

AGL Energy Limited

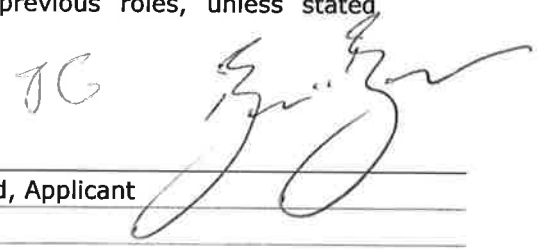
RE: PROPOSED ACQUISITION OF MACQUARIE GENERATION (A CORPORATION ESTABLISHED UNDER THE ENERGY SERVICES CORPORATIONS ACT 1995 (NSW))

Statement of: Benjamin Charles Burge
Address: Level 15, 357 Collins Street, Melbourne, in the State of Victoria
Occupation: Chief Executive Officer of Meridian Energy Australia and Powershop Australia
Date: 21 March 2014

I, Benjamin Charles Burge, Chief Executive Officer at Meridian Energy Australia Pty Ltd and Powershop Australia Pty Ltd, of Level 15, 357 Collins Street, Melbourne, in the State of Victoria, do solemnly and sincerely affirm that:

QUALIFICATIONS AND EXPERIENCE

1. I am the Chief Executive Officer of Meridian Energy Australia Pty Ltd and Powershop Australia Pty Ltd (together, the **MEA Group**), and have held those positions since late 2010 and mid 2012 respectively.
2. My primary responsibilities in my current roles include responsibility for the development and operation of:
 - (a) the Powershop Australia business (**Powershop**), which is a retail electricity business owned by the MEA Group; and
 - (b) the MEA Group's wind powered electricity generation assets in Australia.
3. I have been the Chief Executive Officer of the MEA Group since late 2010. Before then, I worked in investment banking and corporate advisory roles, including as a corporate advisor to the MEA Group and as a Responsible Officer for an Australian Financial Services Licence holder engaged in trading securities and derivatives.
4. I am authorised to provide this affidavit on behalf of the MEA Group. I make this statement in support of an application by AGL Energy Limited (**AGL**) to the Australian Competition Tribunal for authorisation of its proposed acquisition of the assets of Macquarie Generation.
5. I make the statements in this affidavit on the basis of my own knowledge and experience working for the MEA Group and in my previous roles, unless stated otherwise.



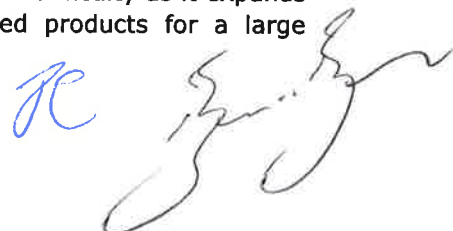
Filed on behalf of (name & role of party)	AGL Energy Limited, Applicant
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OVERVIEW OF THE MEA GROUP AND POWERSHOP

6. The MEA Group is wholly owned by Meridian Energy Limited, which is the largest state-owned electricity generator in New Zealand.
7. The MEA Group:
 - (a) owns and operates Powershop;
 - (b) owns and operates the Mt Millar wind farm in South Australia, which supplies electricity into the National Electricity Market (**NEM**) and has generation capacity of 70 MW; and
 - (c) is developing the Mt Mercer wind farm, located 30km south of Ballarat in Victoria, which is intended to have generation capacity of 131MW.
8. The MEA Group faces risk from the exposure of its generation assets to the NEM spot price, and from the exposure of its retail business to the NEM spot price. The MEA Group manages these risks by buying and selling hedge contracts against its generation portfolio, and to support its retail load. The MEA Group trades contracts for its generation business independently of its contract trading for its retail business. Although the MEA Group's generation and retail activities provide some offsetting benefits to each other, this is not an effective hedge and accordingly the MEA Group operates separate trading portfolios for each of its physical retail and generation positions with their own risk management parameters.
9. **MEA GROUP'S EXPERIENCE OBTAINING CONTRACT COVERAGE FOR THE POWERSHOP BUSINESS**
10. Powershop commenced retail operations in Victoria initially as a beta trial in mid-2012 with a commercial rollout commencing in late 2013, and does not currently operate in any other State.
11. In January 2014, Powershop had around 1,000 retail electricity customers in Victoria. Powershop currently has between 5,000 and 10,000 retail electricity customers in Victoria.
12. In order to manage the risks associated with developing the Powershop business, Powershop:
 - (a) has traded vanilla swaps and caps on the Australian Securities Exchange (**ASX**);
 - (b) has generally not bought over the counter hedge contracts;
 - (c) has not bought any hedge contracts which include customised load following or reallocation arrangements; and
 - (d) has not relied on the MEA Group's wind powered generation assets to provide a hedge for its retail business.
13. In my view, based on Powershop's experience, retailers do not need to have contracts with load following or reallocation arrangements to establish a successful retail business. Powershop has not used those contracts, and has grown its business rapidly, as I described above. Powershop intends to continue to grow its business rapidly.
14. Powershop has not experienced difficulty in obtaining access to sufficient hedge coverage to support its retail load, and does not expect to experience such difficulty as it expands its business. The fact that Powershop uses exchange traded products for a large



proportion of its business means that Powershop does not know who the counterparties are when it trades those products.

15. As I noted above, currently Powershop operates in Victoria, and not in any other States. Powershop may in the future consider expanding in to other States. The fact that Powershop currently operates only in Victoria reflects the fact that Powershop preferred to establish its Australian business in a relatively deregulated industry, and in Victoria the retail electricity industry is more deregulated than it is in New South Wales and other States.
16. The fact that Powershop decided to establish its business in Victoria does not reflect any view by Powershop about how hard or easy it is to obtain hedge contracting coverage in Victoria compared to other States. I do not perceive any material impairment of hedge contract availability to establish a retail business in NSW compared to Victoria.

MEA GROUP'S EXPERIENCE SELLING HEDGE CONTRACTS AGAINST ITS GENERATION PORTFOLIO

17. The MEA Group primarily uses vanilla hedge contracts to manage risk associated with its generation assets, and sells these products over the counter and on the ASX.
18. However, the MEA Group has previously also sold a customised hedge contract to a small electricity retailer, which was a swap contract with a reallocation arrangement.
19. The MEA Group would also consider selling a load following hedge against its generation portfolio in future.
20. The MEA Group does not own any coal-based generation assets, and is not party to any power purchase agreements. However this has not been an obstacle to the MEA Group selling hedge contracts against its wind powered generation assets.

THE MEA GROUP'S VIEWS ON AGL'S ACQUISITION OF MACQUARIE GENERATION

21. Based on the MEA Group's experience buying and selling hedge contracts for its generation and retail business, I do not expect that AGL's acquisition of Macquarie Generation would reduce liquidity in the supply of hedge contracts to retailers.
22. This is because I expect that AGL, like other generation businesses, will continue to have a commercial incentive to sell competitively priced hedge contracts against its generation assets, to whoever offers AGL the best price, regardless of the identity of the person offering that price. Even if AGL did not sell those contracts, retailers could readily buy coverage from other generators, or on the ASX.
23. In MEA Group's experience, the number one issue which affects liquidity in hedge contracts is regulatory uncertainty, such as uncertainty about whether the carbon tax will be repealed, and whether the policy regarding the Commonwealth government's renewable energy target will continue or be amended. I say this because, in my experience, that uncertainty reduces the extent to which counterparties are willing to trade hedge contracts over the counter or on the ASX.
24. The MEA Group is concerned about the effect of this regulatory uncertainty on liquidity in hedge contracts. The MEA Group is not concerned that AGL's acquisition of Macquarie Generation might affect that liquidity. If I had to rate the MEA Group's concerns about these factors out of 10, I would rate regulatory uncertainty as "12", and AGL's acquisition of Macquarie Generation as "less than 1".
25. I understand that AGL previously offered an enforceable undertaking to the ACCC under which it promised to make 500 MW of vanilla contracts available to small retailers in NSW. In my view, this undertaking is unnecessary, since I expect that AGL will continue

to supply hedge contracts to retailers and others, as I described above. If that undertaking was given, in my view it could only positively contribute to the openness, competitiveness and liquidity of the market.

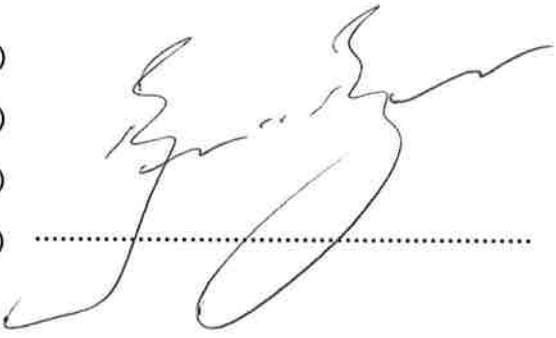
Affirmed at Melbourne

in the State of Victoria this 21st day

of March 2014

before me:

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Name:

JAMES CLARKE
Ashurst Australia
181 William Street, Melbourne Vic, 3000
An Australian legal practitioner within the
meaning of the Legal Profession Act 2004