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Agenda

Name of meeting	SPECIAL CORPORATE SCRUTINY COMMITTEE
Date	MONDAY 28 SEPTEMBER 2020
Time	3.00 PM
Venue	VIRTUAL (MS TEAMS) (*)
Members of the committee	Cllrs R Hollis (Chairman), D Andre, V Churchman, S Hendry, J Hobart, J Jones-Evans, M Lilley and C Quirk
Co-opted (Voting)	Gill Kennett (IWALC)
	Democratic Services Officer: Megan Tuckwell democratic.services@iow.gov.uk

1. **Declarations of Interest**

To invite Members to declare any interest they might have in the matters on the agenda.

2. **Call In - Cabinet Decision 21/20 - Loan Investment in Perpetuus Tidal Energy Centre (PTEC) (Pages 5 - 52)**

To consider a call in of the decision taken by the Cabinet on 10 September 2020.

GEOFF WILD
Monitoring Officer
Wednesday, 23 September 2020



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Interests

If there is a matter on this agenda which may relate to an interest you or your partner or spouse has or one you have disclosed in your register of interests, you must declare your interest before the matter is discussed or when your interest becomes apparent. If the matter relates to an interest in your register of pecuniary interests then you must take no part in its consideration and you must leave the room for that item. Should you wish to participate as a member of the public to express your views where public speaking is allowed under the Council's normal procedures, then you will need to seek a dispensation to do so. Dispensations are considered by the Monitoring Officer following the submission of a written request. Dispensations may take up to 2 weeks to be granted.

Members are reminded that it is a requirement of the Code of Conduct that they should also keep their written Register of Interests up to date. Any changes to the interests recorded on that form should be made as soon as reasonably practicable, and within 28 days of the change. A change would be necessary if, for example, your employment changes, you move house or acquire any new property or land.

If you require more guidance on the Code of Conduct or are unsure whether you need to record an interest on the written register you should take advice from the Monitoring Officer – Geoff Wild on (01983) 821000, email geoff.wild@iow.gov.uk, or Deputy Monitoring Officer - Justin Thorne on (01983) 821000, email justin.thorne@iow.gov.uk.

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NOTIFICATION OF A CALL-IN UNDER THE PROTOCOL ON THE COUNCIL'S DECISION-MAKING PROCESS

We the undersigned wish to apply the Call-In procedure in respect of the following decision:

The Cabinet held on Thursday 10 September 2020

Minute number / reference number and title of report:

21 (20/21) - Loan Investment in Perpetuus Tidal Energy Centre (PTEC)

Decision Resolution:-.

Option C - not to make any further investment in PTEC at this time, and

Option E - authorise PTEC to raise the required funds by selling up to two thirds of the council's shareholding in the company, and

Additional Recommendation made at the meeting -

The council's original loan term is extended for five years, is repayable alongside the other loan which capitalised the company and the council release its position on the PTEC Board, subject to the additional funding being secured.

In accordance with the Council's Constitution the following cannot be called in :-

- A recommendation by the Cabinet and Cabinet member to full Council for adoption or approval;
- If the item has already been the subject of an agenda item on the Corporate Scrutiny Committee arising from the forward plan and observations were made to Cabinet and it is demonstrated that these were taken into account when making the decision.
- if concerns were raised following the publication of the Cabinet agenda item, or at the meeting of the Cabinet, and were taken into account, or in relation to a Cabinet member delegated decision, such concerns were raised in writing with the Cabinet Member during the notification period prior to the actual decision being taken, and were taken into account.

The brief statement supporting the reason for the call-in is as follows:

Corporate Scrutiny Committee considered the PTEC report and made a decision to support the recommendation of not providing further finance and releasing up to two-thirds of IWC shares to PTEC to enable them to raise needed finance for the project.

We have now become aware of additional information and a further recommendation to Cabinet that was not presented to the Corporate Scrutiny Committee on the 8th September 2020. This was information regarding the relaxation of loan conditions. We believe that if the Corporate Scrutiny Committee had been given this additional

information it could have affected its decision. We also feel by reading information now available the IW Council is in danger of judicial review.

Desired outcome:

The Corporate Scrutiny Committee to fully scrutinise the additional recommendation which was not listed anywhere in the original report presented to Cabinet to overcome any public concerns that the decision would result in the misappropriation of IWC and rate payers money in favour of a private company without the transfer of any consideration and without any independent scrutiny or supporting information

Names of members with signatures: (minimum of three required with two being members of a scrutiny committee together with the support of the chairman of the Corporate Scrutiny Committee)

- 1 Cllr Michael Lilley (Lead Member for the call-in)
- 2 Cllr Debbie Andre
- 3 Cllr Andrew Garratt
- 4 Cllr Richard Hollis (Chairman of the Corporate Scrutiny Committee)

When all sections have been completed the notification must be passed onto the Monitoring Officer.

NOTES :

- 1 ***To be a valid call-in, comments must have been submitted in writing to the cabinet so that these could be taken into account when taking the decision.***
- 2 ***At least two members of the scrutiny committee must sign the form.***
- 3 ***The call in must be supported by the chairman of the scrutiny committee.***
- 4 ***The completed form must be submitted to the Monitoring officer by the end of the call-in period specified on the record of decision.***
- 5 ***Full details of the call in procedure can be found in the council's constitution*** -
[http://www.iwight.com/council/what is a council/The Councils Constitution/](http://www.iwight.com/council/what_is_a_council/The_Councils_Constitution/)
- 6 ***Instead of signing the call-in notice each member requesting the call-in can e-mail the monitoring officer indicating that they support the call in provided that they attach a copy of the call-in notice and that this is received within the period specified for a call-in.***



Record of decision

THE FOLLOWING DECISIONS WERE TAKEN BY THE CABINET ON THURSDAY, 10 SEPTEMBER 2020

THE CALL IN PERIOD FOR THESE DECISIONS EXPIRES AT 5.00 PM ON MONDAY, 21 SEPTEMBER 2020

Members of the Cabinet who were present

Cllrs Dave Stewart (Chairman), Barry Abraham, Paul Brading, Steve Hastings, Stuart Hutchinson, Clare Mosdell, Gary Peace, Brian Tyndall, Ian Ward, Wayne Whittle

Members also present (non-voting)

Cllrs Geoff Brodie, Andrew Garratt, Debbie Andre

Agenda Item	Loan Investment in Perpetuus Tidal Energy Centre (PTEC)
Decision reference	21 (20/21)
Summary of discussion	<p>The Cabinet Member for Business and Regeneration gave the background to the council's involvement in the tidal energy project since 2013. The council had loaned £1 million to PTEC to set up a test bed, create jobs and enable green technology on the island. However, anticipated government subsidy had not been forthcoming and the project had been delayed. Due to the council's current financial situation as a result of the COVID pandemic, it was not a good time to find further funds of £244,000 to loan to PTEC. Several Members indicated that they were in favour of renewables and the creation of jobs, but felt that they could not support a further loan to PTEC at the current time. It was believed that essential services were a priority.</p> <p>The Leader reported that following the publication of the paper PTEC has attempted to secure the additional funding required, based on the recommendations set out. It reported that there may be a possibility of it doing so provided also that the council's original loan is extended, its repayment is made alongside the other loan which capitalised the company and council come off the Board of the company in recognition of its reduced shareholding in the company.</p>

	<p>The Leader then proposed an additional recommendation (below) made on the basis that these changes could be made in the spirit of the council's original intent for PTEC to create jobs and investment and put the Isle of Wight at the forefront of the renewable energy agenda.</p>
Decision taken	<p>Option C - not to make any further investment in PTEC at this time, and</p> <p>Option E - authorise PTEC to raise the required funds by selling up to two thirds of the council's shareholding in the company, and</p> <p>Additional Recommendation made at the meeting - The council's original loan term is extended for five years, is repayable alongside the other loan which capitalised the company and the council release its position on the PTEC Board, subject to the additional funding being secured.</p>
Reason for the decision and corporate objective it aligns with	<p>It was believed that the recommendations offered a compromise with the project still able to continue.</p> <p>A decision to do nothing is likely to lead to the demise of the PTEC project. It would lose the benefits of the timebound options for the marine lease and licenses that it currently controls, and which are the most valuable assets in its ownership. Without significant progress on the project there is a risk that these consents will lapse and the project will collapse with the loss of the council's existing £1 million investment, a challenge to meet its net zero carbon aspirations by 2030 and the loss of an opportunity to recover from COVID19.</p> <p>If PTEC were able to raise the necessary funds from the sale of some or all of the council's shares then the project could proceed and the opportunity for delivering the hoped-for economic benefits increased. Whilst the council would still be entitled to the repayment of its original loan, it would be foregoing its ability to 'direct' the work of the company (including the incorporation of some of the conditions set out in Appendix 1) and also the benefit of any future dividends from its shares. However, there is no likelihood of any dividend should the project fail at this juncture.</p>
Other options considered and rejected	<p>Option A – to make a further loan investment of £244,000 in PTEC subject to the conditions set out in appendix 1.</p> <p>Option B – to make a further loan investment of £244,000 subject to the conditions set out in appendix 1, only once confirmation from PTEC that the full funding to achieve financial close is secured.</p> <p>Option D – suggest PTEC seek other equity investing partners.</p>



Committee Report

Committee	CABINET
Date	10 SEPTEMBER 2020
Title	LOAN INVESTMENT IN PERPETUUS TIDAL ENERGY CENTRE (PTEC)
Report of	LEADER OF THE COUNCIL & CABINET MEMBER FOR STRATEGIC PARTNERSHIPS, AND CABINET MEMBER FOR REGENERATION & BUSINESS DEVELOPMENT

EXECUTIVE SUMMARY

1. The Isle of Wight Council has declared a climate emergency and agreed to an aspiration of the Island being net zero carbon by 2030. Supporting the production of renewable energy will make a significant contribution to the achievement of this aspiration. The council is invested in a project to convert tidal stream energy to electricity, sufficient to provide carbon free power to a quarter of Island homes, and at the same time produce significant economic benefits for the Isle of Wight.
2. Only a change of Government policy in 2017 prevented the Perpetuus Tidal Energy Centre (PTEC) from being developed; it had all of the necessary leases, licences and supplier support in place for the project to proceed at that time. Unfortunately, the marine leases and licences are time limited and need to be extended or varied if the project is to play a role in the Island's carbon neutral aspirations. The planning permission for the onshore components of the project has lapsed and a new application is necessary.
3. The project has received an offer of financial support to renew its leases and licences through the European Union TIGER project. This offer is timely as without further investment to renew its marine leases and licences within the next 12 months, it would need to begin again from first principles, but in all likelihood would not progress at all. The offer is all the more timely as the Government has recently consulted on its future support for renewable energy technologies which, if agreed in its current form, would be to the benefit of the PTEC project.
4. PTEC will contribute to the green recovery from Covid, supporting the national and regional Build Back Better agenda.
5. When this proposal was first considered in March 2020, PTEC had the opportunity to join the TIGER project as a partner. At that time it was reported this would have levered in £366,000 in EU funding to secure the leases and licences for the future and enable a further phase of work, also attracting TIGER funds, to secure financial close on the scheme. In order to secure the EU funds and effectively keep the project alive, PTEC was required to confirm its match funding was secured and in

place by the end of March 2020 and PTEC approached the council for a loan of £244,000 which would serve as the match funding.

6. As the council was not in a position to consider the request at the end of March due to the severity of the Covid crisis, the opportunity for PTEC to join the TIGER project has passed. However, there is now a new opportunity, through an existing TIGER project partner, to secure TIGER funding subject to a PTEC contribution of £244,000. In order to allow sufficient time for the Interreg negotiations to be completed and PTEC to have prepared all the relevant information needed for a CfD Allocation Round 4 (AR4) application in 2021, a decision is required before the end of September 2020.
7. The new arrangement for the securing of this EU funding and its impact on the PTEC project were not clearly known until a new proposal was presented by PTEC in summer 2020.

CONFIDENTIAL / EXEMPT ITEMS

8. Appendices 3, 4 and 5 are exempt from disclosure by virtue of paragraph 3 of part 1 of Schedule 12A of the Local Government Act 1972 (as amended) as it, "relates to financial or business affairs of any particular person", (including the authority holding that information). The public interest in maintaining confidentiality outweighs the public interest in disclosing it.

Securing the TIGER funding requires PTEC to make arrangements with an existing TIGER project partner. The details of this arrangement are confidential on the grounds of commercial sensitivity as it outlines the commercial agreement between PTEC and the other party. However, it should be noted that this is a well-established company that has unrivalled experience in tidal energy device deployment and a reputation as a leading player in the industry. The funding requirement for the second phase of works is also commercially sensitive because it exposes the future funding arrangements to potential third party buyers. It should be noted that the council's shareholding in PTEC will not be diluted by this arrangement.

BACKGROUND

9. The Perpetuus Tidal Energy Centre (PTEC) is a 30MW tidal energy generation project located 2.5km south of St. Catherine's Point. It has characteristics which are consistent with the council's Regeneration Strategy, namely:

Business development

- A world class facility that will reinforce the UK's position as a world leader in marine renewables;
- Demonstration and commercialisation of tidal stream devices and technologies;
- Job creation during construction of at least 114 FTE direct employment and 63 Indirect employment (total 177) in the engineering and marine sectors. Induced job creation could be significantly higher;
- Total investment of approximately £125m (with local economy multiplier of 4.5x);
- Stimulation of a network of supply chain and supporting service industries.

Infrastructure

- Generation of safe, clean electricity equivalent to the consumption of one quarter of all Island homes (15,700);
- Predictable power to complement intermittent solar energy and provide greater resilience;

- PTEC became the largest consented tidal stream energy project in England and Wales.

Income generation

- Through dividend payments and / or sale of the project
 - Through share in offtake agreements and/or berth rental
10. PTEC can put the Isle of Wight at the forefront of marine energy. There is interest in the project from leading turbine developers, three of whom have expressed firm interest in taking sub-leases at the PTEC site, supply chain companies and from the local community.
 11. The decision to participate in PTEC was taken by the council's cabinet in March 2013 in order to achieve the economic benefits for the Island outlined above. This followed the council's sponsorship of the project for a number of years, its securing of an Agreement for Lease from The Crown Estate in 2012 and its search for private sector investment partners. The current partners were identified, and a Joint Venture Company was formed with private sector management expertise applied to its operation and the securing of future investment.
 12. The council has a 15 percent shareholding in PTEC Ltd and has granted a shareholder loan of £1m to the company. Together with a similar loan from the majority shareholder (Perpetuus Energy Limited (PEL), subsequently increased to £1.35m), the funds have been used primarily to secure consents and licences as well as to carry out the front-end engineering and design (FEED) and key project development work. The council's primary objectives in supporting PTEC were to help initiate the project which could then secure private sector funds to help grow the Island's economy and to support its green credentials by promoting local renewable energy generation.
 13. Whilst the council only owns 15 percent of the company its class of shareholding is non-diluting. The original business plans in 2013 envisaged (as they still do today) further private sector equity funding in order to secure a fully operational facility. New shares issued as part of this external equity investment will dilute the current 80 percent held by the council's joint venture partner, PEL, whilst maintaining the council's ownership at 15 percent.
 14. The current consenting status of PTEC is as follows:
 - Agreement for Lease (providing the option for a 25-year lease) – issued by The Crown Estate to the Isle of Wight Council in 2012. Renewed under Member's delegated decision in January 2017 and further renewed for the period to April 2021.
 - Marine Licence and section 36 (s36) consent – granted by the Marine Management Organisation (MMO) - the s36 consent is due to expire in April 2021 and the marine licence will need to be extended.
 - Planning permission – consent for project substation and associated infrastructure granted by Isle of Wight Council in 2014. Consent has lapsed and a new application is required.
 - Grid connection – PTEC will either negotiate an extension of the current grid connection offer to include a payment schedule linked to project milestones and / or an alternative flexible connection or a new connection application will be made, which at this stage is the likely route forward.

If the Crown Estate lease and MMO consents are not extended, then the project will fail and will need to start again from scratch.

15. The marine energy sector in all its forms currently requires revenue support from Government in order to enable the first installations and the subsequent journey of cost reduction. It is a model which has helped to mature the market for many new technologies, most recently, the offshore wind sector which has become the cheapest source of power in the UK. Securing a suitable revenue support mechanism for power produced by PTEC would greatly improve the cost benefits of the project and returns on investment more appealing to investors and tidal turbine suppliers.
16. PTEC planned to bid into Round 2 of the Contracts for Difference (CfD) in May 2017 to secure a strike price of £305 / MWh (megawatt hour) – the strike price is the pre agreed level of revenue subsidy for the duration of the contract; £305/MWh was the price required at the time in order for the project to reach financial close. However, Government made a late and unexpected decision to remove the minimum allocations for wave and tidal stream energy, meaning that these less established technologies had to compete with more advanced technologies that had received Government support for many years. This was a severe blow to the project which has since been in 'hibernation'. The industry and PTEC has lobbied Government to re-establish support for marine energy in which the UK has been, to date, a global leader.
17. A government consultation on Contracts for Difference was published in early March 2020 and closed in May 2020. The consultation proposes changes to the scheme that would apply to contracts awarded through future allocation rounds, the next of which is planned for 2021. In the context of delivering the UK's 2050 net zero emissions targets, there are a number of proposals which could favour tidal stream energy, including the proposal to move offshore wind to a separate funding pot so that emerging technologies, such as tidal stream, are competing with each other for an acceptable strike price, rather than with offshore wind which has already achieved significant cost reduction.
18. PTEC is well placed to benefit from such changes should they be approved. Currently BEIS has stated that Allocation Round 4 (AR4) of the CfD programme will be held in 2021 but no firm dates have been given at this stage. The status of all of the consents described in para 19 will need to comply with the the CfD eligibility rules in order for PTEC to make a bid to AR4. It is also pursuing other revenue generation routes such as private wire supply to Island organisations and hydrogen production
19. PTEC has been working to secure funds to take the project forward and in early 2020 secured a 'time-limited' offer from the EU-funded (and Government-backed) TIGER Project (Tidal Stream Industry Energiser Project), which would enable the project to (a) reinstate the consents and then, if (a) is successful, to (b) secure financial close. TIGER is a €47m, 4 year, Interreg Channel Programme project led by the Offshore Renewable Energy Catapult (UK) which was approved in July 2019. It has 19 UK and French partners and provides funding at an intervention rate of up to 69%. The principal aim of TIGER is to reduce the cost of tidal stream energy production.
20. In order to benefit from TIGER Project funding, PTEC has requested a cash investment from the council of £244,000 which will lever £181,000 of funds from the EU Tiger Project. As the council was not in a position to make a decision on the

loan investment in March 2020 due to its focus on the Covid response, the original opportunity was lost but, after months of negotiation with another TIGER project partner, there is now an opportunity to secure Interreg funding and progress the project as originally envisaged. The proposed expenditure of £425,000 will reinstate PTEC to full consent (Phase 2a). An additional sum would still be required to reach financial close (Phase 2b) with the TIGER Project expected to provide approximately 60% of this sum and the balance being provided by the private sector.

21. It would be the intention to reinstate project consents by the end of 2020, to reach financial close by the end of 2021. In relation to Phase 2a, Tiger funding will be solely provided via the new partner. For Phase 2b, it is intended that Tiger and Interreg funding will be provided via new partners. In terms of updated timetable, the intention is to commence Phase 2b in Q3 2021, with construction commencing towards the end of 2022.
22. If agreed, it is proposed the further council loan investment of £244,000 in PTEC will be paid in full due to the need to enter into a service level agreement with the new partner which requires these funds to be in place. Furthermore, the Term Sheet agreed with the new partner requires (as part of the Conditions Precedent) to have full funds in place. The proposed loan investment will also be subject to PTEC's agreement to the conditions set out in appendix 1.

STRATEGIC CONTEXT

23. The council's Corporate Plan 2019-22 has 11 key objectives based on growth, regeneration, opportunity and well-being. The main objectives relating to this decision are:
 - a) Business has the confidence to invest
 - b) A financially balanced and sustainable council
24. The proposed development will create jobs and training opportunities, encourage inward investment and provide diversification opportunities for local businesses. It will help the sector drive down the costs of producing tidal stream energy. Where possible, PTEC will source materials and services locally, utilising the extensive marine and engineering related supply chain on the Island and around the Solent. Evidence from other tidal energy projects suggests that PTEC could create hundreds of high-skilled jobs and training opportunities and attract significant investment into the local economy. Opportunities for local businesses will be generated during both the construction and operational stages of the project.
25. Delegates at the council-organised Environmental Conference in June 2018 recommended that PTEC be reinvigorated and this was formalised in the council's 2019 Environmental Action Plan (see appendix 2).
26. In July 2019 the council declared a Climate Emergency with the aim of making the Island net zero carbon by 2030. This is an extremely ambitious target which will be assisted by local renewable generation. At 30 megawatts (MW), PTEC will provide clean energy to some 15,700 homes and reduce carbon emissions by 9,000 tonnes of CO₂ per year.
27. The Solent LEP has identified the creation of jobs through infrastructure investment and stimulating a green recovery as key pillars of Covid recovery. PTEC has the potential to create significant numbers of new, high paid jobs and to contribute to these recovery plans. The Island's emerging recovery plan "A better island"

prioritises economic recovery and increased diversity of our economic base to improve our resilience to future shocks and increase average pay rates

CONSULTATION

28. Due to the commercial sensitivity of the project, discussions have been restricted to those directly involved. The proposal has been discussed by the Leader, Deputy Leader, Cabinet Member for Regeneration and Business Development and representatives of PTEC. A number of public representations were made when the intended decision was published in [March 2020](#) but as the decision taken was to delay consideration to a future date once the impact of Covid-19 on the council's overall position was better known, then further representations connected with this decision can be expected.
29. Previous representations were concerned with the environmental impact of the project, siting of the onshore substation and the appropriateness of a further investment by the council. The representations can be found in the decision paper published on Friday 3 April.
30. The proposed loan request has been subject to an independent due diligence assessment undertaken by a leading professional advisor operating in the sector. The conclusions drawn and recommendations made have been reflected in making the recommendation in this report. The due diligence advice is attached as confidential appendices 4 and 5.

FINANCIAL / BUDGET IMPLICATIONS

31. Any investment would be in the form of a stakeholder loan, attracting interest at 1% above the Bank of England base rate and repayable, subject to funds being available, as soon as there is sufficient free cash or after 5 years, whichever is the earlier. Under the existing Subscription and Shareholders agreement, the council's shareholder loan is repaid first, prior to repayment of other shareholder loans.
32. The further one-off council investment of £244,000 is intended to protect the council's initial investment of £1m and increase PTEC's value by enabling the project to develop towards financial close and implementation. It will provide a route to revenue generation and/or increased valuation of the project, providing a return on the council's total investment
33. It will also help to secure, through project implementation, the necessary variations to the Marine Licence, s36 consent and Crown Estate lease, of which the latter two expire in April 2021.
34. The investment will enable PTEC to benefit from Project TIGER, an EU-funded project, which has allocated sufficient funds for the further development of PTEC via a project partner.
35. The funding will be allocated from the council's existing provision for supporting regeneration projects.
36. It should be noted that, in addition to the two shareholders' original investments of £1m each, Perpetuus Energy Limited has made an additional loan of £351,000 to keep the company operating.

37. The council's financial position continues to be uncertain due to the impact of Covid-19 pandemic. An interim budget strategy has been put in place to help address a projected deficit of £10m in the 2020/21 budget. There is no current provision in the strategy for this loan requiring consideration of deferral of other expenditure if it is to proceed.

CARBON EMISSIONS

38. The investment will not directly impact the council's Carbon Management Plan. Once operational, PTEC will have a significant positive impact on the Island's carbon emissions by providing clean electricity equivalent to the consumption of some 15,700 households. This will result in carbon dioxide savings of 9,000 tCO₂ per annum.
39. The council's emerging Climate & Environment Strategy and Action Plan will highlight the importance of local renewable generation in meeting the targets stated in the Climate Emergency Declaration. New generation tidal power which can be installed and operational before 2030 is crucial and PTEC is a significant pipeline project.

LEGAL IMPLICATIONS

40. Section 2 of the Local Government Act 2000 provides the council with the power to do anything which it considers will improve the overall economic, social and environmental wellbeing of the area. It is felt that PTEC helps to improve the economic well-being of the Island whilst providing environmental benefits through the generation of clean energy.

EQUALITY AND DIVERSITY

41. The council as a public body is required to meet its statutory obligations under the Equality Act 2010 to have due regard to eliminate unlawful discrimination, promote equal opportunities between people from different groups and to foster good relations between people who share a protected characteristic and people who do not share it. The protected characteristics are: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
42. None of the protected groups will be adversely affected by the project which has the potential to improve the overall economic wellbeing of the Island.

PROPERTY IMPLICATIONS

43. There is likely to be the need for an easement across Isle of Wight Council owned land at Flowers Brook in order for the undersea cables to be connected from the foreshore to the potential site of a project substation. The details and nature of the easement will be a matter for separate negotiation of an agreement between PTEC and the Isle of Wight Council in its role as landowner.

OPTIONS

44. The options available to the council are as follows:
- **Option A** – to make a further loan investment of £244,000 in PTEC subject to the conditions set out in appendix 1.

- **Option B** – to make a further loan investment of £244,000 subject to the conditions set out in appendix 1, only once confirmation from PTEC that the full funding to achieve financial close is secured.
- **Option C** – not to make any further investment in PTEC at this time.
- **Option D** – suggest PTEC seek other equity investing partners
- **Option E** – authorise PTEC to raise the required funds by selling up to two thirds of the council's shareholding in the company.

RISK MANAGEMENT

45. There is a major risk that if the council does not make this investment, the project will end by default and so will never secure the economic and environmental benefits expected from the council's initial investment. This will also mean that the council will not recover its £1m investment in the project. This could be mitigated by further private sector investment to secure the marine leases and licences but no such investment has been forthcoming since the time the company was put into hibernation in 2017, following the Government's change in approach to the Contract for Difference.
46. The global concerns about climate change have become increasingly well-articulated in the time since PTEC was put into hibernation. These concerns have manifested themselves in the Government bringing the UK's target for net zero carbon emissions forward to 2050 and the council itself has formally declared an aim for the Island to be net zero carbon by 2030. Therefore, there is a likely risk that the public will begin to question why the council is not seeking to drive the PTEC project to a financial close and operation on the basis of the environmental benefits it will deliver. There is a counter risk of the potential for public objection to the project due to the possibility of surface piercing structures visible from land. To mitigate this risk, the council has attached a condition to the further loan investment that no surface piercing structures above 3m are allowed without unanimous approval of the PTEC Board, of which the council is a member.
47. Risks related to the commercialisation of PTEC remain given that Government has still not identified a realistic revenue support mechanism for tidal stream energy, although the announcement of its recent consultation in this regard is a possible mitigating factor. However, alternative routes to markets are still possible including the potential for Power Purchase Agreements with large Island consumers through private wire and the installation of conversion technologies, such as hydrogen production, to provide alternative revenue streams. Should PTEC fail to bring either of these markets to fruition, the early production of clean energy could be at a financial loss, until the economies of scale reduce the cost of energy production. The Government's recent consultation on Contracts for Difference (CfD) indicates that tidal stream energy may be able to compete with other emerging technologies on a more equitable basis for long-term subsidies. The Government is also considering an alternative proposal for Innovation Power Purchase Agreements (IPPAs) which would apply to tidal stream energy.
48. There are third party risks relating to the further development of the project; a new consent for the onshore substation, an extension of the marine licence and associated section 36 consent and the agreement from The Crown Estate to extend the Agreement for Lease of the seabed, cannot be taken for granted. A new grid

connection agreement will also need to be negotiated as well as a landowner agreement for the siting of the substation. However, the scheme previously achieved full consents for all of these issues and there have been ongoing discussions with all relevant stakeholders such that they are aware of the project's current situation and potential need for extensions.

49. There is a risk that the project will not be able to progress beyond Phase 2a which is being part-funded by the council loan investment. Phase 2b is the subsequent preparation for the construction of the PTEC project up to financial close and requires a significant investment which is still to be secured. PTEC intends to seek external investment to support Phase 2b, which could also come from UK national grant support, the Solent LEP, debt funding or private investment. Achieving financial close at the end of Phase 2b results in the investment necessary to build the site and deliver renewable tidal energy to the Island.
50. Longer term, PTEC will need to secure tenants to deploy turbines at the site. These companies will provide revenue streams to PTEC, provide a significant proportion of the anticipated inward investment and create many of the long-term jobs through device operation and maintenance. PTEC already has interest from three leading companies which are keen to secure sub-leases for device deployment. This will create in the Solent, with a core Isle of Wight focus, a globally important strategic hub for tidal stream energy and green hydrogen manufacturing and accelerate the growth of the UK's maritime tidal and hydrogen industry. As well as providing electricity to the Island, the production of green hydrogen at the PTEC site could provide zero carbon fuel to local transport and ferries as they shift to carbon free fuels
51. Financial risks arising from the investment will be mitigated through a set of conditions, as set out in appendix 1, although it is possible the council may not recover its additional or the original loan investment. Without the extensions to the marine leases and licences there would be little opportunity for the council to recover these investments at all.
52. It is highly unlikely that PTEC will be able to raise the funds necessary during this window of opportunity from the sale of some or all of the council's shareholding (currently 15% and undilutable). It does, however, afford a small opportunity for the project to proceed without further investment from the council whilst it attempts to recover from the financial impacts of COVID-19. However, the risk is high that PTEC will not be able to raise the funds through this route and that the project will fail and not deliver the anticipated economic benefits to the Island or the council.

EVALUATION

53. A further loan investment in PTEC at this stage will allow the project to secure EU funding (guaranteed by the UK Treasury) and to move in a timely manner to extending the current key consents and securing licence variations. This is the first stage of a phased approach which will move the project to financial close in late 2021 and construction towards the end of 2022.
54. Once constructed, PTEC will deliver a transformational, world leading, 30MW commercial demonstration project through its long-term operation and commercialisation of multiple tidal technologies. This will create a new clean industry on the Island with potentially 450 direct and indirect UK jobs (predominantly

in the maritime and energy sectors, 40% of which is estimated to be in the Solent¹) and inward investment of £125m. It will increase the local supply of clean energy and offer a more predictable supply to the National Grid.

55. PTEC's carbon free energy production will support the council's Climate Emergency declaration and ambition for the Island to be zero carbon by 2030. It will also support the Island's Covid recovery, creating new, well paid jobs and contracts for Island businesses.
56. There are risks associated with an additional loan investment, particularly the long-term viability of the project without a guaranteed generation subsidy, but the potential offered by the EU funds allows the project to explore new ways of revenue generation, if the outcomes of the Government's consultation on subsidies for tidal technologies does not fall to the benefit of PTEC. The project does provide the opportunity for the Isle of Wight to be at the forefront of developing a new industry, providing economic and environmental benefits as have been demonstrated by the solar and offshore wind industries. The new project partner has demonstrated how these wider benefits can be secured. The further loan investment will help secure the council's initial £1 million investment and the environmental and economic outcomes that were the reason for the council's sponsorship of PTEC in the first place.
57. The council could decide to delay its investment until a later date, perhaps once funding for Phase 2b has been secured. However, the re-consenting process, including extensions of the Marine Licence and Agreement for Lease, can take up to 12 months. As these consents need to be in a suitable state for AR4 bidding, the process will need an immediate start and be accelerated as much as possible. Confirmation of the proposed arrangement and loan funding is therefore required by the end of September 2020.
58. A decision to do nothing is likely to lead to the demise of the PTEC project. It would lose the benefits of the timebound options for the marine lease and licenses that it currently controls, and which are the most valuable assets in its ownership. Without significant progress on the project there is a risk that these consents will lapse and the project will collapse with the loss of the council's existing £1 million investment, a challenge to meet its net zero carbon aspirations by 2030 and the loss of an opportunity to recover from Covid.
59. If PTEC were able to raise the necessary funds from the sale of some or all of the council's shares then the project could proceed and the opportunity for delivering the hoped-for economic benefits increased. Whilst the council would still be entitled to the repayment of its original loan, it would be foregoing its ability to 'direct' the work of the company (including the incorporation of some of the conditions set out in Appendix 1) and also the benefit of any future dividends from its shares. However, there is no likelihood of any dividend should the project fail at this juncture.

¹ Basis of calculation: reference to industry reports and PTEC internal analysis, including extrapolation of evidence from other operational facilities (namely European Marine Energy Centre and Orkney)

RECOMMENDATION

60. **Option C** - not to make any further investment in PTEC at this time, and
61. **Option E** - authorise PTEC to raise the required funds by selling up to two thirds of the council's shareholding in the company.

APPENDICES

Appendix 1 – Terms for the provision of a loan investment of £244,000 to PTEC

Appendix 2 – Environmental Action Plan 2019.

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Appendix 3 – Details of SPV partner (tidal energy device developer) and funding requirements for Phase 2b.

Appendix 4 – Due Diligence report – March 2020

Appendix 5 – Due diligence report - August 2020

BACKGROUND PAPERS

62. Contracts for Difference (CfD): proposed amendments to the scheme 2020 - (<https://www.gov.uk/government/consultations/contracts-for-difference-cfd-proposed-amendments-to-the-scheme-2020>)
63. Record of decision taken under cabinet member delegated powers on Friday 3 April 2020, "Loan Investment in Perpetuus Tidal Energy Centre (PTEC)" – <https://www.iow.gov.uk/azservices/documents/2780-02-20-Record-of-Decision-FINAL-v1.pdf>

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Cabinet Member for Regeneration and Business Development

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Terms for the provision of a loan investment of £244,000 to PTEC

- I. Agreement of suitable milestones and repayment of additional loan
- II. Repayment of IOWC additional loan is afforded first priority when company comes into funds
- III. Formal confirmation from PTEC that applications will be submitted for the extension of all necessary consents and approvals
- IV. Formal confirmation from the proposed project partner of its commitment to the arrangement with PTEC and details of any due diligence undertaken by PTEC with respect to the partner's financial standing and ability to deliver on the arrangement;
- V. Formal confirmation of the availability of EU Tiger Funds for the project initiative and that funds are ring fenced to PTEC, for both the reinstatement (2a) and financial close (2b) phases;
- VI. That no surface piercing structures exceeding a height of 3 metres at mean low tide will be allowed to use the PTEC facility without the unanimous agreement of the PTEC Board;
- VII. Commitment by partners to work to maximise the numbers of jobs created by the project to be located on the Isle of Wight
- VIII. The council's satisfaction with its own separate due diligence exercise on the financial modelling which is expected to secure financial close on the project;
- IX. PTEC entering into early discussions with Solent Local Enterprise Partnership to identify alternative options for the funding of the financial close works;
- X. In making this investment the council is not committing to, or is obliged to, make any further investment in PTEC.

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Environmental Action Plan

Environmental Action Plan 2019		
Ref	Topic	Action
1	Future Energy System	<ul style="list-style-type: none"> • 1(a) Deliver the Innovate UK-funded Smart Local Energy Systems Concept and Design study called "Energy Autonomous Community (Isle of Wight)" project, working in collaboration with the University of Portsmouth. • 1(b) Contact the local HE sector, principally Portsmouth & Southampton Universities, to discuss opportunities for undergraduate and postgraduate projects. • 1(c) Consider a formal agreement with the network operator (Scottish & Southern Electricity Networks) to collaborate on designing a network that meets the Island's ambitions and to approach the Regulator together if regulatory change is required. • 1(d) Reinvigorate the PTEC tidal energy project off the South Coast
2	Sustainable Tourism	<ul style="list-style-type: none"> • Work with Visit Isle of Wight to produce a vision for Sustainable Tourism
3	Promoting the Biosphere	<ul style="list-style-type: none"> • If the Biosphere Nomination is successful, develop a Biosphere Action Plan
4	Promoting Electric Vehicles and Low Carbon Fuels	<ul style="list-style-type: none"> • 4(a) Council to purchase 4 electric vehicles • 4(b) Extend the EV charge point network in public car parks • 4(c) Offer 12 months free parking (All-Island Car Park Permit) in council car parks for new plug-in zero emission electric vehicles registered to an Island address between 01.04.19 – 31.03.20 • 4(d) Offer free parking for EV owners in dedicated bays whilst vehicle is charging

Environmental Action Plan 2019		
Ref	Topic	Action
5	Conserving our water supplies	<ul style="list-style-type: none"> Plan a new public education campaign with Southern Water for delivery in 2020
6	Farming & Rural Enterprise	<ul style="list-style-type: none"> Hold a Rural Summit in partnership with Natural Enterprise to consider environmental issues in the context of Brexit and DEFRA's "public money for public goods" agenda
7	Involving the Community	<ul style="list-style-type: none"> Explore new methods of verge management to encourage wildlife and biodiverse habitats
8	Reducing travel impacts	<ul style="list-style-type: none"> 8(a) Encourage higher priority for active travel (walking, cycling) in new road schemes and developments 8(b) Promote designation of quiet lanes (20mph) to link bridleway and footpath network 8(c) Promoting greater awareness of safe walking routes to schools
9	Green Business Practices	<ul style="list-style-type: none"> Support and promote the Green Impact Programme
10	Circular Economy (waste and recycling)	<ul style="list-style-type: none"> Work with the voluntary sector to organise the distribution of surplus food
11	Plastic-free Island	<ul style="list-style-type: none"> Work with partners to identify funding for an innovation programme to encourage business start-ups utilising local waste materials.

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