

Iberdrola Australia Energy Markets Pty Ltd

Victorian Electricity Retail Licence Transfer Application

December 2022



Image: Lake Bonney Wind Farm, SA

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Executive summary

Iberdrola Australia Energy Markets Pty Limited (IAEM) submits to the Victorian Essential Services Commission (ESC) this application to transfer the electricity retailer licence currently held by its related body corporate, Iberdrola Australia Holdings Pty Limited (IAH) to IAEM.

IAEM and IAH are both wholly owned subsidiary companies of Iberdrola Australia Limited (Iberdrola Australia), which is the head company of the [Iberdrola Group's](#) (Iberdrola) business and operations in Australia. Iberdrola Australia is a wholly owned subsidiary company Iberdrola, S.A.

Iberdrola is a global, publicly listed energy company, with more than 170 years of history of contributing to the development of the global energy sector and providing safe and reliable energy supply to its customers. It is a global energy leader, the leading wind power producer by volume and one of the largest electricity companies in the world in terms of stock market capitalisation. It is also globally recognised as a sustainability leader and has a deep commitment to the green energy transition. Iberdrola's global expertise includes renewable energy, networks, smart grids, large-scale energy storage, energy innovation and digitisation, and advanced customer products. It has a corporate objective of exceeding 60,000 MW of renewable capacity by 2025. Iberdrola became one of the leaders in the Australian renewable energy market following the acquisition of Infigen Energy in 2020, now Iberdrola Australia.¹

Iberdrola Australia first started retailing electricity in NSW in 2009 as Infigen. It now manages the sale of clean energy to commercial and industrial (C&I) customers across the National Electricity Market (NEM), including manufacturers, universities, councils, food and beverage producers, electric vehicle manufacturers, commercial property operators, industrial utilities, timber processors, mining operations and large-scale infrastructure asset owners. It first started retailing electricity to Victorian medium and large customers in 2013, under its Infigen Australia Holdings Pty Limited (now Iberdrola Australia Holdings Pty Ltd) electricity retail licence.

With current energy prices trending up due to increased wholesale energy and network costs, Victorian C&I customers are searching for innovative, reliable, and cost competitive energy solutions. While Iberdrola Australia is already a market leader in developing reliable clean energy solutions for C&I customers, it can more efficiently deliver its strategic growth objectives by consolidating its NEM generation and retail portfolios under a single market participant entity.

One of the last stages in this consolidation process is to bring its Victorian customer load under its IAEM entity. The transfer of its Victorian electricity retail licence from IAH to IAEM will deliver commercial, transactional and operational efficiencies that will deliver real value and benefits to Victorian consumers. These include streamlined contracting arrangements,

¹ "Iberdrola announces recommended cash takeover offer for Australian renewables entity Infigen", 17 June 2020, available: <https://www.iberdrola.com/press-room/news/detail/iberdrola-launched-friendly-takeover-australian-renewables-company-infigen-energy-worth-510-million-which-means-another-determined-step-forward-into-this-priority-market>

simplified invoicing arrangements, and competitive pricing driven by the operational and funding cost savings flowing through the Iberdrola Australia portfolio.

While Iberdrola Australia's NEM-wide retail business currently has the two licenced (authorised) entities – IAH and IAEM – the team that manages the retail business is the same, as are the risk and compliance frameworks and operational systems and processes that govern day to day activities. There would be no change to the organisational capability of the business arising from the transfer of the retail licence from IAH to IAEM. As such, when discussing strategy or governance, this application will refer to Iberdrola Australia, except where it is relevant to name the corporate entity who is the applicant of the transfer application – Iberdrola Australia Energy Markets Pty Ltd.

1 General information – the Applicant

This section provides general information about IAEM, along with contact information, organisational information and other details requested by the ESC.

1.1 Legal name of applicant

Iberdrola Australia Energy Markets Pty Limited

1.2 Legal identity of applicant

ABN: 47 128 696 097

ACN: 128 696 097

Type of entity: Australian Proprietary Limited

A copy of IAEM’s Certificate of Company Registration and its list of Company officeholders is provided in *Confidential Attachment 1.1*.

1.3 Contact details and address of the applicant

Business and postal address

Level 17, 56 Pitt Street, Sydney New South Wales 2000

Nominated contact person

Derek Perez

Finance Manager – Energy Markets Operations and Customers

Iberdrola Australia

[Redacted]

[Redacted]

1.4 Diagram of corporate and organisational structure

Corporate structure

A diagram of IAEM’s corporate ownership structure (including its parent and related companies within the meaning of the *Corporations Act 2001*) is provided in *Confidential Attachment 1.2*.

Organisational chart

A diagram of Iberdrola Australia's organisational structure covering its electricity retailing business operating currently under Victorian licensed entity IAH and continuing under the applicant IAEM is provided in *Confidential Attachment 1.3*.

1.5 The licence

Date from which the license is sought

IAEM is seeking to transfer the electricity retail licence currently held by IAH to IAEM, with no variations. IAEM is requesting a transfer effective date of **1 July 2023**.

Confidential Attachment 6.2 sets out the list of implementation activities Iberdrola Australia will be completing to enable the effective transfer of the licence to IAEM by this date.

Nature and scope of operations

IAEM is not seeking any variations to the existing IAH licence scope, which is to retail to customers whose aggregate consumption, per annum, at a supply point is or is likely to be:

- 40MWh to 160MWh of electricity (medium customers); and
- more than 160MWh of electricity (large customers).

2 Technical capacity

2.1 Experience and knowledge of the industry

A licensed electricity retailer in the NEM since 2009, and in Victoria since 2013, the now Iberdrola Australia has a well-established team with the expertise, knowledge, and skills base that operate a successful business retailing electricity to commercial and industrial customers. There will be no change to the technical capacity or organisational capability of the business arising from the transfer of the retail licence from IAH to IAEM.

2.1.1 Board of Directors

The Board and officers of both Iberdrola Australia and IAEM have extensive financial, commercial, risk and energy market experience positioning them to guide our strategy and oversee risk management.

The Iberdrola Australia Limited Board is comprised of:

- Ross Rolfe AO, Chairman and CEO
- Tony Clark, Executive Director and Executive General Manager, Sustainable Generation

- Tim Nelson, Executive Director and Executive General Management, Energy Markets
- Fernando Santamaria, Executive Director and Executive General Manager, Renewables APAC
- Felipe Castresana, Non-Executive Director

The IAEM Board is comprised of the following three directors:

- Ross Rolfe AO, CEO
- Tim Nelson, EGM Energy Markets
- Nick Learmonth, General Manager, Finance – Control

Confidential Attachment 6.1 includes overviews of the Boards' experience.

2.1.2 Key personnel for the retail business

In addition to the Board and Executive Directors listed above, Iberdrola Australia's retail business benefits from the experience and guidance of the following key personnel and their teams. *Confidential Attachment 6.1* provides overviews of each person's key responsibilities and their relevant experience and qualifications.

- Ken Edwards, Executive Manager Wholesale Markets
- Walter Schutte, Executive Manager Customer Solutions
- Catherine Gunning, Chief Risk Officer
- Jack Kesby, General Manager Finance, Treasury and Tax
- Stephanie Easton, General Manager Analytics and Portfolio Optimisation
- James McKell, General Manager Sales

2.1.3 Systems and processes

With nearly a decade of experience retailing electricity to Victorian medium and large business customers, Iberdrola Australia also has in place an effective corporate governance framework, supported by well-established systems and processes, with the team of market-leading and experienced professionals supported by reputable third-party providers, where beneficial.

These detailed systems and processes cover Iberdrola Australia's retail operations relating to:

- (a) managing wholesale market exposure, which starts with Iberdrola Australia's risk appetite and flows through to managing wholesale price risk with a combination of portfolio generation and other financial products;
- (b) marketing to and preparing quotes for business customers;
- (c) billing business customers;
- (d) managing connection and disconnection processes;
- (e) managing customer complaints;
- (f) managing dispute resolution; and
- (g) complying with regulatory reporting requirements.

Confidential Attachment 6.1 sets out Iberdrola Australia's strategic growth objectives and the commercial, risk, compliance and operational business structures in place – including the key people, processes and systems - to deliver those objectives.

Specifically, *Confidential Attachment 6.1* provides the details of the relevant systems and processes that Iberdrola Australia will use for each of the matters above, including:

- (h) the proposed business strategy and functions and how they are resourced;
- (i) the experience and qualifications of relevant key employees who manage those systems and processes;
- (j) where Iberdrola Australia engages third parties to assist with the licensed activities, information relation to each third party, including:
 - (i) the name of the third party;
 - (ii) the scope of activities undertaken by the third party;
 - (iii) details and copies of any agreements for the provision of services;
 - (iv) details about the experience of the third party in relation to the activities that it will be undertaking, including any accreditations; and
 - (v) details of the processes in place to ensure the third party comply with the licensee's regulatory obligations; and
- (k) details about how Iberdrola Australia balances service delivery with projected customer growth, and practical steps it takes to meet relevant regulatory obligations.

2.2 Risk management

Risk management processes support the optimisation of Iberdrola Australia's portfolio of assets and liabilities relative to its risk tolerance and commercial strategy and objectives, subject to the Iberdrola Group Risk Policies and its Energy Risk Management Standard. Iberdrola Australia maintains a risk management, measurement and control framework that measures its portfolio risks and energy management activity in a clear and accurate manner.

Iberdrola Australia is committed to ensuring that its culture, processes, and structures enable the achievement of its business objectives and are directed towards the effective management of opportunities and potential adverse risks. Efficient risk management is crucial for the success of an energy retail business, especially given the nature and volatility of risks associated with operating in the NEM. Sensible management of these risks is a core strength of the Iberdrola Australia operations, management, and governance team members due to their depth of experience.

Iberdrola Australia has established comprehensive Risk Management strategies and are managed in line with the suite of risk management policies provided in *Confidential Attachments 5.1 to 5.8*:

- Risk Management Framework
- Energy Risk Management Standard
- AFSL Obligations Standard
- Energy Risk Committee Charter
- Retail Compliance Committee Charter

- Retail Risk Register
- Retail Non-compliance / Incident Register
- Iberdrola Australia Risk and Compliance Reporting Lines

2.3 Dispute resolution

As an existing electricity retailer in Victoria, Iberdrola Australia is currently a member of the Energy and Water Ombudsman of Victoria (EWOV).

See *Confidential Attachment 7.2* for discussions with EWOV regarding the implications of the retail licence transfer between IAH and IAEM.

2.4 Australian Energy Market Operator (AEMO) registration

IAEM is a registered market participant with AEMO as a market customer and a generator (both market non-scheduled and market semi-scheduled).

See *Public Attachment 7.1*, an extract from AEMO's publicly available NEM Registration and Exemption List.

IAEM also has an active Austraclear registration and account (see *Confidential Attachment 7.5*).

2.5 Licences held in other jurisdictions

IAEM currently holds an electricity retail authorisation issued by the Australian Energy Regulator (AER), as evidenced in *Public Attachment 1.4*.

IAEM also holds an Australian Financial Services Licence (AFSL) (see *Confidential Attachment 7.4*).

2.6 Previous unsuccessful licence applications in other jurisdictions

NIL to report.

2.7 Licences held by associates of the applicant

IAH currently holds an electricity retail authorisation issued by the Australian Energy Regulator (AER) (see *Public Attachment 1.4*). IAH also holds the Victorian electricity retail licence, which is the subject of this transfer application.

2.8 Compliance management

Iberdrola Australia recognises the critical business importance of compliance with applicable laws, rules and regulations to its business success, the creation and preservation of security holder value and the health and wellbeing of its employees and contractors. Iberdrola Australia seeks to support and create the environment and culture to ensure such compliance.

Iberdrola Australia is committed to integrating compliance management practices within its broader enterprise risk management and governance frameworks to drive consistent, effective and accountable decision making. Iberdrola Australia recognises that many forms of compliance risk are inherent in the electricity and energy markets, and other areas in which the Iberdrola Australia business operates.

Iberdrola Australia is subject to a range of obligations related to retailing electricity services in Victoria, including:

- Regulatory: Commonwealth and Victorian-based legislation, regulations, enforceable codes, guidelines and similar instruments;
- Licences: Victorian electricity retail licence and the associated Electricity Retail Licence Standard Conditions;
- Organisational: the Iberdrola group internal policies, charters, codes, rules, procedures and other governance obligations; and
- Legal: Iberdrola Australia's contractual obligations.

The comprehensive compliance framework Iberdrola Australia has established focuses on front line accountability, which leads to more successful compliance risk management. The key components to the compliance framework governing activities related to electricity retailing in Victoria include the following:

- Retail Compliance Obligations Register (*Confidential Attachment 4.1*)
- Compliance Standard (*Confidential Attachment 4.2*)
- Retail Compliance Reporting Procedure (*Confidential Attachment 4.3*)
- Complaints Handling Policy (*Public Attachment 4.4*)
- Complaints register (*Confidential Attachment 4.5*)
- Connection & disconnection process (*Confidential Attachment 4.6*)
- Customer quote process (*Confidential Attachment 4.7*)
- Privacy Policy (*Public Attachment 4.8*)
- Information Security Policy (*Confidential Attachment 1.5*)
- Information Classification Policy (*Confidential Attachment 1.5*)

2.9 Material agreements

Iberdrola Australia has the following material agreements in place to support its retailing activities in Victoria.

- Inter-company services – see *Confidential Attachment 2.1*
- Billing and operational services – see *Confidential Attachment 2.2*
- Compliance advisory services – see *Confidential Attachment 2.3*

Additionally, Iberdrola Australia has Use of System Agreements in place with the five Victorian distribution networks. See *Confidential Attachment 7.3*.

2.10 Policies

Iberdrola Australia is not currently authorised to retail electricity to residential customers under its existing IAH licence. As part of this transfer application, IAEM is seeking to maintain the current licence scope, which limits electricity retailing activities to medium and large customers only.

As such, this application does not include the following residential (or small customer) specific policies:

- Victorian financial hardship policy
- Family violence policy
- Life support policy

2.11 Engagement with Energy Safe Victoria

IAEM has engaged with the ESV regarding this licence transfer application. A copy of this correspondence is provided in *Confidential Attachment 7.9*.

2.12 Additional information

Additional registrations and accreditations

IAEM is GreenPower accredited (see *Confidential Attachment 7.6*).

IAEM is registered with the Clean Energy Regulator (see *Confidential Attachment 7.7*).

IAEM has a Victorian Energy Upgrade (VEU) account (See *Confidential Attachment 7.8*)

Community Services Agreement not required

As Iberdrola Australia does not currently and does not intend to start retailing electricity to residential (domestic) customers, it is not registered with the Department of Health & Human Services.

3 Financial viability

3.1 Financial resources

Iberdrola Australia Energy Markets, a wholly owned subsidiary of Iberdrola Australia Limited, is financially viable and has the financial resources to commence and sustainability operate Iberdrola Australia's electricity retail business, which is currently operating under the Victorian retail licence issued to Iberdrola Australia Holdings Pty Limited.

IAEM is a registered market participant with the Australian Energy Market Operator for its retail business and is subject to prudential requirements under the National Electricity Rules.

3.2 Supporting documentation

While Iberdrola Australia is not applying to retail electricity to small customers, it has provided the following suite of documents that set out its current financial position and access to financial resources.

- CY2021 audited financial statements for IAL
- CY2021 AFSL audited financial statements for IAEM
- Management Accounts CY22 year to date for IAL
- AFSL Management Accounts CY22 year to date for IAEM

See *Confidential Attachments 8.1 to 8.5*.

4 Fit and proper person

4.1 Declaration

Iberdrola Australia is committed to building a business that operates ethically and is the subject of robust governance frameworks and processes. It can confirm the following:

No directors of IAEM or of any entity that exerts control over IAEM:

- have been declared bankrupt,
- had their affairs placed under administration, or
- been disqualified from managing a company.

No directors of IAEM, directors of any entity that can exert control over the applicant or any other person with significant managerial responsibility or influence on the applicant has been subject to:

- Any debt judgments, or
- Insolvency proceedings (including any administration, liquidation or receivership in connection with the affairs of a company).

No directors of IAEM, directors of any entity that can exert control over the applicant or any person with significant managerial responsibility or influence on the applicant has been charged with fraud, theft or any other criminal offence.

Neither IAEM, any directors of IAEM, any related body corporate, or any personal with significant managerial responsibility or influence on the applicant has been involved with any material breaches of obligations regulated by the Essential Services Commission.

Neither IAEM, any directors of IAEM, directors of any entity that can exert control over the applicant or any person with significant managerial responsibility or influence on the applicant has been prosecuted for any offenses or had any enforcement action taken under any state, territory, Commonwealth or foreign legislation (including but not limited to, the *Competition and Consumer Act 2010 (Cth)*, *Corporations Act 2001 (Cth)*, or the *Australian Securities and Investments Commission Act 2001 (Cth)*).

Neither IAEM, any related body corporate or any person with significant managerial responsibility or influence on the applicant has been refused a licence or authorisation, or had restricted, suspended, or revoked any such licence.

4.2 Additional information

a) Is the applicant a resident of, or does it have permanent establishment in, Australia?	Yes
b) Is the applicant under external administration (as defined in the Corporations Act 2001) or under a similar form of administration under any laws applicable to it in any jurisdiction?	No
c) Is the applicant immune from suit in respect of the obligations under the <i>Electricity Industry Act 2000</i> or <i>Gas Industry Act 2001</i> ?	No
d) Is the applicant capable of being sued in its own name in a court of Australia?	Yes

5 The Commission's objectives

Iberdrola Australia is currently offering Victorian C&I customers cost-competitive, innovative and renewable energy focused solutions. Its strategic growth objectives for Australia – and Victoria in particular – will seek to bring new renewable investment into the state while broadening its range of integrated energy solutions available to Victorian C&I customers.

In the current market where energy prices are trending up due to increased wholesale energy and network costs, finding innovative and cost competitive energy solutions are critical to the viability of Victorian C&I customers and the Victorian economy more broadly. Approving Iberdrola Australia's request to transfer its electricity retail licence from IAH to IAEM will deliver Victorian customers real benefits – from more streamlined contracting arrangements and simplified invoicing arrangements to more competitive pricing driven by the operational and funding cost savings flowing through the Iberdrola Australia portfolio.

The quantifiable benefits are set out in *Confidential Attachment 6.1*.

5.1 Long term interests of Victorian consumers

The most material benefit arising from the licence transfer from IAH to IAEM is the ability for Iberdrola Australia to consolidate its energy portfolio under a single AEMO market participant ID – IAEM. Consolidating its NEM generation and NEM-wide customer load will significantly reduce Iberdrola Australia's total prudential requirements with AEMO. This delivers an immediate working capital benefit and annual funding cost reduction.

These efficiency gains open opportunities for Iberdrola Australia, which will flow through to Victorian consumers, be it: more competitive pricing (direct savings pass through); product innovation (redirection of costs savings to new testing or technology and product development); or accelerated renewable and firming capacity investment plans (working capital benefit and redeployment). These benefits are all in the long-term interests of Victorian consumers.

5.2 Competition and efficiency benefits for consumers

Medium and large business customers in Victoria are, by definition, large electricity users – consuming more than 40MWh per annum. Electricity costs are likely to be a substantive component of operational costs. Unlike small customers (e.g. residential and small business customers) C&I energy contracts tend to “unbundled”, meaning each group of input costs are separately identified in an energy supply agreement. This helps these customers differentiate between energy offers, dividing the contestable and non-contestable costs. For example, network charges are not contestable – they are costs passed through by the retailer from the distributor and are the same for any retailer. Whereas, wholesale energy, environmental and retail operating costs will differ between providers. These are the key contestable components and what a prospective customer will seek to negotiate and contract with the most competitively priced solution.

As one of the points of competitive difference, a reduction in Iberdrola Australia's retail operating costs in Victoria will flow through the price competitiveness of its local offerings.

Additionally, the efficiency gains in Iberdrola Australia's transaction costs with Victorian customers will flow through to Victorian C&I customers following the licence transfer from IAH to IAEM.

- With its Victorian retail activities licenced under IAEM, the same entity as its AER authorisation, multi-jurisdictional customers will be able to transact under a simplified contracting structure to service the needs of these high valued C&I customers.
- Iberdrola Australia's Victorian customers will be able to access similar benefits when contracting for energy and environmental supply contracts, as its environmental products are contracted under its IAEM entity.
- These Victorian customers will also benefit from a simplified invoicing process, dealing now with a single contractual entity.

5.3 Efficiency in the industry and incentives for long term investment

Investment in renewable assets and firming capabilities in each NEM state is a key part of its Australian growth strategy and its ability to deliver reliable and competitively priced clean energy to C&I customers. Iberdrola Australia plans in Victoria will support the Government's target to cut emissions substantially by 2030.

The working capital benefit arising from the portfolio consolidation under IAEM's AEMO participant ID will support Iberdrola Australia in pursuing its renewable energy investment projects in Victoria, which play to both Iberdrola Australia's and the broader Iberdrola Group's areas of expertise.

5.4 Financially viability of the industry

Access to capital for energy market participants in the past year has become an increased focus area for regulators, like the ESC, as the NEM has experienced prolonged periods of sustained, high prices. A direct result of this transfer application will be a reduction in the prudential requirement AEMO would require from Iberdrola Australia's registered entities. This reduction could mean Iberdrola Australia's existing financial institutions may be able to extend AEMO prudential services to other energy retailers in the market due to their reduced exposure through Iberdrola Australia's portfolio.

5.5 Health, safety, environmental and social legislation

Iberdrola Australia operates one of the largest portfolios of renewable energy generation in Australia with approximately 1.4 GW of owned wind and solar farms either operating or in construction, and approximately 250 MW of contracted operating wind energy generation. In addition, Iberdrola Australia has invested in a fleet of flexible, fast-start firming assets of approximately 300 MW (comprising gas peaking facilities and grid-scale batteries) that manage intermittency risks.

Iberdrola Australia's growth strategy includes further expansion of their renewables fleet to provide a safer and cleaner future for all. The financial benefits arising from the licence transfer from IAH to IAEM opens opportunities that could help accelerate clean energy innovation solutions development or bring forward plans for renewable and firming capacity investments in Victoria. This can assist the Victorian Government's target to substantially reduce emissions by 2030.

6 Statutory declaration

The required statutory declaration is provided in *Confidential Attachment 9.1*.

The required transfer declaration is provided in *Confidential Attachment 9.2*.

7 List of documents forming the application

This application is comprised of the following three parts:

- I. Public Application (this document)**
- II. Public attachments**
 - 1.4 Other licences (confirmation of AER authorisations)
 - 4.4 Complaints Handling Policy
 - 4.8 Privacy Policy
 - 7.1 AEMO Market customer registration confirmation
- III. Confidential Attachments (categories)**
 1. Organisational and Technical Capability
 2. Third Party Providers
 3. Suitability
 4. Compliance Strategy
 5. Risk Management Strategy
 6. Business Plan
 7. Memberships and Market Participant Agreements
 8. Financial Resources
 9. Statutory Declarations

Please refer to *Confidential Attachment A0* for the list of all Confidential Attachments that fall within each category.