



PGF PROPOSALS FOR REVIEW

Date:	5 August 2019	Priority:	Medium
Security classification:	In Confidence	Tracking number:	0254 19-20

Action sought		
	Action sought	Deadline
Hon Grant Robertson Minister of Finance	Agree to the recommendations outlined in this briefing.	7 August 2019
Hon Phil Twyford Minister of Transport		7 August 2019
Hon David Parker Minister for Trade and Export Growth		7 August 2019
Hon Shane Jones Minister for Regional Economic Development		7 August 2019
Fletcher Tabuteau Parliamentary Under-Secretary to the Minister for Regional Economic Development	Note the contents of this briefing.	7 August 2019

Contact for telephone discussion (if required)			
Name	Position	Telephone	1st contact
David van der Zouwe	Head of Investment Management	Privacy of natural persons, Commie	✓
Hannah Lee	Policy Advisor	Privacy of natural persons, Commie	
Jessica Sandford	Policy Advisor	Privacy of natural persons, Commie	

Recommendations

Projects seeking approval from Regional Economic Development Ministers

Ref	Project name	Project description & benefits	Comment	Total cost of project	Requested PGF Investment	PDU Recommendation	IAP Recommendation
1.	Stewart Island Wind Power	<p>Applicant: Southland District Council (SDC)</p> <p>Region: Southland</p> <p>SDC has applied for a \$^{Commercial Information} grant from the PGF towards Stewart Island Wind Power.</p> <p>PGF funding is required for the Southland District Council to:</p> <ol style="list-style-type: none"> 1. Commission independent consultants to undertake pre-development activity including an economic analysis, the procurement of resource consents, further geotechnical work, and securing land access agreements. 2. Construct and install two wind turbines initially on Stewart Island upon completion of the development activity. <p>The generation of electricity on Stewart Island is currently delivered via five diesel generators. With the cost of diesel increasing, it is not sustainable for Stewart Island to keep operating diesel generators which consume approximately 360,000 litres of diesel per annum.</p> <p>SDC is proposing to introduce two wind turbines through this application. There is an anticipated decrease in diesel consumption of 150,000 litres per annum, providing both economic and environmental benefits.</p> <p>Maintaining electricity at an affordable price is essential to ensuring current productivity levels in Stewart Island, and to work to increase productivity. With the cost of diesel increasing, electricity price stability is critical to ensure business confidence and viability.</p> <p>There is also currently a moderate risk of oil spill from the diesel generators. This would considerably impact the main industries of tourism and oyster harvesting. As a result, economic resilience of Stewart Island will be considerably improved through this investment.</p> <p>The project has potential (subject to further clarification from the design phase) to attract new businesses to Stewart Island.</p>	<p>The PDU recommends that you approve SDC's application for a \$^{Commercial Information} grant from the PGF, in the form of four tranches with payment on completion and agreement to progress at the following milestones:</p> <ol style="list-style-type: none"> 1. ^{Commercial Information} 2. DOC Concession and required consents obtained (\$^{Commercial Information}) 3. Final investment decision taken on the basis of the business case, including relevant ongoing work such as wind monitoring analysis, design, and system optimisation (\$^{Commercial Information}) 4. Construction phase (estimated \$^{Commercial Information}). <p>Further clarification of the cost of the project would occur in the design phase (Stage 1, 2 & 3) and potential additional cost savings would be investigated. As such, the PDU recommends approval of grant funding for the design phase in the first instance, as a milestone to explore further funding options for the construction phase. The later tranches would be paid on completion and agreement related to the previous and upcoming milestones.</p> <p>The PGF position paper on "Energy and the Provincial Growth Fund" states that we would not typically fund wind power projects as there are existing commercial avenues of funding. However, this is not a commercially viable opportunity. The two key industries on Stewart Island are aquaculture and tourism. We note that in the aquaculture space oyster farming is no longer viable, and the island is relying on oyster harvesting. This change has impacted the economic development on the island. The long term cost of diesel generation is a further inhibitor of economic development.</p> <p>The current proposal is the most viable option in the view of the PDU. This is a unique situation as it has to deal with the constraints of geographic isolation and the inability of any project to generate real economies of scale.</p> <p>The PDU also noted the importance of maintaining an affordable electricity price to ensure current, as well as an increase in, productivity. In addition we note the environmental benefits and sustainability</p>	\$ ^{Commercial Information}	\$ ^{Commercial Information} (grant)	Approve	Decline

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		<p>Given the current electricity price trajectory this is expected to become a significant impediment. In addition the project should result in a reduction of carbon emissions by 1 metric tonne per resident (the average New Zealander generates 7.7 metric tonnes of carbon footprint per year).</p>	<p>benefits from the proposal.</p> <p>MBIE Energy Resource Markets (ERM) is strongly supportive of this application. From an energy policy perspective, it strongly aligns with two primary policy objectives; achieving 100% renewable electricity by 2035, and net zero carbon emissions by 2050.</p> <p>MBIE advocated for the current study to break the impasse that existed with competing community views and a history of prior reviews that went nowhere. The purpose of putting consultants on the ground on the Island was to do a practical field assessment, talk to the community and convey to the community what was possible both in a financial sense but also from a political and technical perspective.</p> <p>Representatives from MBIE ERM were present at the community board meeting which supported the investigation when it was being carried out, and reports that there was strong support from the community board for an investigation of viable options.</p> <p>MBIE ERM was informed by Keith Turner (who accompanied Minister Parker to the island in May) that when Minister Parker met with the Stewart Island Community Board and held a public meeting, there was a strong level of alignment that the wind proposal should go ahead. Free and frank opinions</p> <p>Following this, Mayor Tong, of SDC undertook to prepare with help from MBIE officials an application to the PGF, in light of the local support for the idea.</p> <p>TPK supports the application in principle. The move from diesel-generated to wind-generated energy would benefit the island economically, culturally and environmentally. However, while TPK understands the broader benefits to Rakiura / Stewart Island, the applicant gives limited information regarding consultation with mana whenua.</p>				
2.	<p>Sarjeant Gallery Te Whare o Rehua Whanganui Redevelopment</p>	<p>Applicant: Whanganui District Council (WDC)</p> <p>Region: Whanganui</p> <p>The Sarjeant Gallery is currently closed due to earthquake vulnerability and the</p>	<p>The PDU recommends that you decline Whanganui District Council's application for a \$12 million grant from the Provincial Growth Fund towards the construction of a new wing of the Sarjeant Gallery in Whanganui. The project does not appear to sufficiently accelerate sustained regional development to warrant a \$12 million grant; but the PDU considers a smaller grant of around \$5 million could be</p>	<p>\$ Commercial Information</p>	<p>\$12 million (grant)</p>	<p>Decline the \$12 million proposal. The PDU is open to a lesser amount.</p>	<p>Approve</p>

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		<p>deterioration of the 1919-era Category 1 heritage-listed building. The Gallery has been relocated to temporary facilities within Whanganui, but due to space and configuration restrictions the historical growth in visitor numbers has stalled. The redevelopment project will construct a new wing as well as undertaking a seismic upgrade of the existing heritage building.</p> <p>WDC has applied to the PGF for a \$12 million grant towards the construction of a new wing of the Sarjeant Gallery in Whanganui. The project has been described as Commercial Information</p> <p>WDC has stated that without PGF funding to close the funding gap the project is likely to be delayed indefinitely as there are no viable alternative funding sources.</p> <p>The redevelopment aims to improve public access to the 'Collection for New Zealanders', provide a functional public space for the Whanganui community including for powhiri at a significant site for iwi, provide an education space for students, and act as a key enabler for the proposed Taranaki Art Trail.</p>	<p>justified. Commercial Information</p> <p>MBIE Tourism is supportive of the project for the following reasons:</p> <ul style="list-style-type: none"> Whanganui is a surge region and tourism is identified as a key opportunity in their ED Strategy. The Sarjeant Gallery is an existing attraction with strong brand recognition & quality collection. It supports Govt's focus on dispersal and spreading benefits to more regions – the investment will reopen it and enhance the experience and the gallery will continue to be a key part of Whanganui's tourism offer. It's easier to add value to an existing experience than develop new attractions. There is a significant commitment and funding from the community & across govt – they are clearly dedicated and value it's contribution. Commercial Information This level of investment is significant and will enable them to impact the market and drive visitation. The cost of not supporting it could mean that an important visitor experience for the region is lost. <p>TPK is supportive of the project, and notes that the gallery would assist in the preservation of taonga Māori. Free and frank opinions</p> <p>MCH is strongly supportive of the project, and Commercial Information</p> <p>MCH considers the Sarjeant Gallery redevelopment project to be one of several current Arts, Culture and Heritage (ACH) priorities for government support across the regions. It has taken the applicant a decade of fundraising effort for this project to reach this point.</p> <p>Commercial Information</p>				

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			<p>Commercial Information</p>				
3.	<p>Nelson Artificial Intelligence Institute</p>	<p>Applicant: Nelson Artificial Intelligence Institute Limited (NAII)</p> <p>Region: Top of the South/ Te Taiuhu</p> <p>The NAII is seeking PGF funding to expand and accelerate the Institute. NAII has requested \$ Commercial Information from the PGF as a Commercial Information towards the following;</p> <ul style="list-style-type: none"> Commercial Information Commercial Information Commercial Information <p>The proposal involves commercial activity, but also holds a strong educational component and wider industry benefit. NAII works with research organisations, industry, and education providers to apply AI to improve the productivity, competitiveness and sustainability of the aquatic economy.</p>	<p>The PDU recommends that you approve NAII's application as a loan for up to \$3.4 million from the PGF subject to:</p> <ul style="list-style-type: none"> The terms of the loan being developed by PDU on concessionary terms for an organisation of this type. Commercial Information Commercial Information Commercial Information A maximum fair value write down of \$ Commercial Information <p>The founders have strong experience working with start-up and early commercialised entities providing confidence in their ability to accelerate NAII's two years of establishment and early commercialisation. Commercial Information</p>	<p>Commercial Information</p>	<p>Requested:</p> <p>Commercial Information</p> <p>PDU recommendation:</p> <p>\$3.4 million loan</p>	<p>Approve</p>	<p>Approve</p>

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		<p>Aqua culture has a well-acknowledged competitive advantage in Te Taihupo.</p> <p>NAIL has noted that AI is key to New Zealand's future, yet understanding of the application of AI is still emerging. The</p> <p>Commercial Information</p> <p>Over the last two years NAIL has developed relationships with the aquaculture industry in the region, and will continue to work closely with Nelson Marlborough Institute of Technology (NMIT). NMIT has asked NAIL to provide course content for AI to help graduate students in this field.</p> <p>NAIL has noted the expansion will create new, skilled, highly paid jobs Commercial Information with average salaries of \$ Commercial Information p.a. In total, NAIL itself expects to employ Comm staff directly over the next five years.</p>	<p>up as the balance sheet allows. This helps to address the IAP's concern in relation to the salaries allocated to the three founders in the financial model.</p> <p>The PGF previously funded NAIL's business case for the expansion. The PDU notes the business case was completed on-time, within budget, with all reporting and milestone met.</p> <p>NAIL's application noted co-funding from contestable government funding. The PDU has discounted this noting the low conversion/success rate. The PDU has worked with NAIL to re-evaluate the budget and recommends a \$3.4m loan Commercial Information. This has been discussed with NAIL who are supportive of this.</p> <p>Commercial Information</p> <p>Commercial Information</p> <p>Commercial Information</p> <p>Commercial Information</p> <p>TPK is supportive of the application with the development of cutting-edge technology in the aquatic economy has the potential for positive</p>				

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			<p>spin-offs for the Te Tau Ihu iwi, most of whom have a strong aquaculture and marine asset base. TPK are pleased to note that the applicant is in discussions with relevant Māori stakeholders</p> <p>Commercial Information</p> <p>[REDACTED]</p> <p>MPI have advised that AI presents many opportunities for our primary sectors. Already potential uses of AI for our primary industries are under investigation by MPI in the areas of fisheries, entomology and biosecurity. However, the emerging nature of AI in New Zealand makes it a challenge to assess positive impact of such applications. The applicant seeks to apply AI to an important business sector in the Top of the South Island, aquaculture. In our</p> <p>Free and frank opinions</p> <p>[REDACTED]</p>				
4.	<p style="text-align: center;">Commercial Information - declined project</p> <div style="background-color: #cccccc; height: 400px; width: 100%;"></div>						

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			Commercial Information - declined project				
5.			Commercial Information - Withdrawn project				

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Commercial Information - Withdrawn project							

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	Commercial Information - Withdrawn project						