

GREATER LONDON AUTHORITY

REQUEST FOR ASSISTANT DIRECTOR DECISION – ADD2079

Title: Developing High Level Case for DevCo model

Executive Summary:

New developments in London increase the demand for electricity. In 2012, the Mayor assessed the current arrangements administered by OFGEM for regulating the amount and timing of investment by electricity distributors in the reinforcement of their networks to accommodate the increased demand for electricity.

GLA and OFGEM have been consulting with various stakeholders who have proposed new arrangements which could make the process more efficient in the best interest of all London consumers. Collectively, the GLA and OFGEM have proposed the Devco Model.

The DevCo Model would be structured as a partnership between developers, local authorities and other parties with an interest in securing connections and capacity in a specific area.

The outline strategic case has been established by the GLA. Now, to investigate whether this approach is reasonable and practicable, a high level assessment of the economic case for establishing DevCo corporate models to support investment in electricity infrastructure in development areas is required. The assessment of the economic case will allow for high level assessment of a range of options for policy in the future, options to be addressed that could, subject to all further necessary analysis and (legal, financial and other as required) advice potentially reduce overall costs of capital and revenue of provision compared to those under existing arrangements.

Decision:

That the AD for EBPU approves expenditure of up to £20k from the 2016/17 Infrastructure and Growth programme budget to purchase consultancy services required for the economic assessment of the development of the DevCo model.

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: Mark Kleinman

Position: AD EBPU

Signature: 

Date: 7/2/2017

PART I - NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

During 2012 the Mayor formed a working group to examine the case for and practicality of change to the current arrangements administered by OFGEM for regulating the amount and timing of investment by electricity distributors in the reinforcement of their networks to allow for increased electricity demand from new developments in London.

Following discussions between the GLA and Government, OFGEM, developers and a range of stakeholders, OFGEM carried out a consultation on alternative investment models during 2015. During 2016 OFGEM has been examining, through case studies presented to it by a range of interested parties, the extent to which current electricity connection and reinforcement arrangements are creating financial and other barriers both to developers of sites and distributed electricity generators.

One of the models for change which OFGEM is evaluating in this context is the 'DevCo' model developed by the GLA. The DevCo model devolves upon regional and local authorities, and thence to investment vehicles formed under their control, the opportunity to call for distribution network operators to install new electricity distribution infrastructure earlier than the current regulatory regime would permit.

In return, the DevCo takes the risks associated with installing the infrastructure prior to the electricity connections, which would bring the new infrastructure into use, being confirmed. The DevCo system enables new infrastructure to be installed on a more strategic basis rather than being made incrementally, thus avoiding the risks of delays and additional cost often associated with the existing arrangements, particularly in the case of large developments. *More detailed information about the Devco model are available in the appendix.*

2. Objectives and expected outcomes

The appointed consultants will provide a final report providing:

- analysis of one or more elements of whether the present arrangements for the provision of new electricity distribution infrastructure derive from or give rise to failures on the part of the market and/or existing policy and regulatory framework; and
- robust evidence to demonstrate the nature, order of magnitude scale and monetary value of the costs and risks that the such in principle failures give rise to; to demonstrate, if it is the case, that these are significant, and that thus there is also a case for considering alternative options such as the DevCo model for the arrangements governing such provision.

3. Equality comments

- a. The DevCo model would deliver improvements in how electricity related infrastructure investment is planned in the early stage of a development. This would have benefits for Londoners which will move into the new development area.
- b. The Devco model will be responsive to Mayoral priorities, including social inclusion and fairness as it should have a positive impact on the overall cost of electricity.

4. Other considerations

Key risks and issues analysis

Risk/issue	Impact	Mitigation
More time required to deliver the work	Medium (timeline, endorsement)	<ul style="list-style-type: none">• Pre-engagement meeting• Develop an alternative approach
Consultants fail to deliver project to satisfaction of GLA	Medium (timeline, endorsement, cost)	<ul style="list-style-type: none">• GLA will have close working relationship with consultant and contractual provisions will provide protection of interests• Consultant will be invited to present their conclusions internally to senior managers

5. Financial comments

The estimated cost of up to £20,000 for this project will be funded the Infrastructure & Growth Programme budget for 2016-17 held within the Economic Business Policy Unit.

6. Planned delivery approach and next steps

Activity	Timeline
Inception meeting with project steering group	Early February 2017
Procurement of Consultants	Early February 2017
First draft of report to be sent to the GLA	28 February 2017 (tbc)
Review of draft and steering group meeting	2 March 2017 (tbc)
Final report sent to the GLA	10 March 2017 (tbc)
Possible meeting and presentation to internal stakeholders and Growth Panel	March/April 2017

Appendices and supporting papers:

DevCo outline business case

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:**

Mathieu Mazenod 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.

Corporate Investment Board:

The Corporate Investment Board reviewed this proposal on **6th February 2017**

HEAD OF FINANCE AND GOVERNANCE:

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

Signature:



Date:

07.02.17