



Record of oral submission to the ACCC

Matter name	Brookfield and MidOcean proposed acquisition of Origin Energy Limited - application for merger authorisation (MA1000024)		
ACCC parties	Anna Brakey, Peter Crone, Catriona Lowe, Daniel McCracken-Hewson, Tess Macrae, Michael Drake, Rajat Sood, Andrew Gun, Will Richards, Soo Sian Koh, Tanya Hobbs, Gregory Moran, Katie Latham, Rachel Collins, Hugh Cosolo		
Other parties	Iberdrola Ross Rolfe (Chairman & CEO), Tim Nelson (EGM Energy Markets), Ricardo da Silva (EGM Networks)		
Date	Tuesday, 01 August 2023		
Time	02:00 pm		
Merger Authorisation no.: MA1000024			
Phone to <input type="checkbox"/>	Phone from <input type="checkbox"/>	Teams Meeting <input checked="" type="checkbox"/>	Other <input type="checkbox"/>

This was a meeting between Iberdrola and the ACCC for Iberdrola to provide an oral submission in relation to Brookfield and MidOcean’s proposed acquisition of Origin.

Iberdrola made the following oral submission.

Iberdrola background and future investment plans

1. Iberdrola is a global energy company that sells firmed-green products to its own customers and institutional investors.
2. Infigen was acquired by Iberdrola in 2020. Since then, it has doubled its capacity in Australia from 700 MW to 1,400 MW of renewable generation. In addition to this, Iberdrola’s generation portfolio includes firming capacity, such as gas peakers and batteries.



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Brookfield's proposed development

6. Iberdrola noted that Brookfield's proposed development of 14 GW of renewable generation and storage assets by 2033 is ambitious, although this is assuming that Brookfield would own and develop its projects from inception. If Brookfield were an off-taker for projects, its proposed development would be a smaller challenge. Alternatively, Brookfield could purchase existing projects from a third-party, however, this is not a cheap solution.
7. Iberdrola considered that the market has evolved in the last 25 years, from having stand-alone generators and retailers, to having gentailers, long-term contracts and Power Purchase Agreements (**PPA**). The optimal investment for Brookfield might be to directly invest in a portion of its own investment and procure the remaining amount of the 14 GW under PPAs. Iberdrola further noted that under the proposed acquisition, Brookfield would have a good level of firming capacity with Origin's gas fleet.
8. Iberdrola considered that Brookfield's proposed investment in renewable energy and storage would be a positive for the Australian electricity system. Companies like Brookfield, with access to capital and the ability to invest in the transition, are important for the system.

Brookfield's global procurement capabilities

9. Iberdrola submitted that as a global company, it derives benefits from its global procurement capabilities. Iberdrola often procures from equipment manufacturers and because it has such scale, it can use the equipment for other projects in its portfolio if a particular project does not proceed.
10. Iberdrola further noted that it may have some advantage from buying at scale and getting preferential pricing. However, Iberdrola considered that it is not significant. When Infigen was acquired by Iberdrola, Infigen thought the preferential pricing would be incredibly useful. While it has not yet been as beneficial as initially hoped, the supply-chain is quite constrained at the moment and would possibly be more beneficial in a normal economic climate.

Access to capital

11. Iberdrola submitted that while, theoretically, the stability of cash flow should be irrelevant to the market, in the real world of capital markets, it is extremely relevant. Large and global energy businesses have been able to attract capital more easily than other, smaller energy market businesses.

Access to a retail base

12. Iberdrola noted that there is an advantage to having a retail base and gentailers can effectively manage a smaller discount rate. For example, if Iberdrola had a good prospective wind farm project but was proposing to go merchant, the rate of return would be unachievable and Iberdrola would be squeezed. Once Iberdrola is able to secure contracts for a project, the hurdle rate decreases significantly. Consequently, Origin provides Brookfield an advantage with its retail base. Brookfield can invest in a wind farm and bring down the cost of capital by effectively allocating it to its customers. Iberdrola added that retailers ultimately need to underwrite new generation investment, whether through a PPA or direct investment.
13. Iberdrola commented that since 2010, most renewable generators have recovered their Levelised Cost of Energy without significant profits or losses. However, in any particular year, a generator that had gone merchant could have gone bankrupt or made a significant profit. Contracts effectively allow renewable generation projects to enter the market. An entity, whether it be Brookfield or someone else, needs to have an off-taker, or a comprehensive energy markets business to manage energy market risks, in order to finance the project.

Challenges to developing renewable energy assets

General challenges

14. Iberdrola submitted that challenges to developing renewable energy assets and transitioning the NEM to renewable sources include:
 - finding a suitable location to develop a project.
 - the supply chain, which is under pressure. Iberdrola noted that Australia is one jurisdiction undertaking the energy transition, however, there is significant pressure globally to transition. Consequently, there are price increases, particularly around wind projects and expected for transmission projects. Iberdrola added that while this makes project economics challenging, new entrant pricing should reflect actual costs that will flow through to the price curve.
 - system viability, which results in conflicting pressures. If governments extend the life of coal power plants because they are worried about reliability, it makes investment in renewable generation more difficult. This is because excess capacity is being kept in the market and it is more challenging to invest in renewable generation to displace it.
 - the labour force. A significant workforce is required to facilitate the transition. AEMO's step change scenario requires an estimated increase from 100,000 to 800,000 workers in the energy sector.
 - government policy. There is uncertainty around the changing role of government in the energy transition as they consider system security and affordability issues. It can undermine investor confidence if the government is going to use public funds to intervene in the market.
15. Iberdrola further noted that hurdle rates are increasing alongside interest rates.

Development timelines for renewable generation projects

16. Iberdrola submitted that it typically takes 5 years to develop a renewable generation project in the NEM. In particular, wind projects tend to take 5 to 6 years. With respect

to states, the development timeline is slightly quicker in QLD (4 years) and slower in NSW (6 years).

17. Iberdrola noted that the number of projects a company could develop quickly without substantial grid augmentation is quite limited, considering most of the low hanging fruit on the grid has been taken. The transmission system is more likely to dictate the pace of the transition above any other factor, and until Renewable Energy Zones (REZ) are built-out, there is not going to be significant renewable capacity entering the market.
18. Iberdrola further noted that its ability to accelerate its growth of renewable generation assets would depend on whether it acquires development projects that are at an advanced stage of the process. However, this is difficult and there is not much opportunity in this space. These projects tend to be very highly priced and sell at a high-premium.

Impact of new transmission capacity on development timelines

19. Iberdrola submitted that upgrades to the transmission network, including new REZs, would offer a minor improvement to the development timeline, although it would not be significant. The average timeline of 5 years is driven mostly by the community consultation process, management plans and the conductive baseline environmental studies, rather than necessarily the grid. The REZs will result in an improvement in part of the cycle, associated with the formal grid access process, and possibly the connection process. The benefit may amount to a 12-month reduction in the development timeline, however, this is ambitious.
20. Iberdrola submitted that the development pipeline for generation capacity is subject to the transmission network. While REZs will create additional opportunity, it is unclear whether Brookfield could develop 14 GW of renewable generation and storage capacity by 2033. Brookfield may have a pipeline of projects, however, it needs to choose where to develop these projects because that will determine whether they are economical.
21. Iberdrola added that everyone is working towards the transition. Practically, there should be two REZs built by the end of the decade. At the end of 2031, there will be 8 GW of additional capacity connected in NSW. NSW, QLD and to a lesser extent, VIC, are at the forefront of creating REZs. The REZs provide certainty to investors and developers that their projects will not be curtailed or constrained. This has a positive impact on the business case for projects because these are otherwise undermined by the risk of being hit by network constraints. Iberdrola further added that despite the new REZs, some development in transmission capacity remains uncertain.

Whether Brookfield could reduce the development timeline for renewable generators under the proposed acquisition

22. Iberdrola considered that Brookfield would not be able to materially decrease the timeline for developing a renewable generation asset. The timing is largely influenced by statutory processes, and social and environmental science issues. Attempting to accelerate the timeline could result in community blowback.

The market absent the proposed acquisition

Likelihood of the market developing renewable generation and storage assets

23. Iberdrola submitted that, absent the proposed acquisition, the level of investment Brookfield is proposing would likely occur over time from other market participants, but this would depend on the spectrum of developers in the market.
24. However, Iberdrola considered that Brookfield would be helpful in respect to expediting the transition and development of new projects, although the effect would be hard to quantify. Brookfield, with a credible off-taker in the form of Origin's retail customer base and project financing skills, could help the bankability and certainty of projects, alongside supporting confidence in new greenfield projects.

Whether government incentives impact investment in renewable generation

25. Iberdrola commented that there are government incentives in place that motivate investment in renewable generation assets (e.g. NSW Electricity Infrastructure Roadmap, Long-Term Energy Service Agreements and VIC's schemes for offshore wind projects), although the incentives could be setup more efficiently. The challenge comes from different states doing things differently.

Ability of AusNet to discriminate against non-Origin generators

26. Iberdrola submitted that it would not have concerns about discrimination if the ring-fencing guidelines are in place and effective, however, noted that it has a separate network business as well. While there is the risk that AusNet would preference Origin, this should not be an issue assuming there are proper ring-fencing guidelines being enforced. Iberdrola further noted that ring-fencing guidelines are important to create an even playing field.

Benefits of Brookfield being integrated with AusNet

27. Iberdrola noted that regulated monopolies, such as networks, earn a steady cash flow. Even though, under the proposed acquisition, Brookfield businesses would not be able to talk with one another, the cashflow from AusNet provides Brookfield with stability so the entity is more attractive to a broader suite of investors. This might allow Brookfield to access more capital at a lower cost.

Additional comments about market dynamics

Future mix of generation assets

28. Iberdrola submitted that in 2030 to 2035, Australia will need a balanced mix of wind and solar generators alongside a mixture of firming technology (e.g. batteries and pumped hydro). However, 20% of generation would still need to be met by some technology, such as gas peaking plants (running on zero emissions fuels such as hydrogen or biodiesel), that can run for several days when there is no wind or solar generation.

Increased electrification

29. Iberdrola submitted that Brookfield may see an opportunity in the retail space. Should the electrification trend develop for transport and heating, the average retail demand will go from 5 MWh to 10-13 MWh per year. There is going to be an intense amount of competition in the retail consumption space and retail contracts are going to change.

Urgency of investment

30. Iberdrola considered that it is urgent to invest in transmission, renewable and firming capacity. In addition to the decarbonisation problem, there is also an issue created by

household solar which brings forward the retirement of coal power plants. In a few years, residual demand in NSW is expected to be zero at certain points in the day. Consequently, if solar generation is not curtailed, the requisite investment in the electricity system is needed as soon as possible.