



**Pennsylvania Department of Community and Economic Development
Center for Direct Investment**

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MEMO

TO: Dan Gundersen
FROM: Wilfred Muskens
DATE: December 8, 2005
RE: Iberdrola (Spain) acquisition plans

Dan:

After our Pennsylvania investment seminar in Madrid, organized with the Spanish Employers Federation on November 29, Richard Kilner and I met with Pedro Azagra, Corporate Development Director at Iberdrola, Spain's second largest electric utility. Iberdrola had specifically asked to meet with us, and indicated during our conversation that they might have an interest in acquiring a Pennsylvania utility "based in Allentown", obviously PPL. After unsuccessful efforts to acquire utilities in Florida and New Jersey, the company appears to have identified PPL as an ideal acquisition target.

About Iberdrola

Headquartered in Bilbao, Iberdrola is Spain's #2 electric utility (behind Endesa), serves more than 9 million customers and owns domestic hydroelectric, fossil-fueled, nuclear, and renewable power generation facilities with a capacity of nearly 23,000 MW. The deregulation of Spain's electric industry has prompted the company to branch into new businesses, including real estate, energy engineering and consulting, gas and water distribution, telecommunications, and information technology. The company's Iberdrola Energía (Iberener) serves 7 million energy customers in Latin America. The company's revenue for 2004 was \$14 billion (+18% revenue growth over one year) and the firm employs 13,400 worldwide. Net income for 2004 was \$1.6 billion (24% increase over 2003), an 11.7% net profit margin. Iberdrola is the largest single shareholder of Gamesa, with approximately 32% of the shares (used to be 100% a few years back).

According to Pedro Azagra, Iberdrola wants to enter the US market and has so far been unsuccessful in acquiring electric utilities in Florida and New Jersey. Without actually naming the company, Mr. Azagra clearly insinuated that Iberdrola has a strong interest in PPL. He did not want to confirm whether or not direct contact has already been made with PPL.

For comparison's sake, these are the key figures for PPL Corporation:

- 2004 sales: \$5.8 billion (+4% since 2003)
- 2004 net income: \$698 million (-8.5% since 2003)
- 12,000 employees
- 1.3 million customers in PA, 5 million worldwide (US, Latin America, UK)
- 12,000 MW of generating capacity in the US

According to Mr. Azagra, an acquisition of PPL by Iberdrola would be very beneficial for the Commonwealth, for the following reasons:

- it is very likely that sooner or later PPL will be acquired by an out-of-state utility; in almost all cases, this means that the corporate headquarters would be moved to another state (cf. Exelon/PECO and First Energy/GPU)
- for Iberdrola, this would be their first strategic move into the US market, and as a result, Allentown would become the company's US headquarters
- Iberdrola is willing to spend a substantial amount of money, in addition to the acquisition price, to upgrade generation capacity and develop alternative energy projects in PA (Mr. Azagra mentioned a total amount of up to \$15 billion the company would have available for acquisition + capital expenditures)
- Iberdrola is willing to negotiate a firm commitment with the Commonwealth in terms of job retention, headquarters retention, additional capital expenditures and participation in strategic alternative energy projects (wind, solar, hydro...)

Mr. Azagra's point was that the Commonwealth, instead of waiting "passively" for an out-of-state, domestic utility to acquire PPL, move the headquarters from Allentown and cut jobs in PA, should consider it in its best interest from an economic development standpoint to help facilitate a potential deal between Iberdrola and PPL.

Next steps

First, I would suggest informing Secretary McGinty of this opportunity because of her strong involvement with the Gamesa deal and related negotiations with PPL for a wind power purchase deal with Gamesa. Second, I think it would be useful to meet with the PUC to confidentially discuss this opportunity and find out what their perception would be of such a deal and whether or not they would see any major obstacles and/or disadvantages. Also, they might be aware of any ongoing discussions between PPL and other (domestic or foreign) utilities regarding a potential merger or acquisition. Third, Secretary Yablonsky or Secretary McGinty might want to have an initial discussion with the Chairman of PPL Corporation, William Hecht, to gauge his interest and/or find out if there have been any direct contacts already with Iberdrola.