

Clerk of the Finance Committee
National Assembly for Wales
Cardiff Bay
Cardiff
CF99 1NA

4th January 2012

Dear Sir/Madam,

The Effectiveness of European Structural Funding in Wales Evidence from Tidal Energy Limited

Further to the call for evidence on the above received on 28th October 2011, Tidal Energy Limited (TEL) is pleased to provide this letter outlining the impact ERDF funding has had on our business and the effectiveness of the spend against the objectives of our project and the value for money.

TEL is a privately owned micro-SME established to develop an innovative tidal stream energy converter called "DeltaStream". TEL is based in Cardiff and the technology was founded by a marine engineer in Pembrokeshire.

Our project to demonstrate a full scale device and a test site off the coast of Pembrokeshire is currently being supported by ERDF funding. Stage 1 of the project, consisting of the initial design and planning work, has been completed successfully and Stage 2, which is progressing well, is due to be completed in December 2013. This latter stage consists of the final design, manufacturing and testing of the device for 12 months and includes supplying tidal stream generated electricity into the local electricity distribution network.

The project is a Collaborative Research and Development project with Cranfield University who is a Joint Sponsor. Match funding is provided by the shareholders of Eco2 Limited, a Welsh renewable energy development company who is also a Joint Sponsor in the project.

The benefits of the ERDF project are extremely important to TEL and include the following:

1. It enables TEL to test DeltaStream technology with a view to generating significant investment and business opportunities in the future.

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2. It will provide a source of renewable energy to St Davids in Pembrokeshire and provide an opportunity to generate significant levels of predictable renewable energy in the future.
3. It provides an opportunity for the industry and regulators to understand the environmental impact aspects of tidal steam generation.

From a Welsh Government perspective the project aligns well with the Ministerial Policy Statement on Marine Energy in Wales (July 2009) including the following:

- Prototype demonstration in Pembrokeshire
- Co-operation between private sector enterprise and public sector
- WEFO finance
- Opportunity to examine environmental impact – co-operation with CCW and other stakeholders
- Seeking to establish regional economic benefit and create embryonic marine energy industrial sector
- Expansion of R&D excellence; collaboration with Universities. Test efficacy of the consenting process

This is the only European Structural Funding project that TEL is involved with and we would like to provide comments on our experience to the following specific questions identified in the call for evidence:

1. *To what extent do you consider the Convergence and Regional Competitiveness and Employment programmes in Wales for the 2007-13 period, to have achieved –or to be achieving –their intended objective.*

Selection of the DeltaStream project to benefit from ERDF funding has made an important contribution to the objectives of the Strategic Framework for Climate Change, Energy. Our project meets the objective of supporting the development of clean and renewable energy or other significant activities to reduce greenhouse gas emissions relating to energy generation and use.

The project also satisfies the aim of Priority 4 – Creating an Attractive Business Environment which is to promote sustainable business growth and new business opportunities in relation to future environmental challenges and opportunities.

More specifically the project also contributes to the Theme 1 – Energy, the aim of which is to support the development of clean and renewable energy which is to be achieved by:

- Supporting clean energy developments and energy infrastructure improvements to increase supply;
- Strengthen the energy R&D base and links between businesses and academia including the demonstration of future technologies.

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The Welsh Government has set targets with regard to the development of marine renewable energy and has a strong aspiration to generate electricity from its marine resources. TEL is very pleased to be able to work towards supporting these targets and aspirations.

The project also provides regeneration and employment benefits, however these are not formally measured and reported as part of the project.

2. *Do you consider the various projects funded by European Structural funds in Wales to be delivering value for money?*

We cannot comment on other projects funded by European Structural Funds in Wales but provide the following comments on whether the DeltaStream project is providing value for money.

As a small, private business we have found the strict WEFO procurement requirements difficult to operate for some of the requirements of our project. It would seem that the procurement rules are aimed at organisations with dedicated procurement and legal resource, operating in the public domain and contracting in the main for large projects. The DeltaStream project is a relatively small, innovative project which involves a number of specialist contractors. In our experience the rules can inhibit innovation and stifle cost-effective delivery.

On planning the project, we underestimated the amount of internal management required to operate in accordance with the procurement guidance. Technical development and project management resource has been tied up in carrying out cumbersome and restrictive procurement activities. As a result, we have suffered delay in the project, with associated impact on cost.

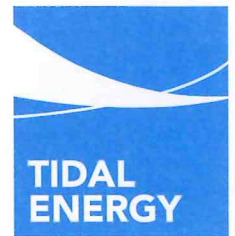
Our early experience in Stage 1 of our project was quite salutary, in that from an original grant offer of c.£750k, we lost £250k in grant as some costs were deemed ineligible for works which had not been procured strictly in accordance with the procurement rules.

In order to reduce the risk of claw back of costs for private companies and to provide small companies with the flexibility to provide value for money for innovative projects we would specifically suggest the following amendments be made to the procurement guidance and rules:

- relax the requirements for lower value contracts,
- provide clear guidance on how single source procurement can be qualified (especially relevant in our case where innovation and invention have in some cases precluded commercial style competitive procurement)
- review whether or to what extent private companies need to comply explicitly with the Public Procurement Regulations
- Enable project sponsors to liaise directly with WEFO procurement department (for efficiency in seeking advice and guidance)

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We consider that the DeltaStream project has provided added value to the marine renewable industry in Wales providing wider R&D opportunities. As part of the project we have had the opportunity to support and work with a number of Welsh academic grant initiatives including SEACAMS, LCRI and Marlin project. We promote the opportunity for Welsh academic institutes in Pembrokeshire, Cardiff, Swansea, Bangor to benefit from the learning opportunities provided by Wales's first tidal energy deployment.

5. *Do you have any concerns regarding the sustainability beyond 2013 of the activities and outputs delivered through projects financed during the current rounds of Structural Funds?*

TEL's objective is to create a sustainable technology business in Wales, for DeltaStream to make a significant contribute to the Welsh Government's renewable energy targets and in doing so provide significant regeneration and investment opportunities. We believe this effort will be sustainable beyond 2013 as we look to build on the outputs of the current project.

The current project is the first stage of technology development and future investment is required to develop the technology and the business to be commercially viable. The next stage of business development will require additional funding which at present is not available to the company. TEL will submit a further application to WEFO for further funding for the next stage of the business development to underpin the commercialisation of the technology.

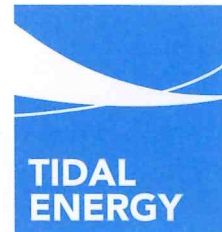
6. *What is your own experience of accessing European Structural Funding?*

Tidal stream conversion technology is in a state of infancy and it is difficult to obtain funding for such innovative projects in a very challenging economic environment. Prior to applying for ERDF funding TEL has spent significant effort seeking both private and public funding for the project. It is clear that without ERDF support we would not be in a position to progress this project and development of the technology would be risk.

Although we are very pleased to have the support of this funding we found the application process arduous and protracted. As an SME without the support of internal legal, human resources, procurement and other support services it is difficult to meet the requirements of the WEFO.

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7. *Is the private sector in Wales sufficiently engaged in accessing European Structural Funding?*

It is disappointing that there is such little take up of European Structural Funding by the private sector in Wales as it can provide a great opportunity to generate technology, employment and investment. For the reasons identified above it is difficult for private companies, particularly small companies, to meet the requirements of the regulations, provide the resources and manage the risks associated with such a project.

Yours faithfully,

A handwritten signature in blue ink, appearing to read "Chris Williams".

Chris Williams
Development Director

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