

GREATER LONDON AUTHORITY

REQUEST FOR MAYORAL DECISION – MD3194

Title: London Power - Decision to extend allocation of resources for London Power

Executive Summary:

London Power launched in January 2020 as a white label partnership with Octopus Energy to offer fair priced green energy to Londoners. In 2019, the contract with Octopus Energy Limited ran for an initial period of four years (August 2019 – August 2023) with the option of a subsequent extension of up to four years. In August 2023, the Mayor approved the extension of this contract up until August 2027 through a contract variation under cover of MD2482. MD2482 provided available funding to London Power of up to £936,000 (which included £30,000 set up costs) to support London Power's operations until 2023.

Following the completion of that contract extension, this Mayoral Decision seeks approval to extend the timing of London Power's available funding until August 2027 within the same budget envelope, to cover the full period of the contract. The available funding sets the upper limit that may be drawn down from the loan facility provided to London Power by the GLA. New expenditure (beyond cost neutral) for London Power operations will need to be approved through a Director Decision.

Decision:

This Mayoral Decision form asks that the Mayor:

1. approves the extension of London Power's available funding up to August 2027
2. delegates to the Executive Director for Good Growth responsibility for approving by Director Decision any new expenditure beyond cost neutral.

Mayor of London

I confirm that I do not have any disclosable pecuniary interests in the proposed decision and take the decision in compliance with the Code of Conduct for elected Members of the Authority.

The above request has my approval.

Signature:



Date:

12/12/23

PART I - NON-CONFIDENTIAL FACTS AND ADVICE TO THE MAYOR

Decision required – supporting report

1. Introduction and background

Background

- 1.1 London Power launched in January 2020 as a white label partnership between GLA and Octopus Energy to offer fair priced green energy to Londoners.
- 1.2 The contract with Octopus Energy Limited ran for an initial period of four years (August 2019 – August 2023) with the option of a subsequent extension of up to four years. In August 2023, the GLA approved the extension of this contract up until August 2027 under cover of MD2482.
- 1.3 London Power is founded on the principles of providing greener energy, reducing London's carbon footprint and helping Londoners get a fair price for the energy they use.
- 1.4 To date, London Power customers have each saved 940 kg of CO₂ per year on average by joining London Power, which is equivalent to planting 470 trees for each household supplied. In total, London Power has saved 15,500 tons of CO₂ – equivalent to taking 9,400 cars off the road for a whole year. In financial terms, the average London Power customer has saved £140 per year, with London Power customers in total saving an estimated £2.5m by switching from their previous energy supplier.

Previous Mayoral Decision

- 1.5 In 2019, MD2482 authorised the establishment of London Power as a GLA-managed company limited by shares and a wholly-owned subsidiary of GLA Holdings Limited.
- 1.6 MD2482 also approved entry by the subsidiary into a contract with Octopus Energy Limited for an initial period of four years with the option of a subsequent extension of up to four years (which has now been exercised).
- 1.7 MD2482 approved expenditure of up to £936,000 from the Environment and Energy Unit's budget for the period 2019 to 2023, comprising £30,000 of costs for setting up the company on the GLA finance system and a loan from the GLA to the subsidiary of up to £906,000 to cover its maximum projected debt position (running until February 2027).
- 1.8 Finally, MD2482 approved the receipt by the subsidiary of all and any income in the form of commission payments, to be used to cover running costs in the first instance, and that any financial surplus accruing to the subsidiary should be spent on delivering social and environmental goals in keeping with a not-for-profit arrangement, noting that a further decision form will cover exactly how this should be done (this has not been required yet).

Energy market context

- 1.9 Since London Power was launched four years ago in 2020, the wholesale and retail energy markets have seen a great deal of change and volatility, in large part due to the COVID-19 pandemic and the Russian invasion of Ukraine. When London Power was first established, it saw some early success in terms of customer sign-up (with 1887 customers registered in March 2020 alone). Thereafter, however, London Power's ability to market its services effectively was constrained first by the pre-election period for the cancelled 2020 election and then more fundamentally by the COVID-19 pandemic.
- 1.10 Subsequently, wholesale prices reached record levels in 2022 after the Russian invasion of Ukraine. This saw a significant number of energy suppliers cease trading (since March 2020 the number of active domestic energy suppliers in the UK market dropped from 57 to 21 currently) and the almost

complete cessation of customer switching between suppliers, as virtually all energy suppliers and supply plans became subject to the Ofgem price cap.

- 1.11 Even so, London Power had built up to 6,300 customers by Autumn 2021. Since then, its customer base has remained broadly steady, reflecting the high quality of customer service provided by London Power.
- 1.12 The UK Government introduced a new Energy Price Guarantee in September 2022 to cap household bills until July 2023, which further disincentivised customer switching. Since July 2023, switching has been slowly picking up as energy prices have fallen. August 2023 saw the highest switching levels since October 2021, although switching levels are still significantly (more than 50 per cent) below pre-energy crisis levels.
- 1.13 In response to these market conditions, London Power reduced resource allocation within the GLA team in May 2022 to minimise overhead costs in order to secure best value for Londoners. All regulatory and contractual requirements are fulfilled but non-essential activities have been minimised. This includes removing activities to acquire customers, reducing stakeholder engagement and reducing the frequency of reporting on London Power operations. The Steering Committee meets less frequently (when key decisions are required) and receives a monthly written update on London Power operations from the GLA team.
- 1.14 London Power therefore operated at no net cost to Londoners in 2022-23, with all expenditure covered by commission received. London Power will continue to operate at no net cost to Londoners until any decision is taken by the London Power Steering Committee to resume customer acquisition activities or develop new service offers. Additional costs to implement this decision will be approved through a Director Decision.
- 1.15 London Power's governance is described in MD2482. The Mayor's Deputy Chief of Staff chairs Steering Committee meetings to take strategic decisions and provide guidance on London Power's operations. GLA staff are in charge of the day-to-day operations of London Power and its reporting. As a 100 per cent owned GLA subsidiary, London Power is governed through the usual scheme of Mayoral Decision Making in the GLA.
- 1.16 MD2482 also includes some specific delegations to the Assistant Director for Environment and Energy and the London Power Contract Manager. These are set out in para 1.19 of MD2482 and relate primarily to changes to the set of customer tariffs offered by London Power.
- 1.17 While the decision to minimise non-essential activities has reduced the level of GLA resource required by London Power, the quality of service provided to customers by the Octopus Energy has remained unchanged. There has been no negative impact on current London Power customers, who have continued to receive excellent customer service as evidenced by London Power's Trust Pilot score (4.3/5). London Power has recently reopened its quote journey for its flexible tariff offer, although this is not being actively marketed. The GLA team will continue to monitor ongoing changes in the energy market and adapt its business plan and strategy accordingly.

London Power contract extension

- 1.18 The call-off contract with Octopus Energy initially ran for four years from August 2019 until August 2023, with an option for the GLA to extend it for another four years thereafter. In August 2023, the GLA exercised that option, extending the contract until August 2027 to maintain the ability to provide a retail energy offer to Londoners, if and when the market recovers sufficiently. MD2482 provided authorisation for this.
- 1.19 A new Mayoral Decision is now required to approve an associated time extension of the available funding until August 2027. While the London Power team is currently operating at net zero cost to the GLA, this will enable London Power to cover additional costs of up to £906,000, within the original budget envelope provided for. If a decision is made to roll out new activities by the London

Power Steering Committee. It is proposed that the Executive Director for Good Growth will be given delegated authority to approve any additional operational costs.

1.20 This available funding will ensure that, should market conditions become more favourable, resources are in place to recommence marketing of London Power's tariffs and/or to support the expansion of the London Power offer into new areas (such as heat pumps or solar photovoltaic panels). As well as funding to cover the costs of any marketing activity, this might include funding for staff resource to:

- design the growth plan (including the commercial offer, programme governance, communication and financial impact) prior to expected launch
- activate the growth plan, including finalising any relevant contract variations and implementing the communication/customers acquisition strategy
- provide project management and reporting in relation to any new service offer
- carry out programme closure at the end of the contract extension period.

1.21 Activating any such growth plan will require approval from the London Power Steering Committee and any new expenditure (beyond cost neutral) will need to be approved through a Director Decision.

2. Objectives and expected outcomes

2.1 Maintaining London Power's operations for another four years will ensure that Londoners:

- continue getting a fair and green electricity offer, contributing to making London net zero by 2030
- continue benefitting from a high level of customer service
- have access to a gateway to other GLA programmes which may offer support for eligible households (e.g. Warmer Homes, Energy Advice Services)
- continue benefitting from London Power's support for vulnerable customers and those in fuel poverty and from the re-investment of surplus revenue (when available) into delivering the Mayor's social and environmental goals
- benefit from Octopus Energy's innovative services to help customers gain greater control over their energy use.

3. Equality comments

3.1 Under section 149 of the Equality Act 2010, as public authorities, the Mayor and GLA are subject to a public-sector equality duty and must have 'due regard' to the need to (i) eliminate unlawful discrimination, harassment and victimisation; (ii) advance equality of opportunity between people who share a relevant protected characteristic and those who do not; and (iii) foster good relations between people who share a relevant protected characteristic and those who do not.

3.2 The public-sector equality duty requires the identification and evaluation of the likely potential impacts, both positive and negative, of the decision on those with protected characteristics. This may involve removing or minimising any disadvantage suffered by those who share a relevant protected characteristic and taking steps to meet the needs of such people. In certain circumstances compliance with the Act may involve treating people with a protected characteristic more favourably than those without it.

- 3.3 The Mayor's Equality, Diversity and Inclusion Strategy, was updated in 2022. One of the Mayor's objectives is to tackle fuel poverty, including through the GLA's Warmer Homes programme and Warmer Homes Advice services.
- 3.4 An equality assessment was conducted as part of the wider Energy for Londoners programme and for the Mayor's Fuel Poverty Action Plan and the principles of this apply in this case. Vulnerable London Power customers struggling with their bills and customers with special needs have access to a range of support services listed below. As of August 2023, 466 of London Power customers were on the Priority Services Register. In addition, London Power offers the £140 Warm Home Discount (WHD) to help meet energy costs, and as of August 2023, the WHD was offered to 1,372 customers. Moreover, London Power refers customers who need more help to the Mayor's Warmer Homes Advice Service to help receive energy efficiency improvements, lower bills, and maximise their income.
- 3.5 Going forward, vulnerable London Power customers will continue receiving the following services:
- support for budget planning (e.g., short term deferment of payment, support with debt repayment plan)
 - signposting to Energy Advice London, local authority support, Citizens Advice and debt advice services such as Payplan, StepChange and National Debtline
 - free gas safety checks every 12 months where eligible
 - a guarantee that all customers can call without incurring a premium rate charge, with a free phone number available to customers in financial hardship where appropriate
 - access to at least one alternative form of communication in addition to phone contact (e.g., email, post, and various social media platforms) and access to alternative versions of all billing communications where this is appropriate for customers' needs. This includes braille bills and letters in large print font as well as British Sign Language translator services for deaf customers
 - signposting to food banks and food charities for vulnerable customers.

4. Other considerations

Project costs

- 4.1 MD2482 approved expenditure of up to £936,000 from the Environment and Energy Unit's budget for the period 2019 to 2023, comprising £30,000 of costs for setting up the company on the GLA finance system and a loan from the GLA to the subsidiary of up to £906,000 to cover its maximum projected debt position (running until February 2027).
- 4.2 London Power currently operates at net zero cost for Londoners and the balance of the approved loan is £70,000.⁴³ However, if a decision is taken to implement a growth plan to increase the London Power customer base, or to expand the range of services offered, this will require access to additional financial resources.
- 4.3 No such growth strategy for new retail energy services (such as heat pumps or solar PV) will be deployed until market conditions are advantageous. Furthermore, to ensure that investment required secures value for money, the London Power Steering Committee will review the position on a quarterly basis. A standing option will be to curtail the growth strategy and take appropriate actions if required.

Key risks and issues

Risk	Mitigation	Severity
Customer acquisition lower than expected	<ul style="list-style-type: none"> Challenging market conditions have seen low levels of customers switching over the past years. The GLA continues to monitor market conditions and will resume marketing only if market conditions are favourable. 	High
Reputational risk	<ul style="list-style-type: none"> A range of factors (for example, falling customer numbers, poor customer service or other performance and supplier failure) would all entail reputational risk for the Mayor and the GLA. This will be mitigated by careful contract management. 	Medium
Supplier bankruptcy	<ul style="list-style-type: none"> Financial standing verified by GLA Finance and TfL procurement teams according to criteria developed with external advice. The supplier is considered to be 'low risk'. The parent company is considered to be 'very low risk'. The GLA's procurement specification included requirements on hedging strategy. This ensures the Service Provider locks in prices and margins in advance and reduces the potential for unanticipated loss. 	Low
Supplier fails to make sufficient margin and therefore does not cooperate	<ul style="list-style-type: none"> The supplier's incentives are largely aligned with the GLA's, so they are committed to ensuring London Power performs well and grows its customer base. Furthermore, the Performance Management Model incorporates financial penalties related to failures against the Service Level Agreements (SLAs). 	Low
Regulatory risk	<ul style="list-style-type: none"> The regulatory risk is directly with the service provider rather than the GLA; the GLA could be impacted indirectly if the supplier is disadvantaged by regulatory change. One role of the contract management unit will be to monitor regulatory developments. 	Low
Poor customer service	<ul style="list-style-type: none"> London Power has a very good record and SLAs will allow close monitoring. 	Low
Supplier defaults on other Service Level Agreements	<ul style="list-style-type: none"> The contract includes a mechanism to manage the Service Provider in the event of underperformance. If any of the SLAs are breached, the supplier is required to develop and deliver a rectification plan to return the service to within the SLA bounds. The contract also includes a Performance Management Model which allows additional steps to be taken in relation to specific SLA failures. 	Low

GLA needs to terminate contract with supplier due to persistent under performance	<ul style="list-style-type: none"> The service provider's performance has so far been excellent, but GLA will receive early warning of poor performance through monitoring SLAs. The Contract Manager would then work with the supplier to improve performance, using the mechanisms above. The Contract Manager would then work with the supplier to improve performance, using the mechanisms above. The GLA has the right to terminate the contract in the event of persistent underperformance. However, this is only a partial mitigation due to the reduced ability of the GLA to procure an alternative service provider. 	Low
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Conflicts of interest

- 4.4 Some London Power GLA project team members and Steering Committee members are amongst the 6,000-strong London Power customer base. Some of these individuals participated in the drafting of this decision form. However, these individuals are not materially advantaged by the extension of London Power operations. They do not own any shares in London Power. They do not benefit from any discounts on their energy bills (the London Power tariff offer is in line with other suppliers' tariffs – around the current energy price cap level). London Power is open to all Londoners and everyone can join as a customer.

Links to Mayoral strategies and priorities

- 4.5 The London Environment Strategy sets out the Mayor of London's commitment to launch the Energy for Londoners Supply Company project (London Power) to offer fairer energy prices to all Londoners.

Consultations and impact assessments

- 4.6 An equality assessment was conducted as part of the wider Energy for Londoners programme and the Mayor's Fuel Poverty Action Plan and the principles of this apply in this case.
- 4.7 The GLA team monitors London Power's vulnerable customers' access to support services on an ongoing basis.
- 4.8 The GLA and Octopus Energy teams review customer service levels on a monthly basis.
- 4.9 The GLA will finalise a review of London Power's first four years of operation for the London Assembly, to be published in early 2024.

5. Financial Comments

- 5.1 Approval is requested for:

- the extension of London Power's available funding up to August 2027
- delegated authority to the Executive Director for Good Growth responsibility for approving by Director Decision any additional expenditure beyond cost neutral.

- 5.2 MD2482 approved expenditure of up to £936,000 from the Environment and Energy Unit's budget for the period 2019 to 2023, comprising £30,000 of costs for setting up the company on the GLA finance system and a revolving loan facility from the GLA to the subsidiary of up to £906,000 to cover its maximum projected debt position (running until February 2027). London Power currently operates at net zero cost for Londoners and the balance of the approved loan is currently £70,000.43.

- 5.3 The available funding requested sets the upper limit of funding that may be drawn down from the loan facility provided to London Power by the GLA. Any additional resource requirements beyond cost neutral will be approved through a Director Decision.
- 5.4 It should be noted that the loan facility is available to the end of February 2027 whereas this agreement seeks approval of the available funding up to August 2027. In the event that there is an outstanding balance on the loan in February 2027 then additional resource will need to be identified from within the Environment and Energy Unit budget to cover this.

6. Legal comments

- 6.1 The decision sought concerns the exercise of the GLA's general powers, falling within the GLA's statutory powers to do such things considered to further or which are facilitative of, conducive or incidental to the promotion of economic development and wealth creation, social development or the promotion of the improvement of the environment in Greater London and in formulating the proposals in respect of which a decision is sought officers have complied with the Authority's related statutory duties to:
- pay due regard to the principle that there should be equality of opportunity for all people
 - consider how the proposals will promote the improvement of health of persons, health inequalities between persons and to contribute towards the achievement of sustainable development in the United Kingdom
 - consult with appropriate bodies.
- 6.2 The Mayor may delegate the exercise of the GLA's functions to the Executive Director of Good Growth as proposed should he wish.
- 6.3 In taking the decisions requested, the Mayor must have due regard to the Public Sector Equality Duty; namely the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by the Equality Act 2010 and to advance equality of opportunity and foster good relations between persons who share a relevant protected characteristic (race, disability, gender, age, sexual orientation, religion or belief, pregnancy and maternity and gender reassignment) and persons who do not share it (section 149 of the Equality Act 2010). To this end, the Mayor should have particular regard to section 3 (above) of this report.

7. Planned delivery approach and next steps

Activity	Timeline
Review of market conditions	Ongoing
Planning for new London Power offer roll out (if market conditions are supportive of new service offer launch - subject to London Power Steering Committee approval and Director Decision to cover operational costs)	Subject to market conditions
Delivery of new London Power offer	Subject to market conditions
Delivery end date	August 27
Project closure	August 27

Appendices and supporting papers:

None.

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FoIA) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary. **Note:** This form (Part 1) will either be published within one working day after it has been approved or on the defer date.

Part 1 - Deferral

Is the publication of Part 1 of this approval to be deferred? NO

Part 2 - Sensitive information

Only the facts or advice that would be exempt from disclosure under FoIA should be included in the separate Part 2 form, together with the legal rationale for non-publication.

Is there a part 2 form – NO

ORIGINATING OFFICER DECLARATION:

Drafting officer to
confirm the
following (✓)

Drafting officer:

Enora Robin has drafted this report in accordance with GLA procedures and confirms the following:

✓

Sponsoring Director:

Philip Graham has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.

✓

Mayoral Adviser:

Shirley Rodrigues has been consulted about the proposal and agrees the recommendations.

✓

Advice:

The Finance and Legal teams have commented on this proposal.

✓

Corporate Investment Board


This decision was agreed by the Corporate Investment Board on 11 December 2023.

✓

INTERIM CHIEF FINANCE OFFICER:

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature:



Date:

11/12/2023

CHIEF OF STAFF:

I am satisfied that this is an appropriate request to be submitted to the Mayor

Signature:



Date:

11/12/2023

