



REPORT TO THE NORTH WALES ECONOMIC AMBITION BOARD
February 3rd 2023

TITLE: Hydrogen Hub and Transport Decarbonisation Project
AUTHOR: Graham Williams, Project Manager
Henry Aron, Low Carbon Energy Programme Manager

1. PURPOSE OF THE REPORT

- 1.1. The purpose of the report is to seek endorsement for delivering the process of appointing a project sponsor to deliver the project.

2. DECISION SOUGHT

- 2.1. To endorse the proposed process for appointing a project sponsor;
- 2.2. To delegate to the Portfolio Director in consultation with the Chair, Vice Chair and Monitoring Officer the authority to finalise the documentation for the selection process for appointing a project sponsor and deliver the process on behalf of the Board.
- 2.3. To note that the following the completion of the selection process, a recommendation will be made to the Economic Ambition Board for approval.

3. REASONS FOR THE DECISION

- 3.1. As stated in the report.

4. BACKGROUND AND RELEVANT CONSIDERATIONS

- 4.1. The agreed way forward for the project is to appoint a partner (project sponsor) by a competitive selection process to develop a business case and deliver a hydrogen hub project. This started with a Prior Information Notice (PIN) to assess the market's appetite, capacity and capability to deliver the project in partnership with Ambition North Wales.
- 4.2. On 30th September 2022, the North Wales Economic Ambition Board agreed the following steps:
- To endorse the next steps for the project and the draft procurement principles;
 - To delegate to the Portfolio Director, in consultation with the Chair and Vice-Chair, the authority to finalise the procurement specification and then to undertake the procurement activity on behalf of the board.
 - To note that following the completion of the procurement process, a recommendation will be made to the Board for approval.

4.3. The Approach to appointing a Sponsor

4.3.1. The Portfolio Management Office subsequently worked with a team of specialist procurement advisors from the consultancy Local Partnerships to consider the most appropriate approach for appointing a sponsor

4.3.2. A number of meetings and workshops were held to discuss the potential procurement routes together with their advantages, disadvantages, and constraints. The process concluded that the use of a competitive public procurement in the context of the Public Procurement Regulations would not be the best approach for appointing a project sponsor. The rationale for this recommendation is that:

- The process for appointing a sponsor is not deemed to be a public procurement process, given that it is not possible to clearly define the detailed goods/services/works the private sector partner would be required to provide. The role of the private sector is to act as 'project sponsor' rather than that of a 'partner'. The term 'partner' has its own legal meaning and it does not accurately describe what the project is seeking.
- A key requirement of any public procurement is the ability to set out very clearly at the outset what is required, the criteria by which any competitive selection process will be undertaken, and a successful bidder selected. The flexibility required to develop an appropriate delivery model for this project does not fit with Public Procurement Regulations and therefore raises the risk of a challenge.
- The workshops also revealed that due to the fast-paced nature of the project, no established procurement process could accommodate the high degree of flexibility required at this stage. The conclusion of the workshops was that the development of any procurement process would be extremely complex and could result in an inadequate response from the market or a potential challenge by an unsuccessful bidder.
- A formal procurement process would require extensive work to be undertaken by the bidders to enable a competitive process to be undertaken. There is a significant risk that this upfront investment in time and resources to develop a proposal with no guarantee of success would prove to be a disincentive. This could result in a failed procurement.

4.3.3. Consequently, the option of utilising a process similar to the 'Replacement Projects Process' was considered as a more suitable process for appointing a sponsor. It was recommended that the process would provide a suitable alternative to a formal procurement process and would assist accelerate the process, provided that the process was implemented openly and transparently and communicated widely to potentially interested parties.

4.4. The process for Appointing a Sponsor

4.4.1. The PMO have commissioned a specialist from the hydrogen sector to support the development of the selection process documentation. The process and documentation draws on relevant elements from the Growth Deal's Replacement Projects Process and the UK Government's Hydrogen Business Model package. The title of the process is provisionally the 'Hydrogen Sponsor Challenge'.

Selection Criteria

4.4.2. In common with the Replacement Projects Process, we have aligned our scoring around three criteria: Strategic Fit, Impact, and Deliverability. Appendix 1 sets out the key considerations for the three criteria.

- 4.4.3. The Strategic Fit references key policies and strategies for the UK, Wales, and North Wales. The Impact refers to the Low Carbon Energy Programme's spending objectives of jobs, economic growth, investment, and carbon savings. The Deliverability criterion will be given the highest weighting and will be higher than that proposed for the Replacement Projects Process for three reasons:
- Hydrogen projects are low-certainty projects where there are external factors that can significantly impede them, for example land acquisition, planning, permitting, and supply chain immaturity.
 - A lot more is now known about the highest risk elements and these are capable of being assessed by reference to objective and observable evidence.
 - There are factors that a serious bidder must consider very early in any project and the applicants should therefore be able to provide evidence of progress with them. This includes things like arrangements for electricity supply, water, and land rights. Each of these is a critical matter for any serious bid and our scoring takes this into consideration with a minimum scoring feature built into the matrix.

Selection Process

- 4.4.4. We have designed the selection process to help us recommend the applicant we believe has the best and most credible plan to deliver a project that delivers against our spending objectives. The summary process flow chart is below and sets out the key stages. The dates are indicative due to the evolving policy landscape.
- 4.4.5. Each stage enables us to refine the choices further. As has become increasingly apparent, the hydrogen sector is still very new and industry will need to respond to government policy which is evolving at the same time. For example, we expect announcements in the second half of 2023 about government support packages for production, hydrogen blending into the gas grid, and for storage and distribution. These announcements may need to be considered as we progress through the selection process and have therefore accommodated this uncertainty with a period of clarification and negotiation. It is a milestone stage that enables all parties to take stock of government policy. We cannot predict what government policy could be, but we must remain cognisant of known development such as these and plan to respond accordingly.
- 4.4.6. We will also reserve the right to recommend that strong and potentially complementary applicants should consider collaborating at any stage of the process. And applicants will be strongly encouraged to consider this aspect before applying.

Stage 1 – Briefing Event (March 2023)

The briefing event will be held before the opening of the application window. It will include a presentation of the proposed competition outline, followed by questions and answers.

Stage 2 – Refinement of the Offer (March 2023)

We recognise that the briefing event could generate a number of matters that will require further consideration and consultation. We have therefore scheduled time to refine the offer to the market, if necessary, before opening the competition. This is an approach commonly used by Government when developing similar competitions.

Stage 3 – Application window opens (April 2023)

Applicants must complete the application form and supplementary documents within six weeks.



Stage 4 – Eligibility & Evaluation (May 2023)

We will carry out an eligibility check on all applications. This will involve assessments of the credibility of the evidence provided and robustness of any calculations used. Reference will be made to the minimum deliverability scores. Applications must achieve the minimum scores in the deliverability section of the assessment document to progress any further.

Stage 5 – Shortlisting (May 2023)

Applications that meet the eligibility criteria and the minimum deliverability scores will be assessed according to a weighted evaluation. The three main assessment areas are provisionally weighted as follows:

Strategic fit	20%
Impact	35%
Deliverability	45%

Stage 6 – Interview & Presentations (June 2023)

Shortlisted applications will be requested to provide further detail on their proposals as well as providing a presentation as part of the next stage of the assessment

Stage 7 (Summer 2023) – Clarification & Negotiations

Some external factors may have changed by this stage resulting in new opportunities for all parties to discuss collaborations with other organisations. For example, it is possible that applicants may have been informed by UK Government about the outcomes of funding applications and there may be further information about the UK Government’s approach to blending hydrogen into the gas grid. There may also be further information available regarding UK Government support for storage and distribution. This stage allows for successful resolution of these known possibilities and allows all parties to accommodate any changes in circumstances.

Stage 8 (Summer 2023) – Selection of a Sponsor by the Economic Ambition Board

The Economic Ambition Board will formally select the preferred project sponsor. The funds will then be released subject to business case approval.

Stage 9 (Autumn 2023 -Autumn 2024) – Business Case Development & Funding Approval

Successful applicants will develop a business cases in line with [Better Business Case guidance](#) and the [HM Treasury Green Book](#). Funding from the North Wales Growth Deal is only secured following the approval of the Full Business Case by the Economic Ambition Board and entering into a funding agreement. The main procurement and planning/consenting agreements will need to be completed before Full Business Case approval.

4.5. The Offer to the Market and the Scope of the Competition

4.5.1. The sponsor will receive:

- Up to £11.4 million of Growth Deal capital funding to invest into demand enablement. This will help fossil fuel powered organisations decarbonise by becoming low carbon hydrogen customers. When the sponsor’s hydrogen production facility is included, this creates a hydrogen hub.

- The backing of Ambition North Wales and our partners to help create a hydrogen hub. This includes active consideration of our endorsement for future applications for government low carbon hydrogen support packages such as Net Zero Hydrogen Fund and Hydrogen Business Model. It could also include future Government hydrogen schemes that could further our objectives.
- Access to skills, training and education support through our two universities and two further education college partners.

4.5.2. The Sponsor will provide:

- Within 12 months: A Business Case (in line with the Better Business Case Guidance) that sets out the case for a low carbon hydrogen hub including a hydrogen production facility.
- By 2027: an operational hydrogen hub including production and off-takers. The hydrogen production facility will be funded by the sponsor.

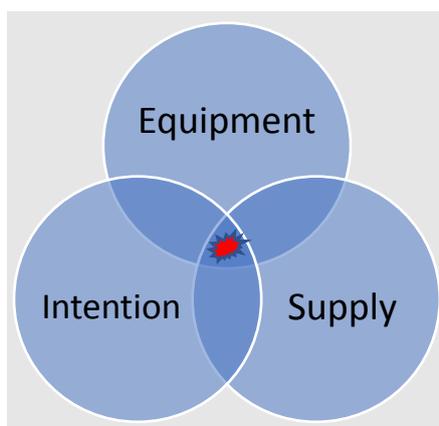
Demand Enablement

4.5.3. The offer clearly sets out that the Growth Deal capital is to be targeted at the customer element of the hydrogen value chain. We have then explained more closely what that could entail and given it a clear definition under the term Demand Enablement.

4.5.4. Demand for low carbon hydrogen is contingent upon a number of factors which include: a commitment to decarbonisation, feasibility studies, trials, and informed intent to use low carbon hydrogen in an organisation's operations. When this is in place, organisations need to then carry out enabling technical work to plant, machinery, and/or vehicles. The intent and equipment however only become demand, when they coincide with a viable supply of low carbon hydrogen.

4.5.5. We therefore define 'demand enablement' as being at the intersection of:

- The intention to consume low carbon hydrogen.
- Commissioned equipment that can consume low carbon hydrogen.
- Viable supply of low carbon hydrogen.



4.5.6. The application form and associated guidance goes into greater detail by also clarifying what is not considered to be acceptable use for the Growth Deal funds. For example, we make it clear that the funds are not for the hydrogen production facility, nor for developing the Outline Business Case.

4.5.7. Industry feedback has been particularly supportive of our approach to demand enablement for three main reasons:

- It develops a hydrogen customer base, which is critical to the success of any hydrogen economy.
- It assists investors in hydrogen production to have the confidence to reach Final Investment Decision because they can clearly see the customers to justify their investment. It should be noted that the external investment will probably far exceed the Growth Deal element for this project. For example, a medium sized hydrogen production facility (30MW) could require inward investment of £50million - £60million just for the hydrogen production facility.
- It enables the sponsor to submit a strong bid to UK Government for both capital support and subsidy for the production of hydrogen. The subsidy enables them to sell hydrogen at a price that is competitive with gas. It is allocated by a competitive process open to the whole UK, so everything we can do to augment bids in North Wales increases the chances of success.

4.6. Next steps

4.6.1. Refine the Hydrogen Sponsor Challenge documentation by continuing to consult with industry, the two governments, and other key stakeholders.

4.7. Main Risks

Risks	Mitigation
Delay to delivering the competitive process	<ul style="list-style-type: none"> • Specialist consultant to support with preparation of process. • Aligning with Project Replacement Process where appropriate
Lack of applications	<ul style="list-style-type: none"> • Significant market engagement through PIN and follow up with industry and Government to confirm where our investment should be focussed
Delivering an appropriate competitive process	<ul style="list-style-type: none"> • Options appraisal with support from specialists from Local Partnerships
Potential inter-dependency with the UK Government Hydrogen Business Model Process	<ul style="list-style-type: none"> • Engaging with UKG officials to understand the HBM timeline • Clarification & Negotiation period will provide opportunity to manage potential interdependencies

5. FINANCIAL IMPLICATIONS

5.1. The costs associated with delivering the competitive process for appointing a sponsor will be met from within the agreed Portfolio Management Office budget.

6. LEGAL IMPLICATIONS

6.1. Specialist technical and legal advice will be commissioned prior to commencing the process of appointing a sponsor. The Monitoring Officer will be consulted on the draft documentation prior to it being finalised. Given the nature of Demand Enablement it will also be necessary to

ensure that the eventual funding agreement is sufficiently precise to ensure that Growth Deal Funding is applied to ensure that the outputs are delivered and sustained. The proposed methodology will need to be reviewed from the perspective of Subsidy Control requirements to ensure that it is conducted in a compliance with any regulatory requirements.

APPENDICES:

Appendix 1 Assessment Criteria

STATUTORY OFFICERS RESPONSE:

i. Monitoring Officer – Host Authority:

“The report underlines the complexity of this project and the detailed work which has gone into creating an appropriate model. There remain technical aspects which need to be understood and reflected in the process in order to finalise the way forward. However, by adopting an open and competitive process the recommendation provides for a fair and transparent means of identifying a Project Sponsor. The proposed delegation is reflective of this.”

ii. Statutory Finance Officer (the Host Authority’s Section 151 Officer):

“I have no objections to the decision sought from the perspective of financial propriety.”