



CFO one-on-one



Courtesy of AGL Energy

What things do CFO's need to be aware of to be successful in the energy sector?

Well, apart from the financial services sector, energy is one of the most regulated products in the market so that brings with it an awful lot of compliance issues and so understanding the regulatory regime is a key factor.

When I joined AGL it struck me that, in many respects, it is like working for a bank because there are many 'financial products' that go into what we do and managing risk is key. Electricity is the most volatile product in the world. Prices can move in 5 minute intervals within a huge range from -\$1,250/MWh to as high as \$12,500/MWh. I thought I was joining a sleepy utility full of infrastructure assets and in reality I found I had joined 'a bank' with a very large and complex derivative book. I had to come up to scratch very quickly.



Brett Redman is the Chief Financial Officer of AGL, one of Australia's leading integrated energy companies and the largest ASX listed owner, operator and developer of renewable energy generation in the country. AGL has been operating in Australia since 1837 and was one of Australia's first listed companies. Brett has held senior corporate services and strategy positions in the energy industry for nearly 15 years, joining AGL in 2007. He was Chairman of Loy Yang Power and led its acquisition by AGL. He is leading AGL's creation of the Powering Australia Renewables Fund.

AGL is investing significantly in renewable energy. How has that impacted on your role?

We had a balance sheet laden with traditional infrastructure assets with 20+ year lives and we are moving quickly from owning and operating old generation assets such as coal fired power to a place where we can sensibly invest in new generation assets. As CFO, I am working with management to outline this strategy and then I am looking at how we fund that future. This has involved the identification of good investments that provide big stable cash flows, such as Macquarie and Loy Yang Power stations, to provide the funding for future renewable energy investments.

The next step is to look at more innovative ways of funding. A good example of this is the launch of our new Powering Australia Renewables Fund (PARF), a project in which I have played a key role. This fund provides a vehicle which allows us to switch from 100% owned renewable investments to a future where we bring in equity partners and debt funders to move a lot of it off our balance sheet. That does a few things. It creates a lower cost of capital and it drives our money further so we can invest in more wind farms. Finally, it spreads the risk with other counterparties. So a big part of my role is thinking about what the right mix of risk and funding is and how we get to the right outcomes.



Energy in
action.[®]

What keeps you awake at night?

Government policy. This is particularly true when we are making long term decisions. For example, investing in wind farms is a 20 year investment decision and government policy around renewables changes year to year. So keeping me awake is figuring out how we make good quality renewables investments in a way that also protects shareholder's money. I am also thinking about how we share the risks by bringing in other investors such as Australian super funds, to PARF for instance. We are constantly thinking about innovative ways of funding the future in a way that addresses government policy risk.

Also, the many new entrants to the sector are providing competition in niche areas of the market. As a large incumbent it is up to us to develop offerings to our customers that appeal across a wide range of segments. How do we provide our customers with greater control over their energy usage and provide the flexibility to pay for it in different ways.



Phil McCann speaks candidly with AGL's CFO Brett Redman...

You have also taken on the responsibility of IT. Does that add a new dimension to your role?

Indeed. As a big retail business our billing systems in particular are absolutely integral to the success of the business and so these systems need to be very robust.

The other really interesting dimension is our transition from an analogue business to digital. Traditionally you would have a person physically take your mechanical meter reading each quarter and you could go to the post office to pay your paper bill. Today, our smart phone app allows you to check your new digital meter at half hour intervals to better manage your energy usage. We also work with customers to install rooftop solar and now home energy storage. You could also trade excess energy with your neighbour. The future will see all of these technologies and home appliances linked with energy management systems, giving consumers greater control over their energy usage.

So I now have the area of the business reporting to me which is right at the forefront of change and that makes it a really interesting thing to have as part of my remit.

What are the 3 top skills required for your role?

The first is **scenario planning**. Whether that's working with the business to manage ways our customers might interact with us or maybe taking a 'black hat' view of different scenarios such as commodity

fluctuations and considering the risks and opportunities that may come from those.

The second is **being adaptive**. Customers are demanding solutions at a much faster pace and so that ability to work with the business in an adaptive way is becoming mission critical.

Finally is **cost control**. To be competitive we need to be as efficient as possible. A very difficult skill is finding the ways to pull costs out of the business in order to make room for new spending. Our investment in the battery storage company, Sunverge, is a good example. Initially we thought about acquiring 100% of Sunverge. This would have required more capital but it also would have risked crushing the entrepreneurial spirit within the company. We had a lot of discussion about what was the right investment level and we ended up taking a cornerstone investment and focussing the money on developing IP for the Australian market. We feel this was a win-win for everybody.

Do you consider yourself a strategic partner of the CEO?

I believe the role of CFO goes through cyclical preferences with regards to strategy. We had the era of Sarbane Oxley where the CFO had to be that 'process nut' and then at the height of the GFC the CFO was the capital manager and debt specialist. For me, there was always a consistent ribbon of being a strategy partner. As CFO you have such a good understanding of what the business is looking like that you should be a key driver of strategy.

The CEO is always looking to me to generate ideas. To do this I have the M&A and finance teams reporting to me to drive the commercial thinking and now I have IT to drive our digital thinking; the main keys to facilitate future planning.

PARF is a good example of where the CEO challenged me to come up with a way to invest in renewable energy at a time when the market was gridlocked and to provide a solution that balanced the needs of the shareholders with the need to manage risk and to get on with it.

How has business analytics impacted on your role?

I have seen models where data analytics has been centralised but I think that is a mistake. You need to drive key data into the front of the business and put the tools in the hands of the business leaders. Decentralising data analytics removes any sense of filtering of key information. Also, if our business leaders need information delivered in a different way we can look at doing that. We ensure they are enabled to make the best informed decisions.

We are also seeing the emergence of big data in the customer space which enables us to deliver better solutions. The smart phone app is a good example of this. The old analogue meter would give us and the customer one piece of data every three months and now customer can access meter data every half hour. We are working to be able to deliver this data to the customer in a way which makes it easy to understand. That is the power of big data.

