GREATER**LONDON**AUTHORITY

REQUEST FOR DIRECTOR DECISION – DD2344

Title: Licence Lite

Executive Summary:

Licence Lite was a twelve-month pilot project approved by MD2157. The project became operational on 1 January 2018 and finished on 31 December 2018. The project did not continue because Npower terminated their five-year contract early. This Director Decision is seeking to deal with two issues. An increase in overall project costs and a change in the way the income and expenditure for the project was billed, which means that project expenditure is dealt separately from income creating higher income receipts and expenditure costs than were set out in the MD2157.

Licence Lite was both novel and highly innovative for the UK energy market. The GLA took a pilot approach to explore the feasibility of such a scheme and made several assumptions based on the best analysis at the time of setting up the project. The GLA's costs have increased because more electricity, which increased in cost during 2018, was purchased from the market to meet Transport for London's (TfL) demand, and the project started three months later than planned.

The project costs are forecast to be £271,323. This compares with £162,000 that was approved under MD2157. This results in an additional forecast cost of £109,323. The GLA should make provision for additional project costs of up to £125,000 to adjust final incomes and expenditures, if necessary, following receipt of outstanding statements from Npower.

Decision:

That the Executive Director of Development, Enterprise and Environment approves:

1. Additional project costs of up to £125,000 (taking total forecast project costs up to £287,000), including:
2. Receipt of income of up to £225,000 from Npower for the generation they sold for the GLA; and
3. Expenditure of up to £415,000 for the costs Npower incurred for supplying TfL's electricity requirements on behalf of the GLA.

AUTHORISING DIRECTOR

I have reviewed the request and am satisfied it is correct and consistent with the Mayor's plans and priorities. It has my approval.

Name: Debbie Jackson	**Position:** Interim Executive Director of Development, Enterprise and Environment
Signature: P.P. Alex Conway	**Date:** 28/3/19

PART I - NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

1.1. Licence Lite was a 12-month pilot project approved by MD2157 in August 2017. The project became operational on 1 January 2018 and finished on 31 December 2018. The project provided a proof of concept to fulfil the Mayor's manifesto commitment to 'buy clean energy across the city' and for London to be a zero-carbon city by 2050.

1.2. The project did not continue after the pilot period because of Npower terminating the five-year contract early. Having undertaken a high-level assessment of the market, it is uncertain if the GLA would be able to procure another Third Party Licenced Supply (TPLS) service provider. To do so would require spending more public money in market testing and tendering for another TPLS, with no guarantee that one could be found, or that they would be able to commit to a five-year contract term. Considering this, the Mayor had little choice but to end the Licence Lite project.

1.3. The project involved the GLA buying electricity from local, low to zero carbon electricity generators: a Scottish and Southern combined heat and power (CHP) plant, and solar PV installations installed on social housing owned by Peabody and selling it to Transport for London (TfL) over a 12-month period.

1.4. The Licence Lite concept was in development for over five years, requiring electricity market innovation and regulatory change to get to proof of concept stage. Licence Lite was both novel and highly innovative for the UK energy market. The GLA took a pilot approach to explore the feasibility of such a scheme and made several assumptions based on the best analysis at the time of setting up the project. The pilot was forecast to operate at a loss because of its initial small-scale operation and the low-price TfL pays for electricity as a large energy consumer. The project costs to the GLA were modelled to be £162,000 based on a forecast of the electricity generation, demand, market prices, mobilisation and development costs. The legal agreements under which Licence Lite operated capped the GLA's limits on liability at £400,000 for each and every claim and in aggregate and in any twelve-month period.

1.5. Under the Licence Lite business model and regulatory system, the GLA as a holder of the Licence Lite is relieved of its obligation as a licensed supplier to be a party to the principal industry codes and avoids certain cost risks and complexities of being a party. The GLA meets the obligations by reaching an agreement with a licensed supplier who is a party to the codes and provides the necessary market interface services. The arrangement is known as the Supplier Service Netting Off Agreement (SSNOA) and Npower provided this service under the TPLS services contract.

1.6. The arrangement with Npower allowed the GLA to purchase the electricity output from low and zero carbon electricity generators and supply the electricity generated to TfL. Npower also provided 'balancing' services. This involved supplying electricity from the market to meet TfL's electricity demand during times when the generation from Scottish and Southern combined heat and power (CHP) and Peabody's solar photovoltaic (PV) array was insufficient (top-up), and to sell to the electricity generated to the market should it have been more than the TfL's demand (spill).

1.7. The mechanics of the electricity trading arrangements Npower implemented at the outset of the project were different from those assumed in the GLA model. The GLA modelled assumption, upon which MD2157 was based, was that Npower would 'net-off' the generation from the supply, and therefore only buy or sell the additional demand and/or excess generation. Npower explained, once the GLA was in contract with them, that they were required to keep the supply volumes separate from generation for reasons of transparent accounting. This meant that Npower would buy the entire supply requirements for TfL from the market and separately sell all the generation to the market. This changes the income and expenditure profile, originally set out in in MD2157 (detailed in the table below). As a result, the GLA has been required to pay expenditure and receive income separately.

1.8. In addition, the net project costs are forecast to be £271,323. This compares with £162,000 that was approved under MD2157. This results in an additional forecast cost of £109,323. The project budget should make provision for additional costs of up to £125,000, including a small contingency. The final project costs, operational income and expenditure may vary following receipt of outstanding statements from Npower but are expected to be contained within the additional net cost of up to £125,000 and total cost of up to £287,000 (£162,000 + £125,000).

1.9. The cause of the cost increase is a consequence of meeting the TfL supply requirements in that:

1.9.1 The level of generation declined significantly during June, July, August requiring a greater amount of supply to be purchased to meet the TfL demand. This was compounded by the market cost of electricity increasing.

1.9.2 The project started three months later than assumed in MD2157 (January 2018 compared with October 2017) because it took longer to negotiate and finalise the Third Party Licenced Supplier services agreement with Npower than the GLA had been led to expect. This resulted in a lower TfL tariff for financial year 2018/19 applied for three months longer, i.e. the income to the GLA was reduced.

1.9.3 A slightly higher TfL electricity demand at 4.2 TWh compared with the 4.1 TWh resulting in higher supply volumes and therefore costs.

1.10. The increase in costs were difficult to foresee due to the novel nature of the Licence Lite Scheme. The GLA made assumptions about the electricity market, level of income generation, TFL electricity demand and project mobilisation which has been subsequently tested through this pilot project.

1.11. The final actual project income and expenditure will be confirmed when Npower issue the final supply and generation statements for October, November and December 2018. The forecast project cost of £271,323, operational income of £598,718 and operational expenditure of £823,040, is set out in the table 1 alongside that approved under MD2157. The forecast is based on actual statements received for January – September 2018 and estimated statements for October – December 2018. This includes: receipt of income of £378,281 from TfL for supplying electricity to them – this replaces £300,000 approved under MD2157; a receipt of income of £220,437 from Npower for the generation they sell on behalf of the GLA - this replaces the income of £36,000; an expenditure of £169,904 for the costs Npower incur for buying electricity from SSE and £11,989 from Peabody – this replaces £155,000 and £16,000 respectively; expenditure of £396,548 for the costs Npower incur for supplying TfL with their electricity requirements on behalf of the GLA - this replaces the cost of £44,000; and a consequential increase in regulatory and compliance costs to £144,599 – this replaces the cost of £136,000.

Table 1

	MD2157		Forecast Outturn	
Development and Mobilisation Costs to 30th September 2017				
Professional fees (Cornwall Energy)	£	2,000	£	2,000
Legal fees (Lux Nova)	£	15,000	£	15,000
Business plan and process set-up (Arup)	£	30,000	£	30,000
Total costs	**£**	**47,000**	**£**	**47,000**
Operational Income				
TfL Supply	£	300,000	£	378,281
RWE Npower export (SSE)			£	220,437

Spill revenue	£	36,000		
Total Income	**£**	**336,000**	**£**	**598,718**
Operational Expenditure				
SSE generation procurement	£	155,000	£	169,904
Peabody generation procurement	£	16,000	£	11,989
RWE Npower (Management Fee & Top-up)	£	44,000		
RWE Npower import			£	396,548
Ofgem FIT Levelisation			£	25,418
Ofgem FIT Mutualisation			£	59
Ofgem Renewable Obligation			£	94,806
HMRC Climate Change Levy			£	24,316
Regulatory & compliance related costs	£	136,000		
Operational services	£	80,000	£	80,000
GLA Manager	£	20,000	£	20,000
Total Expenditure	**£**	**451,000**	**£**	**823,040**
Net Project Operational Costs	**£**	**162,000**	**£**	**271,323**
Increase in operational costs			**£**	**109,323**

2. Objectives and expected outcomes

2.1. The objectives are to:

- Finalise project costs, reflecting the final receipt of outstanding statements from Npower for October, November and December 2018; and
- Pay Npower invoices for January, February and March 2018, which will release outstanding statements, which can then be paid.

2.2. The expected outcome is:

- For the GLA to fulfil its contractual obligations with Npower as set out in the Third Party Licenced Supply (TPLS) services contract under the arrangement known as the Supplier Service Netting Off Agreement (SSNOA); and
- To close the Licence Lite project and evaluate the impacts against the objectives and expected outcomes set out in MD2157.

3. Equality comments

3.1 Under s149 of the Equality Act 2010 (the Equality Act), as a public authority the Mayor must have due regard to the need to eliminate discrimination, harassment and victimisation, and any conduct that is prohibited by or under the Equality Act; and to advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not.

3.2 The GLA will ensure that (as part of its on-going legal responsibility to have due regard to the need to promote equality, in everything it does, including its decision-making), barriers are removed that may prevent those with protected characteristics benefiting from the project. The project required the service providers to identify those protected groups who could benefit, determine whether barriers exist and implement measures to remove those barriers, if required. The service providers assisted the GLA in discharging its duties under the Public Sector Equality Duty (PSED).

3.3 The GLA Environment Unit commissioned an Integrated Impact Assessment (IIA) on the draft London Environment Strategy, which the Licence Lite project aimed to deliver. This evaluated the social, economic, environmental, health, community safety and equality consequences of the strategy's proposed policies to ensure they are fully considered and addressed. A post-adoption statement showing how the IIA influenced the final strategy and Equality Impact Assessment (EqIA) report has been published.

4. Other considerations

4.1. The pilot project was aimed at providing a proof of concept of Licence Lite thus contributing to the delivery of the Mayor's commitment set out in the London Environment Strategy to 'buy clean energy generated across the city' and for London to be a zero carbon city by 2050. The Licence Lite project has been linked with the Mayor's decentralised energy programme and the Decentralised Energy Enabling Project (DEEP). The DEEP provides support to help others realise larger scale decentralised energy projects that the market is failing to deliver. Licence Lite has been directly contributing to this project by providing decentralised schemes with an alternative route to market through the potential to obtain better value from the electricity they generate export.

4.2. Licence Lite generated a number of insights that could be useful for the future of market models that can support clean, decentralised energy and taking forward 'new entry and innovation in the energy market'. These include operating business models that work for local generators, consumers and energy supply companies, the appetite for generators to continue and expand their market arrangements, interest from local councils and a community energy groups, and the ability to support more renewables connecting to electricity networks. We will undertake an evaluation of the pilot.

4.3. The Mayor is currently establishing the Energy for Londoners Supply Company (EfLSCo). This is a very different project to Licence Lite; EfLSCo is focussed on domestic electricity and gas supply, among other value-added services, which is distinct from Licence Lite which served non-domestic public sector electricity consumers (notably TfL). As noted above, Licence Lite was both novel and highly innovative for the UK energy market compared with EfLSCo which involves a partnership approach (akin to a White Label) which are prevalent in the UK energy market.

4.4. The project has also been supporting the Mayor's solar action plan by supporting Peabody's solar PV installations.

5. Financial comments

5.1 Executive Director's approval is sought for the expenditure of up to £125,000 to pay for additional costs related to the Licence Lite project. This will bring the total spend on Licence Lite up to £287,000.

5.2 Approval is also sought for receipt of income of up to £225,000 from Npower for the generation they sold for the GLA, and expenditure of up to £415,000 for the costs Npower incurred for supplying TfL's electricity requirements on behalf of the GLA.

5.3 The net additional cost of up to £125,000 will be funded from the Environment Team's 2018/19 programme revenue budget. The funds will be from specific programme budgets that have not been approved to slip into 2019/20, specifically from under-spends against the Commercial and Income Maximisation projects of the overall programme.

6. Legal comments

6.1 The GLA has powers under the Greater London Authority Act 1998 ("GLA Act") (section 30) to promote the improvement of the environment in Greater London, in doing which it is to have regard to the achievement of sustainable development in the UK, and to climate change, and the consequences of climate change. Further, the GLA has an obligation (under section 361A of the GLA Act) to address climate change, so far as relating to Greater London. Under section 34 of the GLA Act, the GLA may do anything calculated to facilitate, or conducive or incidental to, its functions.

6.2 As the implementation of the Licence Lite proposals were to help to improve the environment in Greater London, having regard to the achievement of sustainable development in the UK, and/or to address climate change in Greater London, and/or facilitate, conduce or be incidental to, such matters, the proposals were within the GLA's powers, and on that basis the proposals for which approval is sought also appear to be within the GLA's powers.

6.3 The scheme as implement was purely a pilot scheme, and it was not expected that any surplus would be made. In piloting this scheme, the GLA did not appear to be exercising its powers for a commercial purpose.

6.4 The Power Purchase Agreements and the Supply Agreement with TfL was entered into for a period set to expire after one year. This avoided the risk of the GLA either: (a) having customer(s) but not generating capacity; or (b) having generating capacity but no customer(s) to whom to sell the electricity it was obliged to purchase. This means that the GLA was able to avoid taking on additional risk by running its 12-month pilot.

6.5 Further legal implications would have arisen if it had been decided to extend the pilot scheme into a full scale, enduring, operational scheme with a view to profit (which were set out in MD 2157). As the pilot is not being extended, officers should ensure that the obligations under the Power Purchase Agreements and the Supply Agreements are discharged.

6.6 In taking the decisions requested, the director must have due regards 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 between persons who share a relevant protected characteristic (race, disability, gender, age, sexual orientation, religion) or share it and foster good relations between persons who share a relevant protected characteristic and persons who do not share it (section 149 of the Equality Act 2010). To this end, the director should have particular regard to section 3 (above) of this report.

7. Planned delivery approach and next steps

Activity	Timeline
CIB and DD signed	25/03/2019
Raise outstanding purchase orders and payment of Npower invoices	29/03/2019
Project close	31/05/2019
Project evaluation	31/07/2019

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? YES

If YES, for what reason:

Deferral is sought to protect the commercial interests of the Authority. Premature release of the information contained in the Decision Form could prejudice the Authority's ability to realise value for money.

Until what date: On completion of the evaluation, scheduled for 31 July 2019.

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: Daniel Barrett has drafted this report in accordance with GLA procedures and confirms the following:	✓
Assistant Director/Head of Service: Luke Bruce has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.	✓
Financial and Legal advice: The Finance and Legal teams have commented on this proposal, and this decision reflects their comments.	✓
Corporate Investment Board This decision was agreed by the Corporate Investment Board on 25 March 2019.	

EXECUTIVE DIRECTOR, RESOURCES:

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

Signature M. D. Alle **Date** 27.3.19