



Electricity Transmission Team, Ofgem  
Cornerstone  
107 West Regent Street  
Glasgow G2 2BA

8<sup>th</sup> February 2012

Dear Sir / Madam

**RE: MeyGen Consultation Response to Project TransmiT document “Electricity transmission charging: assessments of options for change”**

We write to you in response to the Project TransmiT consultation launched on 20<sup>th</sup> December 2011 in our capacity as one of Europe’s largest tidal stream projects located in The Inner Sound, in the Pentland Firth, Scotland. The project is considered by many as the “Crown Jewel” site in the Pentland Firth, with tidal flows and proximity to infrastructure that offer some of the best commercial potential, globally. The project has been developed over the past four years by a dedicated UK team, with backing from MeyGen’s shareholders. This letter has been composed in order to provide Ofgem with a focussed response to the publication entitled “Electricity transmission charging: assessments of options for change”.

MeyGen Limited is a joint venture between investment bank Morgan Stanley (45%), independent power generator International Power GDF SUEZ (45%) and tidal technology provider Atlantis Resources Corporation (10%), formed to develop the Inner Sound tidal site allocated through The Crown Estate Pentland Firth and Orkney Waters leasing programme. Although the company has strong backing and support from its shareholders, the views represented in this letter are made purely in the context of the MeyGen tidal stream energy project and do not necessarily reflect the broader views of Shareholders who might have individual view points and separate contributions to make on the basis of other generating station developments within the UK.

MeyGen’s first milestone is to install a 20MW array as a proof of commercial concept and ultimately build out 398MW of capacity in the hope that, with time, the project will have a Cost of Energy comparable if not better than offshore wind and will also be a catalyst in introducing a new technology with significant resource in the UK waters to help contribute to a meaningful shift towards a low carbon energy economy in the UK in the very near future.

As the project is located in a remote region in the North of Scotland one of the key challenges identified to achieving this target is a secure and economic grid connection. To this end, MeyGen have entered into a formal construction agreement with National Grid (NGE) to connect the project to the Scottish Hydro Electric Transmission Ltd. (SHE) system at Gill’s Bay near Thurso in Caithness. To our knowledge this is the largest grid connection agreement signed to date by a tidal stream energy development and therefore we are keen to emphasise that the outcome of this consultation is particularly significant to our project.

In order to secure sufficient future investment in the project one of the key contributing factors to the total cost of energy is the ‘Transmission Network Use of System’ charges. Given MeyGen’s location at the very North most point of the Scottish mainland MeyGen faces some of the steepest TNUoS charges in the country. In view of this, MeyGen welcomes the efforts made by the Ofgem Electricity Transmission team to examine options to reduce the prohibitive tariff of the status quo charging arrangement.

MeyGen's initial view on the report is that we concur with the outcome that improved Investment Cost Related Pricing (ICRP) is the right direction for transmission charges. The report concisely identifies and quantifies the impacts of the options and it is clear that if improved ICRP were approved, this would represent significant benefit to the reduction of the cost of energy for the MeyGen project and hitherto aid and incentivise investment in this nascent renewable energy sector.

In general, MeyGen supports Ofgem's proposal to rule out socialised charging as an option. While this may bring a project such as MeyGen a slightly lower TNUoS charge than improved ICRP we would be concerned that such a dramatic change in charging arrangement may incur significant delays in implementation increasing the time taken to see benefits. The improved ICRP option however is a more gradual shift in method and consistent with the direction of European policy therefore, we would hope it could be implemented in the UK in a much faster timeframe than is currently proposed. It should be noted that the timing of the implementation of a new charging arrangement is critical to encourage investment over the coming years.

One area MeyGen would suggest further consideration be made, is the contribution that renewable energy projects which utilise new technology such as tidal stream turbines may have to meeting Ofgem's sustainability target. This long term contribution made by projects such as MeyGen may not have been factored into the modelling carried out to date. In the model Wave and Tidal are put in the same bracket as onshore and offshore wind and the reduction in TNUoS calculation is simply based on the fact that they are all low load factor generators. Moreover, the report assumes a higher load factor for wave and tidal than for wind and results in wave and tidal TNUoS charges being potentially higher than a wind farm project. While this higher load factor is achievable in the very long term given the vastness and predictability of the marine resource; these assumptions must rely on projects such as MeyGen developing the "know how" and making the investment in order to kick start the commercialisation of the tidal stream industry. If possible there may be benefit in considering including an additional reduction factor applied to innovative technologies TNUoS category within the improved ICRP arrangement, which eventually is phased out as the sector matures and consistent MW generation/export increases. As an added incentive, this reduction factor could be awarded to the first large scale marine energy projects to connect to the National Grid.

In summary, MeyGen wholeheartedly supports the outcome of Ofgem's consultation and we are encouraged that the need for change has been recognised. These changes will significantly assist transition to a low carbon economy and also make projects in the North Scotland more attractive to large investors. It is now critical to projects such as MeyGen that implementation of the improved charging arrangement is expediated to assist with development.

The responses to these questions reflect the collective view of the MeyGen Ltd. management team and we would welcome the opportunity to discuss our views with you should you wish further clarification.

Yours faithfully



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CEO, MeyGen

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