

PROJECT TransmiT CONSULTATION

Response by Repsol

Introduction

Repsol are pleased to respond to the Ofgem consultation on project TransmiT. The companies have recently become involved in the UK offshore wind industry through the acquisition of SeaEnergy Renewables in the June 2011 by Repsol Nuevas Energias. Since the acquisition of the company, the headquarters of Repsol Nuevas Energias UK have been established in Edinburgh and we have progressed rapidly to recruit a team to manage our UK offshore wind portfolio: this has a gross capacity in excess of 3.3 GW.

Our Edinburgh office now has more than 20 professionals and will increase to 30 by midyear. They will be responsible for delivering our UK portfolio, in conjunction with partners, and managing our relationship with both the Scottish and UK governments and their agencies.

The development of the UK grid infrastructure is critical to the success of our developments and we are developing the capability to manage and interact with the regulators at present. This consists of recruiting internal experts, identifying key consultants to provide us with specialist advice and linking these skills with those, which already exist within the Repsol family.

We are active members of the industry bodies representing the wind industry: Scottish Renewables and Renewable UK. We strongly support the responses submitted by both of these organisations. It is our view that project TransmiT is a crucial first step in ensuring that the UK grid is capable of accepting large amounts of renewable electricity that will come from the successful delivery of the country's unique reserves of offshore renewable energy.

We have reviewed the consultation and have two principle comments. First that we think that the analysis does not full reflect the potential benefits of socialisation and that here are models of socialisation which may offer a better solution than that proposed by Ofgem. We reject Ofgem's logic for rejection of socialisation and feel that further consideration of the concept will be required in the future. Second we considered that the sensitivity analysis is limited and further analysis should be undertaken before ruling out the socialised approach. .

CHAPTER: Four

Question 1: Do respondents consider that we have appropriately identified and where possible quantified the impacts of the Project TransmiT options?

Question 2: Do respondents consider that there are additional impacts which we should take into account in the decision making process and, if so, what are these?

Question 3: Do respondents consider that we have appropriately identified the potential interactions of the Project TransmiT options?

Question 4: Do respondents consider that we have appropriately identified the likely impacts and consequences of these interactions?

In regard to the questions we would like to make the following specific points:

Location signals

Most new generation will not be able to react to locational signals. Therefore, the location signal might become ineffective in influencing location decisions for most new power generators.

- Renewable energy sources (except biomass) do not have the ability to respond
- Nuclear and clean coal with CCS, hydro and pump storage cannot react either
- Only CCGT is able to respond.

In addition, the environmental requirements limit the potential locations for new projects. These facts limit the impacts of the location signal and should be further analysed.

EU market integration

The Third Package takes a much more pro-active role in creating harmonized rules for the Internal Market in electricity. It is envisaged that framework guidelines and network codes will implement the Target Model towards the integration of the European Electricity Market.

We note that there are initiatives to integrate GB electricity in the day-ahead market coupling of France, the Netherlands and Belgium. Increased integration would improve liquidity in the GB wholesale electricity market as more market participants will be able to access the GB market.

We acknowledge that there are ongoing discussions with regard to harmonized transmission tariff structures within the EU, and therefore there is still uncertainty on the extent to which charging arrangements will be affected.

In any case, harmonization of transmission access and charging across Europe has been identified as a key issue for market integration and for competition in the European Electricity Market. Most EU generators have a zero generation tariff. This puts UK generators at a disadvantage and can distort cross-border trade if generators and interconnection have a different treatment.

Therefore, the having zero tariffs for generators should be considered in a context of further integration with the rest of the EU.

Entry barriers

Many renewable projects will be developed by new entrants to the GB market. As a result, a complex grid-charging model will be a barrier for them. They will have greater challenges in

accounting for all the arrangements in the investment decision. To attract new investors, consideration should be given to simplicity.

In addition, a clear advantage of "postage stamp" socialisation of transmission charges lies in the enhanced predictability of future operational costs. New entrants and their investors and lenders, either internal or third-party, can allot a lower risk-weighted cost of capital to investments with more certain net returns.

Energy Policy

We consider that a deeper analysis could be undertaken to align energy policy objectives with the charging arrangements. Existing objectives for charging arrangements are focused on cost reflectivity. These objectives can conflict with other policy objectives, such as the development of renewable energy sources.

Offshore generation is strongly supported by the UK and Scottish Governments. Offshore wind projects will be affected by the transmission charging arrangement and either the support scheme or the transmission charging arrangements should take this into account if the renewable target and in particular the offshore target is to be achieved.

Comments on Chapter 5

CHAPTER: Five

Question 1: Do respondents consider that we have appropriately identified and taken account of the key sustainability issues?

Question 2: Do you think there may be long term and strategic benefits associated with the development of HVDC technology, in particular the treatment of converter station costs for links that parallel the AC network, which Project TransmiT modelling has not fully considered because of the timeframe of the modelling (i.e. 2030) and the limited nature of the bootstrap options?

Question 3: Do you have any supporting evidence for a different treatment of the converter station costs for the planned bootstrap HVDC options?

1. No Comment
2. Repsol believes that HVDC technology offers long-term strategic benefits and that the rapid deployment of this technology will be of benefit to the industry. In our view the bootstrap options are critical part of the onshore grid infrastructure and are needed to ensure that the development timetable for our projects can be achieved. Thus the costs for this should be considered as an essential part of the infrastructure, and the developments should be progressed quickly.

The rapid development of the bootstraps will help to advance the technology, and will assist in the delivery cost savings across the offshore wind transmission system. These developments are crucial factors is reducing the risk that the onshore infrastructure will be unable to cope with the demands of the offshore wind developers. It is important that these projects are progressed rapidly and that they have a clear regulatory and financial framework.

3. We entered the UK offshore wind market in June 2011 with the purchase of SeaEnergy Renewables. We are currently establishing our centre of expertise in Edinburgh and consulting both internally and with partners as we develop our asset base and progress towards consent. Repsol represents a major potential inward investor to the UK and the delivery, security and affordability of the grid connection is critical to our development plans. We will share our analysis with Ofgem as the work programme progresses.