of

Level 29, 530 Collins Street, Melbourne VIC 3000 being the *(insert position)*

..... of Meridian Wind

Macarthur Pty Limited, ABN 60 124 383 688

Hereby DECLARE that the information contained in this application, and attachments thereto relating to Meridian Limited and Meridian Wind Macarthur Pty Limited upon which I have placed my signature, for the grant of a electricity generation licence under the *Electricity Industry Act 2000* (Vic) is true and correct and that I make this declaration conscientiously believing the same to be true and in the belief that a person making a false declaration is liable to the penalties of perjury⁶

Declared at in the State of Victoria

Signature of Declarant

This day of day of 2011

.....

.....

Before me

(A person authorised by section 107A of the Evidence Act 1958 (Vic))

⁶ Refer to section 107 of the *Evidence Act 1958* (Vic).