



Llywodraeth Cymru
Welsh Government

From:

Energy Division

Cleared by:

Date:

08 August 2024

MINISTERIAL ADVICE: Ynni Cymru business case and grant offer

For decision by: Cabinet Secretary for the Economy, Transport and North Wales

Copied to:

Subject	Ynni Cymru – Approval of the Strategic Portfolio Business Case and Capital Grant Scheme
100 word summary	The Cooperation Agreement between Plaid Cymru and the Welsh Government included the ambition to establish Ynni Cymru, a publicly owned energy company for Wales to expand community owned renewable energy generation. This advice puts forward the case for the future of this work beyond the Cooperation Agreement. It identifies the need for continuing support and sets out the benefits that could be realised from providing the support.
Timing	Urgent
Recommendation	The Cabinet Secretary for the Economy, Transport and North Wales is asked to: <ul style="list-style-type: none">• Note the evidence provided on support for Ynni Cymru• Agree to continue to support the Ynni Cymru programme, and• The launch of a grant scheme in this current financial year, 2024-25.
Decision report	This decision requires a Decision Report, which may be published following the announcement of the grant, if agreed.

ADVICE

Background

1. The Cooperation Agreement between Plaid Cymru and the Welsh Government included the ambition to establish Ynni Cymru, a publicly owned energy company for Wales to expand community owned renewable energy generation.
2. Officials have worked with Local Partnerships to explore the scope and remit of Ynni Cymru and to develop a business case to set out the purpose and expected outputs of delivery.
3. This advice asks you to consider the future of this work beyond the Cooperation Agreement and to agree how the funding allocated in the current year will be committed. Estimated funding requirements beyond this financial year are included and will be subject to separate ministerial advice.

Delivery to date

4. The Ynni Cymru commitment has its own budget, with an allocation of both revenue and capital. The capital allocation for financial year 2024-25 is £10 million. There is a significant challenge delivering a capital fund within the financial year, in this new and complex area. Although the fund is ready to launch, it will take time for applicants to mobilise, for WG to evaluate and award funding and for projects to be built. The main risks are underspend in the programme and a missed opportunity for supporting innovative local energy projects.
5. In parallel with the business case, officials established a delivery programme to meet the expectations set out by Plaid Cymru's elected member responsible for this commitment. Significant progress has been made including establishing an Ynni Cymru team of fixed term appointees, establishing the headquarters at MSparc on Anglesey and providing resource grants to several community energy groups to employ staff to scale up action.
6. The team is exploring a number of areas where Ynni Cymru could increase impact for local energy. As part of this the team has started a "health check" service for existing locally owned renewable energy assets, to optimise performance and start to build a coalition of asset owners. For example, assets owned by community energy and public sector organisations.

Business case

7. Officials agreed with the Welsh Government's Office for Project Delivery to develop a Strategic Portfolio Business Case for Ynni Cymru, reflecting the evolving and innovative nature of this work. The document is based on Treasury Better Business Case guidance and has been developed through regular stakeholder engagement. This included establishing Strategic and Community Stakeholder Groups for Ynni Cymru. The draft Strategic Portfolio Business Case is at Annex 1.
8. The business case uses the five case model which is HM Treasury's recommended framework for developing business cases. The Strategic Case

demonstrates the strong alignment between the proposed scope of Ynni Cymru and the Welsh Government's policy ambitions laid out in the Programme for Government, Net Zero Wales, policy on local and shared ownership, recommendations from the Renewables Deep Dive held in 2021 and recently updated targets on renewable energy generation and local ownership across Wales.

9. The Strategic Case proposes the objectives for Ynni Cymru as:
 - To expand locally owned renewable energy used and generated in Wales;
 - To optimise the efficiency and effectiveness of locally owned renewable energy use and generation projects;
 - To accelerate the transition and deployment of smart local energy systems across Wales;
 - To facilitate a just transition to net zero, retaining the benefits for Welsh communities.
10. The business case considers the existing delivery support for these objectives and explores any gaps in provision, to ensure no duplication of effort. The review concluded that the area of core focus for Ynni Cymru should be the development and delivery of Smart Local Energy Systems (SLES).
11. A smart local energy system is a way to bring together different energy assets in a local area and operate them in a 'smarter' way, which could be more productive or more integrated, whilst seeking to maximise benefits to both local communities and the local energy network. Assets could be connected physically, such as a solar farm powering a local housing development, or digitally, such as a virtual energy marketplace.
12. By maintaining a focus on locally owned projects and developing SLES, Ynni Cymru will facilitate sharing of benefits between local generators and customers, ensuring more energy is consumed locally and benefits are retained locally. Ynni Cymru will also support the development of skills and jobs in the renewable energy sector in Wales.
13. The scope for Ynni Cymru is centred around the following core activities:
 - Optimising existing locally owned renewable energy use and generation projects.
 - Growing locally owned renewable energy use and generation projects.
 - Increasing local ownership in renewable energy projects.
 - Aggregating locally owned renewable energy projects to enable access to wider energy markets.
 - Developing local energy markets where supply and demand can be balanced and to enable mutual benefit for consumers and generators.
 - Delivering SLES, where renewable energy supply is expanded to meet increased demand and supply is better balanced with demand.
14. The business case contains an options appraisal which assesses the scope, delivery, implementation and funding of these activities (para 12). The option appraisal process generated a preferred way forward for Ynni Cymru that was subject to a high-level cost effectiveness analysis. The economic analysis compared the whole life costs and benefits of Ynni Cymru, which were modelled up to 2035. Ynni Cymru's activities were grouped into the following seven streams:
 - More productive generation

- Better commercial deals
- Increased locally owned renewable capacity
- Releasing curtailed (wasted) energy supply into the markets with batteries
- Asset aggregation
- Local energy markets
- SLES

15. The costs and corresponding benefits detailed within the economic case (covering period 2024-2035) are to society and not necessarily to Ynni Cymru. Three scenarios were modelled to represent different levels of opportunity for Ynni Cymru. The scenarios represent a low, medium and high deployment of renewable energy up to 2035. Further sensitivity analysis was also carried out against each scenario. All scenarios demonstrated a positive benefit cost ratio.

16. At this stage it was determined prudent to progress with the medium scenario which has an optimistic view of renewables deployment to 2035 (see table 1 below). The medium scenario is based on the estimates in the [Regional Energy Strategies](#) published in 2022.

Table 1 – Preferred Option

Scenario	Costs capital (£m)	Costs revenue (£m)	Benefits (£m)	Net benefits (£m)	Benefit Cost Ratio	Carbon benefits tCO ₂
Medium Scenario	28.6	23.7	111.6	59.3	2.1	4,857
High Scenario	34.4	23.7	134.6	76.5	2.3	5,787
Low Scenario	20.5	23.7	79.8	35.6	1.8	3,510

17. The economic analysis in the business case is based on a range of broad assumptions including the level of increased performance from optimisation of assets, commercial uplift in revenue from projects, reduced curtailment on the network and increases in electricity supplied through local energy markets. More detailed programme and project level business cases will be developed if you agree to take the Ynni Cymru programme forward.

Delivery

18. The breadth, complexity and innovative nature of SLES requires specialists to impartially review the research and experiences to date and to support organisations, communities and businesses effectively to develop and deliver SLES projects.

19. Ynni Cymru is currently operating as a Welsh Government programme. The Ynni Cymru programme team can provide the coordination and specialist support required. Options for the future arrangements and organisational form need further consideration. The original intent to establish a separate entity presents some challenges, but other options such as including the Ynni Cymru remit within existing structures can be explored if you wish to continue this area of work.

20. Annual revenue costs are estimated at £2.366m for each of the next three years (2025-26, 2026-27 and 2027-28). This is based on the existing funding allocation.

Advice

21. SLES was identified as an increasingly important and yet un-resourced area of energy delivery in Wales. The work we published last year with the Energy Systems Catapult ([Future Energy Grids for Wales](#)) identified the opportunity for smart local energy to reduce the overall system cost of the net zero energy system. The work to date has identified a strong appetite in Wales for using energy locally and in more effective ways. The economic analysis in the business case indicates a positive cost/benefit return on investment in this area, for all three scenarios.

22. The business case considers the key risks to the success of Ynni Cymru, including:

- Access to rare skills including inability to recruit into Ynni Cymru;
- Likelihood of SLES project failure due to their innovative nature; resulting in loss of funding and potential reputational damage;
- Failure to realise part or all anticipated benefits.

23. Key risks have identifiable mitigation in place. For example, we have already recruited highly skilled people into the Ynni Cymru programme team through Local Partnerships. Some failure is likely and the learning from these cases can be used to drive forward understanding of SLES for wider benefit. Risks will continue to be mitigated through robust evaluation before approving project expenditure.

24. Officials consider the risks of not pursuing this area of work are greater than those in continuing to support and explore SLES. We **recommend you note the Strategic Portfolio Business Case for Ynni Cymru and agree to continue to support the Ynni Cymru programme** as part of the Welsh Government's energy delivery programme. If you are content, officials will consider the programme as part of future funding proposals.

Financial Implications

25. The costs for Ynni Cymru are met from the Ynni Cymru BEL 3772, within the Economy, Transport and North Wales MEG, which has the following allocations for financial year 2024-25. These proposals are affordable from within that allocation. There are challenges delivering a capital fund within the financial year (set out in para 3) and this brings risk of underspend.

	2024-25 allocation	Amount already committed	Committed under this advice
Revenue	£2.47m	£2.47m	Nil
Capital	£10m	Nil	£10m

26. Agreeing to continue to support the Ynni Cymru programme beyond 2024-25 will require further funding, and this will be subject to separate ministerial advice.

27. The current profile for future years estimates costs of £2.366m revenue (para 19) but these could change depending on external factors such as cost of skilled staff in a “hot” area. Capital funding would also need to be made available.
28. This advice has been cleared by Economy, Energy and Transport Finance Team, reference number:

Next Steps: Capital Funding Scheme

29. Welsh Government has allocated £10m capital funding to Ynni Cymru in the current financial year, to fund the deployment of SLES projects across Wales. We propose to launch a grant scheme to ask for proposals from eligible organisations that can deliver SLES projects in the current year. The fund will be open to all community energy organisations and groups, public sector bodies, and small and medium sized (SMEs) businesses operating in Wales. Work has been carried out to minimise risk of duplicating existing funding schemes.
30. A robust definition of SLES has been prepared which details the principles, technologies, and relevant configuration of technologies necessary to meet the SLES requirements. Due to the tight timescale for deployment of this funding and the innovative nature of SLES type projects, it is proposed that 100% grant funding is made available in this current year. In future years, if a similar level of funding is allocated, officials will consider whether it is possible to secure match funding from other sources in this innovative field.
31. In addition to encouraging action, this scheme will provide more intelligence around future likely capital requirements for the programme and the benefits this investment could deliver.
32. Subject to clearance, the proposal is to invite applications as soon as possible in late August, evaluate submissions in October, and award funding in November.
33. It is likely that we will receive a limited number of project proposals and many that will apply will not be able to deliver before March 2025. This will raise expectations for future years that we are not currently in a position to meet. However, if the funding is to be spent for the intended purpose, it is necessary to run an open scheme. The terms will make it clear that there is no commitment to provide funding beyond March 2025.
34. To date, in similar funds the decision to award funds up to £250,000 are delegated to officials. Decisions to award funding above £250,000 are made by the Cabinet Secretary. We propose using the same delegation limits for this fund, unless you would prefer to propose a higher limit.
35. The capital fund will be administered by the Welsh Government Energy Service (WGES). WGES was set up to progress the delivery of our climate change policy, by supporting the public sector and community energy sector to reduce carbon emissions and to generate local economic benefits.
36. Administering the fund will incur additional costs for WGES, to be met from the existing allocation of funding for Ynni Cymru.

37. We recommend you agree to the launch of the Ynni Cymru grant scheme in the current financial year.

Legal Issues

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Subsidy Control

42. The grants proposed will be a subsidy. We are working with the Subsidy Control Team to award the grant funding on the basis of a small subsidy scheme, following the guidance in Annex 2 of UK Subsidy Control Act (2022).

Programme for Government

43. Ynni Cymru contributes to the following key current Programme for Government commitments and associated wellbeing objectives:

- Work towards the creation of Ynni Cymru, a publicly-owned energy company for Wales.
- Expand renewable energy generation by public bodies and community groups in Wales by over 100MW by 2026.
- Build a stronger, greener economy as we make maximum progress towards decarbonisation.

Wellbeing of Future Generations Act

44. Ynni Cymru will align with the requirements of the Wellbeing of Future Generations Act and will seek to deliver the following benefits:

Benefit	WFG Goal
CO ₂ saved	Globally Responsible Wales, Resilient Wales
Money saved by consumers, reduction in fuel poverty	More Equal Wales, Wales of Cohesive Communities
Extra revenue for locally owned generators	Prosperous Wales
More viable projects	Prosperous Wales, Resilient Wales
Increased GVA	Prosperous Wales
Socio-economic benefits from jobs	Prosperous Wales
Grid benefits – less infrastructure needed to meet net zero	Resilient Wales
Societal health and welfare benefits, from air quality and warm homes	Healthy Wales
Community involvement	Wales of Cohesive Communities

Communication and Media Handling

45. The Ynni Cymru team has prepared scheme information and publicity to be issued immediately after an agreement. We will host this on the Welsh

Government website and carry out webinars to set out the offer clearly and manage expectations about future funding.

Annex 1: ASSURANCE AND COPY RECIPIENTS

CLEARANCE TRACKING

Aspect	Tracking	Yes	No	N/A	Clearance no.
Finance	Financial implications over £50,000?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	Cleared by Group Finance?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	Cleared by Budget & Government Business Division?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	Cleared by Local Government Finance?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
Legal	Legal issues?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
	Cleared by relevant lawyers?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Governance	Novel and contentious issues?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
	Cleared by Corporate Governance Centre of Excellence?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

DEPUTY DIRECTOR, STATEMENT OF ASSURANCE

In clearing this MA, I confirm that I, xx, Deputy Director for Energy, have quality assured this advice, ensuring it is provided on the basis of evidence, accurately presents the options and facts and I am accountable for the recommendations made

I am satisfied that the recommended decision or action, if agreed, would be lawful, affordable and comply with all relevant statutory obligations. Welsh Government policy priorities and cross portfolio implications have been fully considered in line with delivery of the government objectives.

I have fully considered the statement of assurance contained in the MA guidance to ensure all relevant considerations have been taken into account, appropriate impact assessments have been undertaken and that the actions and decisions take account of regularity, propriety and value for money.

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