Our ref: **IM-72455**

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13 March 2024

Dear Interested Party,

Re: ACCC seeking your views: CS Energy's proposed acquisition of IG Callide's 50% interest in Callide C power station.

The Australian Competition and Consumer Commission (**ACCC**) is seeking your views on the proposed acquisition of IG Power (Callide) Limited (Administrators Appointed)'s (**IG Callide**) 50% interest in the Callide C power station by CS Energy Limited (**CS Energy**), through its wholly owned subsidiary, Callide Energy Pty Limited (**Callide Energy**), which would increase Callide Energy's ownership in Callide C to 100% (the **proposed acquisition**).

CS Energy is a Queensland Government owned energy company that generates and supplies electricity to the National Electricity Market. Callide C is one of the coal power stations at the Callide Power Station, located in Central Queensland. Callide C is currently owned in a 50/50 joint venture between Callide Energy and IG Callide. Further details are provided at **Attachment A.**

The ACCC's investigation is focused on the impact on competition. In particular, we are seeking your views on the effect the proposed acquisition is likely to have in any region(s) of the National Electricity Market on:

- competition for the supply of wholesale electricity, particularly in Queensland
- CS Energy's ability and incentive to offer electricity hedging contracts to other electricity retailers on commercial terms and at competitive prices
- generators' ability and incentive to coordinate when bidding or rebidding their electricity capacity and related services
- competition for the supply of frequency control ancillary services.

Further issues you may wish to address are set out in **Attachment B**.

This matter is public and you can forward this letter to anybody who may be interested.

The legal test which the ACCC applies in considering the proposed acquisition is in section 50 of the *Competition and Consumer Act 2010*. Section 50 prohibits acquisitions that are likely to have the effect of substantially lessening competition in a market.

Please provide your response by **27 March 2024** via email with the title: *Submission re: CS Energy/Callide C - attention Debbie Ravalli/Lynette Lymbers.* If you require more time to respond, please let us know.

If you would like to arrange a time to discuss the matter with ACCC officers, or have any questions about this letter, please contact Debbie Ravalli on (07) 3811 9268 or Lynette Lymbers on (02) 9230 9132.

Updates regarding the ACCC's investigation will be available on the ACCC's Public Mergers Register at (ACCC mergers register).

Confidentiality of submissions

The ACCC will not publish submissions regarding the proposed acquisition. We will not disclose submissions to third parties (except our advisors/consultants) unless compelled by law (for example, under freedom of information legislation or during court proceedings) or in accordance with s155AAA of the CCA. Where the ACCC is required to disclose confidential information, the ACCC will notify you in advance where possible so that you may have an opportunity to be heard. Therefore, if the information provided to the ACCC is of a confidential nature, please indicate as such. Our Informal Merger Review Process Guidelines contain more information on confidentiality.

Yours sincerely

Bruce Mikkelsen
General Manager
Merger Investigations

Attachment A

Transaction

CS Energy Limited (**CS Energy**), through its wholly owned subsidiary, Callide Energy Pty Limited (**Callide Energy**), is proposing to acquire IG Power (Callide) Ltd (Administrators Appointed)'s (**IG Callide**) 50% interest in the Callide C power station, which would increase its ownership interest in the Callide C power station to 100%.

CS Energy

CS Energy Limited (**CS Energy**) is an energy company owned by the Queensland Government. CS Energy owns and operates a range of electricity generation assets located in Queensland to supply wholesale electricity to the National Electricity Market (**NEM**):

- the Callide B power station
- 50% ownership of the Callide C power station, through Callide Energy (with the remaining 50% being the subject of the proposed acquisition)
- the Kogan Creek black coal power station.

CS Energy also holds trading rights to sell electricity generated at Gladstone Power Station, in excess of what is supplied to the Boyne Island aluminium smelter.

CS Energy is also a retailer of energy to commercial and industrial businesses, including the Queensland Government, mines and ports. It has a 50/50 joint venture with Alinta Energy, which supplies electricity to residential and commercial customers in South-East Queensland.

CS Energy also provides a range of ancillary services to help maintain system security and reliable electricity supply in the National Electricity Market.

Callide C

Callide Power Station is a black coal generator power station located in Biloela, Central Queensland. Callide C is one of two power stations at the Callide Power Station, with the other being Callide B. Callide B is 100% owned by CS Energy and has a capacity of 700MW. Callide C is currently owned in a 50/50 joint venture between CS Energy (through Callide Energy) and IG Callide. IG Callide entered voluntary administration in March 2023. CS Energy operates and maintains Callide C on behalf of the joint venture.

Callide C has two generating units ("C3" and "C4") with a total capacity of 848MW. C4 has been offline since May 2021 due to an incident which resulted in an explosion and substantial damage to the unit. C3's cooling towers suffered a partial structural collapse in October 2022 and has been non-operational since then. Following reconstruction, both generating units are forecast to resume operations in 2024.

Attachment B

1) Please provide a brief description of your business or organisation.

2) Please outline your interest in the proposed acquisition, including any commercial relationship(s) with CS Energy and/or IG Callide (and/or its owners).

General

3) Does competition to supply wholesale electricity within Queensland occur only between generators located in Queensland, or more broadly between generators located across the National Electricity Market? Explain your view, including:
   a) how interconnector flows between states affect competition between generators
   b) whether there are certain times or conditions when wholesale competition is limited to suppliers in Queensland
   c) what are the factors that affect the level of wholesale competition between generators within and outside Queensland
   d) who are CS Energy's main competitors in the supply of wholesale electricity within and outside Queensland.

Aggregation of generation assets

4) Discuss how the proposed acquisition would affect CS Energy's ability or incentive to influence the spot price of electricity, for example by engaging in strategic bidding/economically withholding its generation capacity[1] in any region(s) of the National Electricity Market. In your response, comment on:
   a) the competitive constraint provided by existing generators (including how that constraint might vary in different circumstances – such as at different times of the day)
   b) the likely competitive constraint provided by possible new generation capacity, including wind and solar
   c) the extent to which interconnector flows between New South Wales and Queensland are an effective competitive constraint.

5) Discuss the extent to which the proposed acquisition would increase the potential for coordination between electricity generators (for example, by simultaneously withholding capacity) that would result in an increase to:
   a) spot prices
   b) prices for frequency control ancillary services
   c) prices for hedging contracts.[2]

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1 'Economic withholding' refers to the process where generators bid or rebid capacity which is normally at low prices into much higher price bands. It is distinguished from 'physical withholding', where a generator removes capacity from the market (for example, by declaring that several units are off-line).

2 Hedge contracts, including caps, swaps and collars, are risk management instruments and do not involve the physical delivery of electricity but a commitment to pay a counter-party according to spot price outcomes. The two principal mechanisms for entering into hedge contracts in the National Electricity Market are over-the-counter (OTC) (direct contracting between parties) or via an exchange traded market.

6) The proposed acquisition involves aggregation of large baseload units.[3] Discuss the extent to which the proposed acquisition may lessen competition between baseload suppliers and/or lead to increased electricity prices during non-peak periods.

Questions for generators

7) What factors do you consider when bidding the energy output of a given generation unit into the spot market?

8) If your company or corporate group owns multiple generation sites, explain if and how the way you bid the unit(s) at one site affects the way you bid units at other sites.

9) What factors do you consider when bidding to supply frequency control ancillary services using a given generation unit?

10) If your company or corporate group owns multiple generation sites, explain if and how the way you bid to supply frequency control ancillary services using the unit(s) at one site affects the way you bid to supply frequency control ancillary services using units at other sites.

11) What factors do you consider when determining the volume and pricing of hedging contracts you are willing to offer?

12) If the ultimate owner of your company is a government entity, does this affect the factors you take into account when undertaking the bidding/offering referred to questions 7, 9 and 11? If so, how?

13) What effect do you consider the proposed acquisition will have on the level of competition for the supply of:

    a) wholesale electricity (including spot prices)

    b) frequency control ancillary services (including prices for these services)

    c) hedging contracts.

    In your response, where relevant, comment on the supply of wholesale electricity at different times of day, specific types of frequency control ancillary services and specific types of hedging contract.

14) How would your response to question 13 differ if IG Callide's 50% share in Callide C was acquired by another entity?

Questions for electricity retailers

15) Briefly outline your approach to managing the wholesale spot price risk of your Queensland customer load, including what, if any, types of hedging contracts you use.

16) Who are the suppliers of each type of hedging contract you specified in response to question 15 and who are their close competitors?

17) What alternatives do you use if one or more of the hedging contracts you specified in response to question 15 is unavailable or only available on unfavourable terms?

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[3] Baseload units typically generate power at a constant rate to supply the minimum amount of electricity demanded over a day.

18) Are hedging contracts that use the Queensland regional reference price substitutable for hedging contracts that use a different regional reference price? Why/why not?

19) How would you characterise the level of competition for the supply of hedging contracts in Queensland? In your response, identify:

    a) whether CS Energy tends to offer greater or fewer hedging contracts than other generators

    b) the level of constraint CS Energy faces from other Queensland generators

    c) the ability of new retail entrants and existing, standalone retailers to secure competitively priced hedging contracts to manage their risk profile.

20) Do you purchase over-the-counter hedging contracts from CS Energy? If so, specify the types of contracts.

21) How will the proposed acquisition affect CS Energy's ability or incentive to offer hedging contracts to retailers (particularly those operating in Queensland) that compete with CS Energy directly and/or with CS Energy's joint venture with Alinta Energy? How would this scenario differ to one in which IG Callide's 50% share in Callide C is acquired by another entity (so that CS Energy's existing 50% share remains unaltered)?

22) Can electricity retailers develop their own electricity generation assets as an alternative to hedging contracts? Why/why not?

Other

23) Do you consider the transition to renewable energy to be relevant to the proposed acquisition? Why/why not?

24) The Queensland Government has indicated that it will progressively convert all publicly owned coal-fired power stations into clean energy hubs by 2035.[4] How, if at all, would the potential transformation of the Callide C site into a clean energy hub impact:

    a) competition for the supply of wholesale electricity in Queensland generally

    b) CS Energy's ability to influence prices and service levels in the supply of wholesale electricity, frequency control ancillary services and hedging contracts.

    Where relevant, comment on whether the timing of any transformation of Callide C into a clean energy hub would affect your response.

25) Provide any additional information or comments that you consider relevant to the ACCC's consideration of the proposed acquisition.

[4] https://www.epw.qld.gov.au/__data/assets/pdf_file/0029/32987/queensland-energy-and-jobs-plan.pdf, page 44.