

SHEPD Connection Offer: Maywick, Shetland.

Aegir Wave Power Ltd.
The Tun Building,
Holyrood Road,
Edinburgh.
EH8 8AE

Friday 14th May, 2010.

To: Kenny Stott, SHEPD
Cc: Martin Moran, National Grid
Lesley Nugent, Ofgem

Dear Kenny

We thought it might be helpful to record our rationale for declining – at this time – the distribution offer from SHEPD for our Shetland wave farm.

We understand that acceptance of the distribution offer (12MW capacity connecting at Maywick Bay, South Shetland) will trigger a process with National Grid that would necessitate a further application from Aegir for the transmission system – either a BEGA or a BELLA – and payment of two application fees of approximately £23,000 +VAT in total for a BEGA or one fee for a BELLA of £11, 500 + VAT. (We have no indication of whether a BEGA or a BELLA will be required for us to operate our project on commercial terms).

In three months time, around mid-August we would be presented with a National Grid contract, which in turn would have a three month acceptance period, taking us to around mid-November. Acceptance of the transmission offer would come with an immediate share of underwriting liabilities for the planned HVDC cable. Expenditure on the cable to-date is estimated at £3M, and a share pro-rata share under FSL might be around £64,000, in addition to a share of any works on the mainland. IGUC liabilities would be £12,000 in the first year, although with a BEGA we cannot get IGUC for any works that get underwritten via the DNO.

Thus at the very least we risk losing around £24,000 in the first year, and potentially more than £88,000, and these sums will rise thereafter. In return, we secure some capacity on the HVDC cable only if it goes ahead. It is the Viking project that is driving whether it goes ahead and under what timescales, and we have no control over this. So potentially we could lose substantive sums and not gain any transmission access.

At present the Viking project does not have consent and is therefore subject to uncertainty. At the same time whilst Aegir is very serious about the wave power site in Shetland, we also face some consenting risk which has been exacerbated by the Crown Estate's involvement in seeking to run a competition for leases in the area. From previous lease rounds there has been a clear signal from Crown Estate that it is not commercially prudent to secure a grid connection in advance of a lease.

Thus at present it is difficult to justify risking substantive funds for, potentially, no gain. We understand that this is the existing process for underwriting but note that it presents us with an additional barrier for our project. We accept that projects need to show commitment, but would question the proportionality of this commitment and what exactly we are getting in return – in

SHEPD Connection Offer: Maywick, Shetland.

this case we have no guarantee of transmission access. This is perhaps a point for National Grid to consider, rather than yourself, and we have copied in Martin Moran to that end.

I hope this is helpful. Many thanks, once again, for both your time and assistance to-date,

Yours sincerely,

A handwritten signature in black ink, appearing to read 'A. Scott', with a long horizontal stroke extending to the right.

Andrew Scott.

Project Development Manager – Aegir Wave Power Ltd.