

New Zealand Marine Energy Centre [NZMEC] Report on progress with the proposal and Grow Wellington's role in it

- 1) The proposal was initiated in September 2008 with a Feasibility Study for an Aotearoa Marine Energy Centre to be modelled on the UK's European Marine Energy Centre [EMEC] and based in the Wellington region to utilise the tidal and wave characteristics of the Cook Strait. By early 2011 AWATEA [Aotearoa Wave and Tidal Energy Association] and HERA [Heavy Engineering Research Association] had agreed that the proposition for a marine energy device testing centre represented a "strategic opportunity" for their members and New Zealand generally and work was undertaken to draft a formal proposal for such a Centre to be submitted to government.
- 2) Grow Wellington was actively involved in drafting the proposal, which was submitted to the Ministry for Economic Development in August 2011. The core of the proposal, which was for "part-funding of a marine energy testing facility in New Zealand", was a request for government funding of \$8million, to be matched by \$8million from industry sources as capital funding for the establishment of the Centre.
- 3) While there are here are differing views on the Ministry's response, the Ministry did not reject the Proposal but did ask for short term economic benefits to be identified and included. There was then a lull until April 2012, when EMEC released its Economic Impact Assessment at the AWATEA conference.
- 4) At its meeting in May 2012 the NZMEC's Working Group asked Grow Wellington to commissioned Infometrics to prepare a report that would relate the EMEC Assessment to the Wellington context and then engage a writer who had worked on the original Proposal to draft an additional chapter for the Proposal, based on the Infometrics report.
- 5) At a meeting in early June 2012 with MED officials, who had been involved with the Proposal since the inception of the project, it was made clear to Grow Wellington that the Ministry expected a Business Case to be submitted, rather than a revised Proposal. The Case would need to include "realistic assumptions" and address such matters as competition, evidence of demand and spill-over benefits.
- 6) In late June Grow Wellington briefed the Working Group on its meeting with the Ministry and proposed that Grow Wellington should discuss with reputable consultancies the options for undertaking further work on developing a business case. While there was a counter argument that a business case was not necessary and the provision of government funding would be a "political decision" the proposal was supported by the Group. Grow Wellington met again with the Working Group in mid July with a firm proposal for a Grow Wellington-funded piece of work to be undertaken by an internationally respected consultancy to prepare the ground for the drafting of a robust and compelling business case. The Group approved the proposal, which was to be funded, commissioned and project managed by Grow Wellington.
- 7) Grow Wellington attended an AWATEA Board Strategic Planning Day, in early 9 August, at which the Board it was acknowledged that "without investors the business case could not go forward..."

- 8) Grow Wellington conducted a competitive process as a result of which PwC was contracted in late August 2012 to undertake two related pieces of work: first, to consult with the Ministry and confirm its interest in a marine energy business case and if the answer was affirmative, then in what format would it expect the case to be; second, to undertake an analysis of the gaps between the revised Proposal and the requirements for a business case and advise the Working Group accordingly. This work would be a precursor to a third piece of work i.e. the drafting of a full Business Case.
- 9) In support of this process Grow Wellington also provided the Ministry with copies of the EMEC Economic Impact Assessment, the Infometrics report based on it, and the additional chapter on Short Term Economic Impacts written for the Proposal.
- 10) Grow Wellington met with PwC in early October to finalise its report, which confirmed the Ministry's interest and detailed the work that would need to be undertaken to develop the original Proposal into the business case format required by government. PwC had indicated, as had the other two consultancies that tendered, a cost of between \$50 – 100k for the development of the full business case and Grow Wellington had already had discussions with local councils about the extent to which they might financially support this work. However, in the course of those discussions Grow Wellington had stated its position, which was that it would not expect the work to be funded entirely with public money and that it would not support the work going forward unless and until the industry and/or private investment also made a significant financial contribution, i.e. that it could be seen that the proposal was commercially viable. That position had also been made clear to the Working Group at its meetings in July and August.
- 11) In early November Grow Wellington facilitated and funded a workshop with PwC, which was attended by three members of the Working Group. After discussion of the findings of the PwC report it was agreed that the critical factors to be addressed prior to commencing any work on a business plan were:
 - a) Evidence of customer demand must be available – and it was acknowledged that even at that stage in the process there was no firm evidence of this
 - b) A detailed, line-by-line and phased Implementation Plan would need to be developed and aligned with the financials
 - c) There would need to be evidence of industry/private sector investment, phased over the lifetime of the Implementation Plan, to match the \$8million co-funding requested from government – it was again acknowledged that at that time there was no evidence of industry commitment to funding
 - d) There would need to be a worked up Operational Plan, which would include decisions about where the various facilities of the Centre would be located across the region's territorial authorities
 - e) Greater emphasis would need to be placed on commercial viability, which would require detailed Financial Modelling, probably by led by PwC, to showed realistic assumptions re. assets, cash flow, capital requirements and operational expenditure.
- 12) Although options for moving the business case forward were discussed, the workshop concluded without agreement on a specific option or a definite timeframe but suggested instead a follow up meeting of the Working Group.

- 13) The total cost of the work PwC undertook on behalf of Grow Wellington was \$20,000, making a total of \$33,620 that Grow Wellington committed in support of the Marine Energy Centre in the financial year 2012-2013.
- 14) Grow Wellington had a subsequent meeting in November with some members of the Working Group. The meeting did not advance the business case proposal although, in the light of Grow Wellington reiterating its position with regard to public and private funding of the Business Case, it did elicit further commitments from members to secure written confirmations from commercial interests.
- 15) In December Grow Wellington was made aware that the AWATEA Board had met with the HERA representative and agreed to an alternative approach that involved the Energy Efficiency and Conservation Authority and NZTE. ECCA has offered some supporting funding, although this is conditional on 60% of funding coming from industry. Grow Wellington was later informed by the HERA representative that the project was still “on track” and Grow Wellington’s role would be to obtain funding from councils in due course.
- 16) In late December Grow Wellington spoke to NZTE, which acknowledged that the government would not invest to create NZMEC, and certainly not without a business case, and would not invest up front. While the Strategic Investment Fund is potentially available, industry investment would be a requirement.
- 17) On 30 January Grow Wellington sent a detailed email to both HERA and AWATEA’s representatives setting out Grow Wellington’s position and the conditions that would have to be met for Grow Wellington to take the proposal forward to business case status. These included:
 - a) Commitment of private sector/industry funds to support the development of a business case must be confirmed, without which Grow Wellington could not support acquisition of further public funds
 - b) Firm evidence of commercial/customer interest in the proposed Centre
 - c) A formal Steering Group, with Terms of Reference and representation from all stakeholders and contributors to the project, should be established.
- 18) Grow Wellington had informal responses to this email from AWATEA and understands that the proposals made by HERA in December are still in play. At the time of writing Grow Wellington understands that HERA proposals have been taken forward, with Shoreline Partners, a Wellington-based consultancy, having been commissioned to write a business case, at a cost of circa \$16,000. Now that industry organisations are taking the lead Grow Wellington has therefore, in line with its intervention logic, stepped back from further proactive engagement with the proposal.
- 19) An additional factor that has emerged recently is that John Huckerby, whose WetNZ project off Moa Point, which had been collaborative project with the former IRL and was seen as the first phase of the proposed NZMEC, will shortly be leaving New Zealand and relocating the New York for personal reasons. This will limit the extent of AWATEA’s further engagement with the proposal and significantly reduce the likelihood of WetNZ’s Moa Point project becoming the opening phase of a New Zealand Marine Energy Centre.
- 20) Grow Wellington’s assessment of the current status of the proposal is that a combination of factors remains to be resolved:

- a) A robust business plan is yet to be developed to put in front of the Ministry/Minster
 - b) Significant industry investors have yet to be identified and confirmed
 - c) A significant customer base has yet to be identified and confirmed
 - d) Marine energy, as a source of renewable energy, has an immature industry base in New Zealand and is probably between 5 and 15 years away from maturity
 - e) Marine energy is not high on the government's agenda as a source of renewable energy.
- 21) Given these factors, while Grow Wellington will retain a 'watching brief' on the marine energy proposal, it suggests that there may be greater economic benefits to be gained from attention being paid to other aspects of the energy agenda, such as smart grids and their application in the domestic market, alongside developments in electric vehicles and public as well as personal transport infrastructures.

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