



RETAIL MARKET REVIEW: INTERVENTION TO ENHANCE LIQUIDITY IN THE GB POWER MARKET

INTRODUCTION

EDP Renewables

EDP Renewables (EDPR) is a leading renewable energy company that develops, manages and operates power plants that generate electricity using renewable energy sources, mainly wind energy.

EDPR is one of the three largest companies in the world in terms of growth and installed capacity (7,157 MW of wind installed capacity in eight countries). In Europe, EDPR is the third largest wind operator, with a wind power capacity of 3,652 MW spread out over wind farms in Spain, Portugal, France, Belgium, Poland and Romania.

EDPR entered the UK market in 2010 and is focusing its offshore wind energy development activities in the Edinburgh office. At present, EDPR has interest in offshore wind projects totaling 2500 MW.

Repsol

Repsol NuevasEnergias is the new energy division of Repsol YPF SA. It is a major integrated energy company headquartered in Spain, operating internationally. The new energy division was established in 2010 to pursue the company's interests in renewable energy, where it focuses on biofuels, offshore wind and technology.

Repsol entered the UK offshore wind market in 2011 with the purchase of SeaEnergy Renewables. The company is involved in the development of 3215 MW of offshore wind capacity in the UK.

UK Offshore

EDPR and Repsol have long-term interests in the UK market. The companies have a joint venture are involved in Moray Offshore Renewables Limited (MORL- Round 3 Zone 1 - 1500 MW capacity) and in Inch Cape Offshore Wind Farm (Scottish Territorial Waters Site - 1000 MW capacity). Separately Repsol has a 25% stake in SSE's Beatrice project (Scottish Territorial waters – 920 MW capacity).

EDP Renewables (EDPR) and RepsolNuevasEnergias UK (Repsol) form a consortium of independent developers that are responsible for renewable energy development in Scotland and UK-wide.

OFGEM CONSULTATION

Present document addresses the consultation launched by OFGEM on February 22, 2012 regarding proposed objectives to enhance liquidity in the Great Britain power market.

In EDPR-Repsol we strongly believe that increasing market liquidity is a key feature of a well functioning electricity market. We welcome Ofgem's efforts to improve UK electricity market liquidity and share its objectives to underpin competition in generation and supply: provision of a range of products which support hedging; development of robust reference prices along the curve, even in further horizons, and the development of an effective near-term market. These measures should also boost immediacy in the market that must apply to both near- and far-term products.

EDPR-Repsol believes that liquidity and transparency would enhance the effectiveness of the measures introduced by the UK Electricity Market Reform (EMR). We would welcome reliable, robust and transparent reference price that will be used to determine the Contracts for Difference Feed-In Tariff (CfD FIT) proposed in the EMR. To ensure visibility and robustness of reference prices they should be based on liquid markets.

However and even in the conditions of improved liquidity, we are extremely concerned about the risks of a feed-in with a CfD type model, as we are unable to find a reference price or index that will be representative for wind generators. It will be virtually impossible for wind farms to replicate the price index, therefore wind farms will be exposed to the difference between this price index and their actual realized price. Proposal: Refer the CfD mechanism to each individual wind farm realized price (as currently done in Spain).

We agree that in order to enhance market competition, participants require products that enable them to hedge against the risk of future prices.

EDPR-Repsol shares Ofgem's opinion that Mandatory Auctions (MA) can be an effective tool in order to increase market liquidity. However its design is a critical element for its success on this objective. The MA should not only incentivize the development of physical products but also financial products which are accessible to wider range of market participants.

EDPR-Repsol would welcome that the auction products are defined so as to facilitating maximum flexibility, in terms of volume and shape. Moreover, the correct definition of the reserve price is as well an important element to ensure the correct auctioning system.

Finally, EDPR-Repsol supports the idea of increasing market transparency and all the relevant information should be available for all the market participants.