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IN THE AUSTRALIAN COMPETITION TRIBUNAL

of 2014

AGL Energy Limited

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

Statement of: Katherine Leigh Farrar
Address: 11 Cordelia Street, South Brisbane, in the State of Queensland
Occupation: Managing Director of QEnergy Limited
Date: 21 March 2014

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I, Katherine Leigh Farrar, Managing Director at QEnergy Limited, of 11 Cordelia Street, South Brisbane, in the State of Queensland, do solemnly and sincerely affirm that:

1. QUALIFICATIONS AND EXPERIENCE

1.1 I am the Managing Director of QEnergy Limited (**QEnergy**), and have held that position since February 2010.

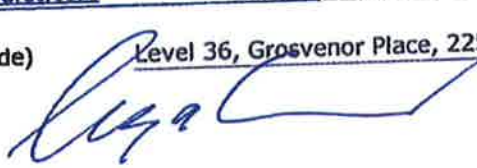

1.2 My primary responsibilities in my current role include:

- (a) establishing and operating the retail capabilities to service QEnergy's customers;
- (b) building QEnergy's customer base and business;
- (c) ensuring that business margin is maximised, particularly through oversight of QEnergy's trading capability; and
- (d) sourcing funding for the business.

1.3 Between 1989 and 1999, I held a number of roles in the financial services industry, including with the New South Wales Treasury Corporation from around 1989 to 1992 and with Suncorp Group from around 1994 to 1999.

1.4 From 1999 to 2007, I was the Chief Operating Officer of PowerDirect Australia Pty Ltd (**PowerDirect**), an electricity retailer controlled by Ergon Energy Pty Ltd, which itself was owned by the Queensland Government. During my time in that role, PowerDirect became

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one of Australia's top five energy retailers, with a customer base ranging from domestic and small business customers to large mines and airports. In 2007, I managed the sale process, on behalf of the Queensland Government, of PowerDirect to AGL.

- 1.5 From April 2007 to October 2009, I was a Director with ABN AMRO Morgans (now Morgans), a national financial advisory firm. In this capacity, I ran the platform business and re-engineered it around a new operating system.
- 1.6 In October 2009, I joined QEnergy as Chief Operating Officer. Since February 2010, I have held my current position as Managing Director of QEnergy.
- 1.7 I am authorised to give this statement on behalf of QEnergy. 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 (the **Proposed Acquisition**).
- 1.8 I make the statements in this statement on the basis of my own knowledge and experience working for QEnergy and in my previous roles, unless stated otherwise.

2. **OVERVIEW OF QENERGY**

- 2.1 QEnergy is an established national electricity retailer based in Brisbane and specialising in providing retail electricity to small businesses.
- 2.2 Since QEnergy was established in 2009, the business has grown to service just under 18,000 customers. These customers are based largely in Queensland and New South Wales (**NSW**), but also in Victoria, South Australia and the Northern Territory. QEnergy's annual turnover is now more than \$100 million.
- 2.3 QEnergy's largest direct competitor in the national electricity market (the **NEM**) is PowerDirect, which has been owned by AGL since 2007. QEnergy's other largest competitors are entities owned or controlled by Origin Energy Limited (**Origin**) or Energy Australia Pty Ltd (**Energy Australia**).

3. **QENERGY'S VIEWS ON THE PROPOSED ACQUISITION**

- 3.1 I have read and considered the Australian Competition and Consumer Commission's (the **ACCC**) Statement of Issues dated 6 February 2014 regarding the Proposed Acquisition (the **Statement of Issues**).
- 3.2 I agree with the view expressed by the ACCC at paragraph 53 of the Statement of Issues that a certain level of liquidity and access to hedge contracts is vital to the participation of small independent retailers within the retail electricity market.
- 3.3 However, for the reasons set out below, I do not consider that the Proposed Acquisition is likely to substantially lessen the availability of contracts to small retailers in NSW.
- 3.4 Firstly, AGL, including through its partial and then 100% interest in the Loy Yang A Power Station in Victoria, has demonstrated its commitment to operating electricity generating assets comparable to those currently owned by Macquarie Generation, in a manner that is supportive of liquidity in the wholesale electricity supply market. AGL has continued to support competition in the retail electricity supply market by offering hedges since acquiring its 100% interest in the Loy Yang A Power Station.
- 3.5 Further, Loy Yang A Power Station's bidding behaviour has reflected market dynamics in Victoria and has in no way attempted to exercise market power despite AGL's substantial existing generation presence across the interconnected southern region.

3.6 Hedge contracts, and most importantly reallocation hedge contracts, are currently reasonably accessible in the NEM (including in NSW). Small independent retailers are well serviced in NSW for provision of contracts -

3.7 As to whether or not structured contracts are required and available, in my view these will be available as needed from intermediaries as long as basic hedge cover (swaps) are available from the generators. In my experience, intermediaries have been prepared to provide shaped contracts - that is, to take some structuring and shape risk in return for a premium - as long as the basic exposure to the market is covered through vanilla hedge availability from generators such as Macquarie Generation and Snowy Hydro Limited.

3.8 While I am not in a position to speak directly about the contracts Delta Electricity offers, given that the Vales Point Power Station is a large coal fired generator (and it is supported by the gas fired Colongra Power Station) I would expect that Delta Electricity would also be a source of vanilla hedge contracts.

3.9 Shaped contracts initially formed the entire basis of QEnergy's book but over time as the business has grown, we have moved more towards the lower-cost vanilla options.

3.10 Secondly I do not consider that just because a business may be vertically integrated into generation and retail that it will not be a source of hedge contracts for small retailers.

Consequently, I believe that the sale of Macquarie Generation would not necessarily result in a decline in the market for hedge contracts, even if the purchaser of Macquarie Generation was vertically integrated in the market as a result.

3.11 Finally I believe that the Proposed Acquisition will not substantially affect the ability of small retailers to obtain hedge contracts in NSW because I understand that AGL did offer to the ACCC and will offer to the Tribunal an enforceable undertaking under which it promises to make available 500 MW of vanilla contracts to small retailers in NSW. Because AGL has demonstrated that it is willing to contract with small retailers, if there is an absolute guarantee that 500MW will be made available, I am confident that small retailers will be able to continue to access these contracts in NSW.

Affirmed at Sydney)

in the State of New South Wales this 21st day)

of March 2014)

before me:


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Name: 

