

GREATER LONDON AUTHORITY

REQUEST FOR MAYORAL DECISION – MD1542

Title: Energy for London 2016-2019

Executive Summary:

Energy for London (EfL) is a 3.5 year programme that will run from February 2016 to July 2019 and provide public sector intervention to help others realise larger-scale decentralised energy (DE) projects that the market is failing to develop and deliver.

The programme will procure a new consultancy framework to provide technical, commercial, financial and other advisory and support services. EfL will direct the services to support others develop, procure and bring into operation their DE projects.

The programme will directly contribute towards the Mayor's DE and carbon dioxide reduction targets and will succeed the successful Decentralised Energy Project Delivery Unit that will end on 31st December 2015.

EfL will be 50% funded by a European Regional Development Fund (ERDF) grant and 50% by the GLA.

Decision:

That the Mayor approves:

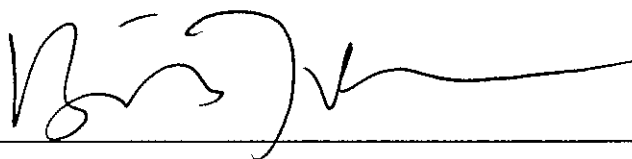
1. The application to the European Regional Development Fund (ERDF) for grant funding for Energy for London.
2. Entry into a grant agreement with the ERDF should the bid be successful subject to acceptable contract break-clauses not fettering the new Mayor.
3. Subject to a successful bid, expenditure of up to £3,500,000 to establish Energy for London over 3.5 years funded by £1.75m from ERDF grant and £1.75m from the GLA.
4. The procurement of a new Energy for London consultancy framework.

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:

24.9.2015

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

Decision required – supporting report

1. Introduction and background

- 1.1 The Mayor of London has set a target to meet 25% of London's energy supply from decentralised energy by 2025. The Decentralised Energy Capacity Study (GLA 2011) confirmed this target as being achievable based on both renewable and low carbon energy sources and that it represented an £8 billion investment opportunity.
- 1.2 In 2011 it was recognised that public sector intervention was necessary to bring forward those larger-scale projects that could make a significant contribution to meeting the DE ambition.
- 1.3 The development of low and zero carbon energy generation and associated medium and large scale decentralised energy heat networks is particularly challenging with specific support required to bring organisations together develop these schemes.
- 1.4 The development of decentralised energy projects through the various phases to market requires significant resource and a diverse set of skills, knowledge and expertise. These elements combined with the risk profile of the project development phase act as real barriers to project development activity for both public and private sector organisations. This phase of the overall project life-cycle is where the market failure is and where public sector intervention needs to occur.
- 1.5 Funded by the European Investment Bank's (EIB) European Local Energy Assistance (ELENA) the GLA's Decentralised Energy Delivery Unit (DEPDU) has successfully demonstrated the principle and benefits of public sector support for DE development.
- 1.6 The £2.8m DEPDU programme was 90% funded by the European Commission and will be reporting to the EIB as having delivered over £100m of projects to market. It has actively supported 18 DE projects worth around £150m and has exceeded its target 25:1 leverage ratio of capital investment brought to market to European funding by the agreement end date of 31st July 2015. This illustrates that this is a highly effective approach that has been able to coordinate activity across London and engage extensively with both public and private sector stakeholders.
- 1.7 Alternative delivery models that have been considered and dismissed are:
 - a. Individual public sector organisations each develop and deliver their own projects – this has been dismissed because the public sector does not possess the range of skills or capacity to take these complex projects from concept through to market.
 - b. Private sector coordinates and develops projects – the DE market is still too immature and even if individual organisations had the full range of skills and capacity to develop these projects the project development role is still considered to be too high risk for them.
- 1.8 The Energy for London project will assimilate all the learning and experience gained from developing and delivering DEPDU and engaging with its diverse set of stakeholders and incorporated it into this new project delivery model.
- 1.9 Approval to spend for the EfL procurement framework is contained with MD 1503.

2. Objectives and expected outcomes

- 2.1 The project will benefit both public and private sector groups that have an interest in delivering larger-scale DE schemes and where the private sector is not willing to provide the necessary leadership/development resource and/or the public sector capability is lacking.
- 2.2 EfL will support, provide coordination and know-how to help others to identify and realise their DE projects. It will do this through directing a framework of consultants with specialist technical, commercial, financial, and other related skills that will be managed and directed by the GLA. The project will deliver packages of work in a step-by-step approach to build DE projects from their early concept through to feasibility, business planning, procurement, construction and operation.
- 2.3 The project activities will:
- a. Develop and maintain the London Heat Map website to ensure those areas of high heat demand that offer the best potential for large-scale DE projects are readily identified. The website will provide an information portal for EfL's information, knowledge and learning.
 - b. Develop energy strategies for defined areas as the first step in establishing the approach to decentralised energy for that area.
 - c. Support Energy Master Plans (EMP) by working with public and private sectors to identify the extent of market competitive heat networks for defined areas. EMPs will provide the evidence base for local policy development and a pipeline of projects for further development.
 - d. Work directly with stakeholder groups to develop projects from concept, feasibility, business case, and financial structuring through to business planning and procurement.
 - e. Consider opportunities where it is necessary to facilitate energy trading. Examples include operating a junior electricity supply licence (ie Licence Lite) giving DE operators a route to higher value electricity markets, something current market barriers prevent them from accessing.
 - f. Create a supportive regulatory environment for DE. Regulatory barriers encountered during the course of the EfL programme that unreasonably impede the development of DE will act as evidence base for GLA officers to lobby government for change. EfL learning will also be used to inform GLA responses to government's DE related consultations.
 - g. Build a receptive and skilled market place for DE. EfL will bring circa £3.5m of new opportunities to the consultancy market increasing the market volume. The EfL consultancy framework will encourage new entrants while the work it commissions will, to a certain degree, demand a DE skills level that less experienced consultants will need to acquire or develop over the programme period if they intend to be successful within the framework.
 - h. Become a DE knowledge-base through the creation of framework commercial agreements and other documentation and to coordinate with other advisory services across London to support the proliferation of DE.
- 2.4 The EfL programme outputs will:
- a. Create £87.5m of capital investment in London's energy infrastructure over the programme period
 - b. Reduce emissions of the greenhouse gas carbon dioxide by 45,000 tCO₂ each year once all the projects are fully operational
 - c. Deliver 184 MW of DE capacity (heat and electricity) in total
 - d. Enable 121MW of renewable energy capacity in total
 - e. Create at least 955 jobs in total

- 2.5 In addition the programme outcomes will:
- Build confidence in, and de-risk the market
 - Inform and influence local, national and European government policy
 - Generate market efficiencies and common practice/standards
 - Identify strategically important projects and bring them to market
 - Bring stakeholders together to raise the skills and capacity of public sector project sponsors to develop and deliver medium scale projects through public-private partnerships or procurement of private sector delivery
 - Enable expansion by facilitating the planning for and integration of district heating schemes
 - Facilitate the development of city-wide heat networks where it is appropriate to do so
 - Enable London's energy infrastructure to efficiently and cost-effectively transition to a zero carbon supply by 2050 and facilitate the incorporation of renewable energy sources

3. Equality comments

- 3.1 Gender Equality and Equal Opportunities are enshrined within the GLA's programmes and activities according to the Mayor's Framework for Equal Life Chances (June 2014). The framework aims to bring Londoners together rather than dividing them. It promotes outcomes for a diverse range of communities that seeks to bring real changes to the quality of life for all Londoners. Decentralised energy, along with energy efficiency, forms the framework's Environment Objective 1.2. The objective seeks to ensure protected groups such as old and young people and those who are vulnerable, are better able to afford domestic energy. DE specifically aims to help others develop and deliver energy supply projects that will reduce Londoners' energy costs by up to 10% on their current energy bills.
- 3.2 Accessibility for those with disabilities will apply to those organisations the GLA appoints to provide specialist support services for the EfL programme. The prequalification process referred to above will address this issue by requiring those organising seeking to prequalify for the EfL framework to complete and pass an equalities questionnaire as part of the evaluation process. The questionnaire determines the level of disability provision provided by the organisations for its employees and visitors and will fail those who do not meet the minimum requirements/score.

4. Other considerations

- 4.1 Key risks and issues, links to Mayoral strategies and priorities and impact assessments and consultations.

Key risks and issues

Risk/Issue	Mitigation	Rating
The new Mayor being fettered by contractual commitments that go beyond May 2016.	All political parties share a commitment to reduce carbon emissions, so there is little risk, at a strategic level, that this would not be a priority for a new Mayor.	Low risk
The new Mayor may want to change or stop the DE programme.	However, in the unlikely event of a new Mayor wanting to change or stop funding services, there will be break clauses in the EfL framework contracts. More detail on this is given in Section 5 of the Investment Performance Board (IPB) Stage 1	

Risk/Issue	Mitigation	Rating
	paper.	
<p>The GLA does not commit to fully fund ERDF match.</p> <p>This would have a negative impact on the ERDF match and the DE programme capacity. Progress towards the Mayor's DE and wider CO₂ targets would be negatively impacted with reputational and environmental consequences.</p>	Alternative funding sources could be sought and the project scaled down although current availability is unclear.	Medium risk
<p>The GLA receives no or reduced ERDF funding.</p> <p>EfL will have reduced capacity and therefore outputs. Progress towards the Mayor's DE and wider CO₂ targets would be negatively impacted with reputational and environmental consequences.</p>	Alternative funding sources could be sought and the project scaled down although current availability is unclear.	High risk
Delay in receiving ERDF funding, impacting of the activities of EfL.	EfL is planned to be operational in February 2016 based on the anticipated ERDF bid outcome date. A short delay in funding could be accommodated by delaying the EfL programme start date to later. Extensive delay may result in the loss of DE opportunities.	High risk
<p>EfL fails to achieve its targets.</p> <p>Risk of ERDF claw back. Failure to contribute towards the Mayor's DE and wider CO₂ targets.</p>	<p>Future targets have been based on the track record of the current performance of DEPDU. EfL will start with a healthy pipeline of projects from the current programme and the DE market potential remains largely undeveloped.</p> <p>Effective programme management by the experienced GLA DE team will give a high degree of confidence of achieving targets.</p>	Low risk

Links to Mayoral strategies and priorities

- 4.2 EfL's work programme links with the holistic carbon reduction strategies produced by the Mayor for London. To limit further climate change the Mayor has set a target to reduce the capital's CO₂ emissions by 60 per cent of 1990 levels by 2025. The Mayor's Climate Change Mitigation and Energy Strategy details the ongoing programmes across London to achieve this. These include retrofitting London's homes and buildings with energy efficiency measures and aiming to supply 25 per cent of London's energy from secure, low carbon and local DE sources. Additionally the London Plan facilitates the development of policies at a borough and city through Local Development Frameworks to establish decentralised energy network opportunities.

Impact assessments and consultations

- 4.3 The impact of a DE development support unit such as EfL has been demonstrated by the current DEPDU programme. Operating between 2011 and 2015, and subject to EIB confirmation, DEPDU

has exceeded its target of £60.2m having delivered over £100m by the programme end on 31st July 2015. This performance demonstrates the impact of the intervention.

During the programme life, DEPDU has supported 40 projects potentially worth £375m with an electricity generating capacity of 77 MWe, heat production capacity of 146 MWth able to reduce CO₂ by 54 ktCO₂/a. Of these, 18 have either been delivered or are being actively supported.

- 4.4 Both DE and RE:FIT development support programmes were originally consulted on as part of the public consultation of the CCMES.

The Mayor launched the consultation for London's first long-term infrastructure plan (LIP) on 30 July 2014. The consultation proposed a number of energy measures and stated '*... the GLA will continue to develop the pipeline of projects it already supports through its decentralised energy programme.*' The results of the consultation published in the Steer Davies Gleave report, March 2015, confirmed support for the proposed energy initiatives including energy policy initiatives such as the Decentralised Energy Project Delivery Unit.

5. Financial comments of the Executive Director Resources

- 5.1 This Mayoral Decision seeks approval from the Mayor for expenditure of up to £3.5m to establish Energy for London over 3.5 years. Approval is also sought for the application to the ERDF for grant funding and the entry into a grant agreement with the ERDF subject to appropriate break clauses being in place and the Executive Director of Resources to sign a letter (Appendix 1) as part of the ERDF application confirming the GLA will fund the 50% match requirement. As part of this the procurement of a new Energy for London consultancy framework will also be required. This is subject to a successful outcome of the full bid to be submitted to the ERDF by 25th September 2015.
- 5.2 The full cost of the programme is to be £3.5m, where ERDF is to fund 50% of the costs with the remaining £1.75m to be match funded by returns arising from the GLA's investment in the London Green Fund. In the event that the GLA's bid to ERDF is unsuccessful, the total project cost will be scaled down and the option of alternative match funding will be explored.
- 5.3 It is proposed that the EfL programme from February 2016 to July 2019 will be profiled and funded as follows:

	2015/16 (2 months)	2016/17	2017/18	2018/19	2019/20 (4 months)	Total
ERDF	£83,500	£500,000	£500,000	£500,000	£166,500	£1,750,000
GLA funding (London Green Fund Returns)	£83,500	£500,000	£500,000	£500,000	£166,500	£1,750,000
Total	£167,000	£1,000,000	£1,000,000	£1,000,000	£333,000	£3,500,000

- 5.4 EfL has been allocated £100,000 from the Environment Programme budget in 2015-16 to fund TfL procurement costs for advertising and tendering the new consultancy framework. It will also be used to unlock ERDF and London Green Fund funding and continue with the provision of decentralised energy support (if EU funding through ERDF is not forthcoming this financial year or if the timing of its availability makes it impractical to spend this financial year).

While the proposed programme goes beyond the current Mayoral term, the contracts and agreements will include annual break-clauses as well as the flexibility to increase or decrease services

to ensure that the discretion of a future administration is not fettered.

6. Legal comments

- 6.1 The foregoing sections of this report indicate that the decisions requested of the Mayor fall within the GLA's statutory powers to do such things considered to promote or which may be considered facilitative of or conducive to 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 GLA's related statutory duties to:
- 6.1.1 pay due regard to the principle that there should be equality of opportunity for all people;
 - 6.1.2 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; and
 - 6.1.3 consult with appropriate bodies.
- 6.2 Officers must ensure that they
- 6.2.2 are content that the GLA can meet the conditions to which the provision of any European Regional Development Funding (ERDF) is subject, seeking legal and finance advice as necessary;
 - 6.2.2 do not act in reliance of such ERDF until a legally binding funding is in place in accordance with the GLA's internal protocols in this regard (the GLA acting in the capacity of agent for CLG as funder and as recipient); and
 - 6.2.3 any supplies and/or services required for the delivery of Energy for London project are procured by Transport for London Procurement and officers should liaise with Transport for London Procurement in this regard and ensure that appropriate contract documentation is put in place with and executed by proposed service providers before the commencement of the required supplies and/or services.
- 6.3 Given that the proposed funding and programme period extend beyond the current mayoral term officers must also observe the principle that an incumbent administration should not unreasonably fetter the discretion of any future administration, ensuring that all of the funding and contract documentation contain provisions enabling the GLA to terminate at any point for convenience and milestones and payments should be structured so as to minimise the impact of the exercise of such termination rights.

7. Investment & Performance Board

- 7.1 The proposal was approved in principle at the IPB meeting of 16 July 2015 where the stage 1 & 2 papers (decision 7.4 in minutes).

8. Planned delivery approach and next steps

	Activity	Timeline
1	Approval of IPB Stage 1 & 2	17 July 2015
2	Results of ERDF outline application	Mid-July 2015

3	Approval of MD*	August 2015
4	Submit ERDF full application	September 2015
5	Commence EfL consultancy framework procurement	October 2015
6	Obtain ERDF funding approval	January 2016
7	Sign ERDF grant agreement with appropriate break clauses*	February 2016
8	Appoint consultancy framework	February 2016
9	EfL programme starts with appropriate break clauses	February 2016
10	Delivery end date*	July 2019

*provisional dates

Appendices and supporting papers:

Appendix 1- GLA Funding Letter to ERDF

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOI Act) 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 approval or on the defer date.

Part 1 Deferral:

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

If YES, for what reason:

Until what date: (a date is required if deferring)

Part 2 Confidentiality: Only the facts or advice considered to be exempt from disclosure under the FOI Act should be 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:

Peter North has drafted this report in accordance with GLA procedures and confirms the following have been consulted on the final decision.

✓

Assistant Director/Head of Service:

Patrick Feehily has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.

✓

Sponsoring Director:

Fiona Fletcher-Smith has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.

✓

Mayoral Adviser:

Matthew Pencharz has been consulted about the proposal and agrees the recommendations.

✓

Advice:

The Finance and Legal teams have commented on this proposal.

✓

EXECUTIVE DIRECTOR, RESOURCES:

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

Signature

M. D. Belle

Date

21.9.15

CHIEF OF STAFF:

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

Signature

Edmund H. L.

Date

23.09.2015

