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**NORTH WALES ECONOMIC AMBITION BOARD**  
**30<sup>th</sup> September 2022**

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**TITLE:** Morlais Change Request

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**1. PURPOSE OF THE REPORT**

- 1.1. To seek the Board's endorsement of the PMO's recommendations regarding the Morlais Change Request

**2. DECISION SOUGHT**

- 2.1. That the Board approve the change request.
- 2.1. That the Board note that the change request will result in a new outline business case being developed and submitted by Menter Môn for the Board's consideration.

**3. REASONS FOR THE DECISION**

- 3.1. In May 2021, the NWEAB approved an outline business case (OBC) for £9m funding towards the Morlais B development. Due to a combination of funding constraints, the OBC was withdrawn by Menter Môn in Autumn 2021. Following the withdrawal of the OBC, Menter Môn have prepared a change request seeking support from the Board to retain the £9m earmarked from the Growth Deal Low Carbon Energy Programme. This would enable Menter Môn to develop and submit a revised outline business case for a revised project called the Cydnerth Project. As per the North Wales Growth Deal's change control process, this proposal requires approval from the Board.

**4. BACKGROUND AND RELEVANT CONSIDERATIONS**

- 4.1. In May 2021, the NWEAB approved an outline business case for £9m funding towards the Morlais B development. Due to a combination of funding constraints, the OBC was withdrawn by Menter Môn in Autumn 2021.
- 4.2. Following the withdrawal of the OBC, Menter Môn have prepared a change request seeking support from the NWEAB to retain the £9m earmarked from the Growth Deal Low Carbon Energy Programme. This would enable Menter Môn to develop and submit a revised outline business case for a revised project called the Cydnerth Project.
- 4.3. The Change Request was endorsed by the Energy Programme Board in May 2022 and the Portfolio Board in September 2022, subject to achieving support from the Welsh European Funding Office.

## Summary of Change Request

### Change to Scope

- 4.4. The original OBC involved the Growth Deal and Welsh European Funding Office jointly funding the 20MW connection to the Distribution Network and the onward connection to National Grid. As a result of the funding constraints that resulted in outline business case withdrawal, Menter Môn submitted a Reduced Scope Project to the Welsh European Funding Office, securing £31m to deliver the onshore electrical infrastructure up to a point of connection with the Distribution Network (SPEN) at Parc Cybi. This will allow the project to expand to 20MW of deployed tidal turbines. The reduced scope project described above underwent Final Investment Decision on March 18th 2022 and the delivery / construction phase has now commenced. In light of recent progress and following UKG confirming a dedicated subsidy support mechanism for tidal energy, conditions for a successful outcome at Morlais are now substantially more favourable.
- 4.5. The WEFO funding will facilitate the first phase of the project up to 20MW. However, there is currently no funding secured for the expansion stage, up to 240MW, which would facilitate the growth of the project, further deployment / investment by tidal developers and delivery of the majority of jobs and regional benefits.
- 4.6. Menter Môn are seeking support from the Board to retain the £9m earmarked from the Growth Deal to remove the following barriers to growth: connection to National Grid (circa £7.5m) and Monitoring sub-marine environmental effects (circa £1.5m). If supported, Menter Môn would develop and submit an outline business case for the revised project in Spring 2023, with the delivery phase commencing in Spring 2024. The revised project is called the 'Cydnerth Project'.

### Change to Timeline

- 4.7. The change would result in a delay to Growth Deal spend of approximately 2 years. Menter Môn have targeted July 2023 for OBC approval, with project delivery commencing in June 2024

### Change to Benefits and Outcomes

- 4.8. The projected overall benefits of the Morlais project for North Wales remain unchanged. The difference is that the benefits will be split between the Welsh European Funding Office funded project and the Cydnerth Project. The majority of the benefits and outcomes projected in the original outline business case will be secured through the Cydnerth Project. It is important to note that there will be a reduced direct contribution to programme spending objectives as a result of the Welsh European Funding Office funded project now being separate to the Growth Deal project. The revised outline business case will set out the outcomes and benefits in more detail.

### Headline Issues and Risks

- 4.9. Safeguards within the Welsh European Funding Office funding agreement currently restrict the project's capability to receive further funding and acquire additional assets without approval from the Welsh European Funding Office. As set out within their letter to the Portfolio Director (Appendix 1), the Welsh European Funding Office have confirmed 'in

principle' support for the proposal. However, safeguards within the funding agreement between Menter Môn and the Welsh European Funding Office will require Menter Môn to receive consent from the Welsh European Funding Office prior to submitting the outline business case to the Board.

- 4.10. The contribution to programme spending objectives delivered by the Cydnerth project will be lower than originally approved in the Morlais outline business case and lower than the estimates made in the Portfolio Business Case. The overall benefits to North Wales remain the same as initially projected.
- 4.11. Due to State Aid limits, the Growth Deal funding cannot be grant funding. The funding options (e.g. loan, equity of other funding models) will be addressed within the new outline business case.

## **5. FINANCIAL IMPLICATIONS**

- 5.1. There would be no change to the total Growth Deal funding allocated towards the project. However, the project's contribution to programme spending objectives delivered by the Cydnerth project will be lower than originally approved in the Morlais outline business case and lower than the estimates made in the Portfolio Business Case due to the removal of the Welsh European Funding Office funding.

## **6. LEGAL IMPLICATIONS**

- 6.1 The change request will result in a new outline business case being developed and submitted by Menter Môn for the Board's consideration. The Welsh European Funding Office have confirmed 'in principle' support for the proposal. However, safeguards within the funding agreement between Menter Môn and the Welsh European Funding Office will require Menter Môn to receive consent from the Welsh European Funding Office prior to the outline business case being submitted to the Board.

## **7. CONSULTATIONS UNDERTAKEN**

- 7.1. The change request has been endorsed by the Energy Programme Board and the Portfolio Board.

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### **APPENDICES:**

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| Appendix 1 | Welsh European Funding Office letter to Ambition North Wales regarding the Cydnerth Project. |
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**STATUTORY OFFICERS RESPONSE:**

**i. Monitoring Officer – Accountable Body:**

“As noted in the report the implications of both Subsidy Control and State Aid requirements will have to be carefully considered and applied by both Menter Mon and the EAB.”

**ii. Statutory Finance Officer (the Accountable Body’s Section 151 Officer):**

“I have no objection to the decision sought.”