

GREATER LONDON AUTHORITY

REQUEST FOR ASSISTANT DIRECTOR DECISION – ADD413

Title: Licence Lite Due Diligence

Executive Summary:

The GLA has applied to the regulator Ofgem for a 'junior' electricity supply licence (Licence Lite, LL) whereby, with the support of a fully licensed supplier, it will purchase the output of low and zero carbon electricity generators and supply it to public and commercial electricity users in London under terms that support the development of decentralised energy in London.

An IPB report is being submitted for the 19th April 2016 board seeking a recommendation for a MD to authorise, amongst other things, the licence lite business case, the formation of a supervisory board and for the project to proceed to the operational stage. The decision to enter into operation will be subject to a satisfactory due diligence report from independent financial advisors to be presented to the proposed supervisory board that will make that decision.

This ADD to seeks to establish an Environment budget of £30,000 to meet the costs of carrying out the due diligence using an expert consultancy, with £30,000 being transferred from the budget of the Executive Director, Development, Enterprise and Environment this financial year.

Decision:

That the Assistant Director of Environment approves the expenditure of up to £30,000 to carry out the Licence Lite due diligence through the appointment of a consultant from the appropriate TfL or London Waste and Recycling Board consultancy framework.

AUTHORISING ASSISTANT DIRECTOR/HEAD OF UNIT:

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: Patrick Feehily

Position: Assistant Director Environment

Signature:



Date:

6/4/16

PART I - NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

- 1.1 The Licence Lite project is designed to support the development of decentralised energy in London and when operational the licence lite project would fall within the Energy for London project, to be established pursuant to Mayoral Decision MD1542. The GLA's application to Ofgem for a licence lite licence was approved by Director Decision DD897, as varied by Director Decision DD1416, on the basis that an MD is obtained before any commitment to supply electricity is made.
- 1.2 Licence Lite addresses a market failure preventing decentralised energy generators adequate access to the electricity supply market. Licence Lite will allow local generators to sell their electricity at better prices increasing their income and as a result, improve investment opportunities in decentralised energy schemes.
- 1.3 The expected outcomes from the LL project are:
- the more certain and accelerated delivery of the Mayor's Climate Change and Energy Strategy targets including the target to supply 25% of London's energy demand from decentralised energy by 2025;
 - the increased uptake of more investment in decentralised energy systems in London, bringing forward in excess of an estimated £300 million of additional investment, with the accompanying short term construction jobs and permanent jobs in operating the energy centres and networks; and thereafter larger amounts of investment and numbers of jobs as the potential for decentralised energy in London is realised.
- 1.4 The GLA is in the best position to rectify the market failure. The GLA has the knowledge and expertise to implement the licence lite route to market and although there is strong interest in licence lite amongst the smaller generators, they have been held back from taking a lead both because of the complexity involved and apparent unwillingness to risk time and money on a new venture that will benefit their competitors as much as themselves. Once the first licence lite operation is established, licence lite applications can be made by others on a relatively standardised basis, using the same basic documentation and implementation procedures.

2. Objectives and expected outcomes

- 2.1 This project is to carry out independent due diligence on the Licence Lite business plan. The advice will inform the LL Supervisor Board in its decision to authorise the project to enter into the necessary agreements and arrangements and to enter into operation provided the Board has been empowered to do so pending the proposal to be presented at 19th April 2016 IPB and for Mayoral Approval shortly after.
- 2.2 The project has been developed by GLA officers with assistance from the GLA's Decentralised Energy Project Delivery Unit, energy market consultants and energy lawyers. The business plan forecasts a turnover initially of approximately £2.2m, with a target of £5m by the end of the first year. At this level of activity, it is wise to carry out an independent review (due diligence) of the business plan to determine its efficacy.
- 2.3 Due diligence will be conducted by an independent commercial and financial expert experienced in the field of UK energy markets and regulation. The expert will be tendered through the appropriate TfL consultancy framework and the costs are expected to be no more than £30,000.
- 2.4 The expert will review the completeness of the business plan, the commercial terms and conditions of the various agreements, to ensure the GLA is adequately protected in terms of commercial

exposure and compliance with regulation. The expert will review the financial model and advise whether it is fit for purpose, carry out spot checks on calculations, and comment whether the business forecast is realistic and achievable. The risk register will be reviewed to establish whether the significant risks have been identified and that all risks are adequately mitigated.

3. Equality comments

3.1 The consultant will be tendered through a TfL or LWARB consultancy framework whose procurement required, amongst other things, acceptable equalities policies in order to qualify for the framework.

4. Other considerations

4.1 Key risks and issues are set out below:

	Risk description (cause, 'risk event', potential impacts)	Probability (1-5)	Impact (1-5)	RAG	Mitigation/Risk response (state if the response is done or pending)	GLA Owner
1	Consultants not interested	2	5	R	Establish consultant interest prior to tender. Tender through framework based on three written quotes.	PKN
2	Fee insufficient	2	3	A	Request increased budget.	PKN
3	Negative report conclusions	1	5	A	Withdraw EfL business plan IPB submission.	PKN

4.2 The links to Mayoral strategies and priorities

The Mayor of London has set a target to meet 25 per cent 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.

The Licence Lite project has been designed to support the development of decentralised energy in London by allowing local generators to sell their electricity at better market prices.

5. Financial comments

5.1 Assistant Directors approval is being sought for expenditure of up to £30,000 to carry out the due diligence on the Licence Lite business plan. This is to be funded from Executive Director, Development, Enterprise and Environment (DE&E) 2015-16 Minor Programme budget, however work will be completed in 2016-17;

5.2 As the £30,000 will be from 2015-16 DE&E Minor Programme budget the Environment team will need to request a budget carry forward from 2015-16 to 2016-17 and should note that the carry forward of budget is subject to year-end carry forward approval process. Should the carry forward not be agreed then the £30,000 costs will need to be met from within existing 2016-17 Environment budget.

6. Planned delivery approach and next steps

The LL Due Diligence will be tendered through an appropriate TfL consultancy framework.

Activity	Timeline
Start procurement process	20 th April 2016
Issue invitation to tender	2 nd May 2016
Award contract - start date	1 st June 2016
Draft report issued	27 th June 2016
Final report issued	4 th July 2016
Recommendation to LL Supervisory Board	11 th July 2016

Appendices and supporting papers:

- Executive Director, DEE, agreement to transfer budget.

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:

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:**

Peter North has drafted this report in accordance with GLA procedures and confirms that the Finance and –if relevant- Legal teams have commented on this proposal as required, and this decision reflects their comments.

HEAD OF FINANCE AND GOVERNANCE:

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

Signature:



Date:

05.04.16

