



Daniel McCracken-Hewson
General Manager, Merger Investigations
Australian Competition & Consumer Commission
Level 17, 2 Lonsdale Street
Melbourne VIC 3000

Dear Daniel

RE: Brookfield LP and MidOcean proposed acquisition of Origin Energy Limited (the "Proposed Acquisition")

ANZ Group Holdings Ltd (ANZ) is pleased to be able to make this submission, which is focused on addressing some of the questions under the heading "Public Benefits" in the ACCC's letter dated 9th June 2023, re the Proposed Acquisition.

ANZ is an authorised non-operating holding company within the meaning of the *Banking Act 1957* (Cth). We provide banking and financial products and services to over 8.5 million retail and business customers, and operate across more than 30 markets. Our registered office is ANZ Centre, Level 9, 833 Collins Street, Docklands, Victoria, Australia.

The Proposed Acquisition relates to two existing clients of the bank (Brookfield and Origin Energy Limited ("Origin")). ANZ through its Institutional business provides a broad range of banking services to Brookfield and its affiliates, as well as to Origin.

ANZ recognises that the most important role that we can play in enabling the transition to net zero is to support our customers to reduce their emissions and enhance their resilience to a changing climate. We understand that reducing emissions in the electricity sector in Australia will be one of the aims of the Proposed Acquisition.

The National Electricity Market (NEM) is currently undergoing – and will need to continue to undergo – profound change, driven by the need to decarbonise existing supply from fossil fuel generation, and provide capacity for additional demand.¹

Transitioning our energy supply is high on the agenda of market participants due to various drivers including policies such as the Safeguard Mechanism. The Australian Energy Market Operator (AEMO) expects overall net electricity demand to increase by almost 9% between 2023 and 2030, reflecting the additional demand from new electrification, including the shift to electric vehicles². This means that the NEM will need to absorb and manage not just replacement of existing thermal generation scheduled to exit, but also for growth and enablement of the broader energy transition.

This adds urgency to the development of Renewable Energy Zones (REZs) identified in AEMO's Integrated System Plan, noting the existing challenges afflicting market participants around grid congestion, lengthy connection times, supply chain

¹ AEMO Integrated System Plan 2022.

² AEMO Electricity Statement of Opportunities 2022, Central Case.

constraints, synchronised global demand for clean energy technology, fuel supply challenges, and a geopolitical environment of increasing complexity.³

In that context, we make three broad observations.

1) The scale of the transformation required in the NEM is significant

AEMO's 2022 Integrated System Plan (ISP) has projected a requirement for nearly 40GW of new wind and utility-scale solar generation capacity along with over 6GW of utility-scale storage capacity, requiring upfront investment of at least AUD 70bn (notional terms excluding operating costs and lifecycle capital expenditure) over the next 10 years.⁴ This excludes the capital investment on enabling infrastructure.

The required capital expenditure at a utility-scale level is moderated by the projected c. 22GW of distributed PV (on-site generation) investments, which will largely be made by the energy users themselves (such as households and businesses).

The required level of investment in new generation by integrated electricity generators and retailers ("gentailers") will be influenced by existing fleet mix and retirement schedules, and the relative position between their generation and retail books (i.e. whether they are "long" or "short" generation relative to their total retail sales); this is ultimately a matter of risk management and in practice we have seen both ownership as well as Power Purchase Agreement (PPA) contracting being used to fulfil these requirements. It is also worth noting that the large retailers were the first to contract under long term power purchase agreements (PPAs) with wind farms that are now well into their technical lives and therefore there will be an element of replacement capital expenditure that will require consideration over the next 10 years.

Brookfield's proposed investment in new generation as part of the Proposed Acquisition should therefore be considered in the context of the overall size of investment required for transition, the need for appropriate risk management around retail positions, and the increasing role of energy users in meeting that investment requirement.

2) Ownership of renewable generation assets in the NEM is dispersed

Over the last 20 years, we have observed the ownership model of generation assets evolve, from highly concentrated ownership of large assets primarily by utility companies and industrials to highly dispersed ownership of smaller assets by financial sponsors on behalf of both sophisticated and retail investors, noting that renewable energy assets remain a highly sought after class of investment both domestically and internationally. For this reason, renewable asset ownership is quite dispersed, with the highest market share estimated at c. 8%⁵. In recent times we have observed some consolidation as investors attempt to create

³ <https://bluenotes.anz.com/posts/2023/06/anz-news-geopolitics-trade-mitchell-global>

⁴ ANZ research, AEMO ISP 2022 Progressive Case, AEMO/CSIRO GenCost 2021-22. Assumes average storage of 2 hours.

platforms for multi-asset ownership, providing some scale benefits and enabling product innovation. We are also seeing increasing investment in renewables by energy companies more traditionally associated with oil & gas as they pivot towards lower carbon energy.

A further class of investors is active in smaller on-site generation projects, either within the NEM/South-west Interconnected System or off-grid. Ownership of a single asset by multiple investors is very common, and mergers & acquisition activity is frequent throughout the entire lifecycle of the project from development to construction to operations.

ANZ reviews renewable energy financing opportunities for a wide range of different sponsors from around the world that have an interest in different parts of the electricity system. For a number of years now, many of these projects have been financed on the basis of contracting directly with large corporate users (corporate PPAs) or state government entities, and not necessarily the gentailers or retailers. New government schemes such as Victoria's Renewable Energy Target (VRET) and NSW's Long-Term Energy Service Agreements (LTESA) will continue to underpin renewable energy purchasing in the market as state governments move to meet their own renewable energy targets.

The combination of these various factors suggest that the renewable energy market in the NEM continues to be highly competitive and we do not see evidence of large market concentrations appearing at this stage.

3) The next phase of the NEM's transition will require ambition, expertise, and large amounts of patient capital

The NEM has approached technical limitations on its ability to support material additional renewable generation capacity, without substantial investment in new transmission infrastructure across the East Coast. Whilst procurement processes are under way for the first of AEMO's designated REZs, these are large, complex projects that will take some time to be negotiated and delivered, yet the pressure to retire older coal-fired generators remain. This creates substantial challenges in balancing the need to meet emissions reduction targets whilst ensuring a stable and affordable electricity system.

The next phase of the NEM's transition therefore requires market participants with the financial capacity and technical expertise to navigate these challenges. Retailers in particular need the ability to closely manage their supply, in order to provide price certainty to their customers. The market disruption observed in the NEM in mid-2022⁶ clearly demonstrated the risk to all market participants when the NEM becomes structurally short in generation capacity (including from a lack of fuel) the consequences of which are now starting to be more broadly felt in the economy through the Victorian Default Offer (VDO) and Default Market Offer (DMO) price resets. This adds to the urgency of getting new supply into the system in a timely manner.

⁵ By installed capacity of wind & utility solar. BloombergNEF, AEMO generation data as at May 2023.

⁶ <https://aemo.com.au/en/energy-systems/electricity/national-electricity-market-nem/nem-events-and-reports>

For this reason, ANZ believes that the NEM will benefit from participation by sponsors that intend to invest in the decarbonisation of the NEM, that have the technical expertise to manage the risks during this critical phase, and have the financial capacity to deliver upon their ambitions.

In conclusion, we support the Proposed Acquisition, as it will bring considerable ambition, expertise and capital which will assist in driving the ongoing transformation of the NEM at a critical juncture. We see the public benefit of ongoing competition in the NEM and in that regard also recognise the scale of the transition, which will require substantial investment by existing and new market participants. Finally, we see that financially strong retailers that can appropriately manage their supply risk through owned and/or contracted generation capacity is also important to reduce price risk to their customers.

Yours sincerely,



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