

Investment & Performance Board (IPB)

Date of IPB meeting: **12 June 2014**

Title of paper: **Developing a New Junior Electricity Supply Licence - Progress Report**

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Classification: **Public (with reserved appendix)**

1. Executive Summary

- 1.1 This is an update report requested by the IPB.
- 1.2 Formal application for the junior electricity supply licence (known as 'licence lite) was made to the electricity regulator Ofgem on 1 March 2013. The purpose is to enable existing and new decentralised energy providers in London to sell their electricity at proper market prices rather than be excluded from the market because of its costs, risks and complexities.
- 1.3 No barriers or risks have arisen that have not already been reported in the paper presented to the IPB at its meeting of 23 October 2012 and the programme remains on track, although there has been a change in order of activities and timing (see paragraphs 1.7 and 4.2 below).
- 1.4 The draft business model has been produced and is *prima facie* viable. The following stages of development work aim to validate the model assumptions.
- 1.5 The first stage of the procurement of the market services which form the basis of Ofgem's willingness to grant the licence and the GLA's ability to operate it has been completed satisfactorily.
- 1.6 A principal risk remains timing because the type of licence application is new to all parties and therefore timing remains difficult to predict. It also forms part of Ofgem's wider investigation into improving access to the electricity market which influences its pace of working. Another risk (although materially diminished since the delivery of expressions of interest from the market) is that insufficient tenders are delivered by the market for the provision of the market services required or no satisfactory terms are offered.
- 1.7 The order of the activities involved has changed since the last report to the IPB. That is because the route which the GLA was advised to take for the procurement of the important electricity market services needed to operate licence lite, meant that requesting tenders had to follow Ofgem giving its

comments on the forms of market services agreement. Ofgem gave its comments in time to begin the procurement process earlier this year.

- 1.8 There is strong government support for the Mayor's Licence Lite project and also press interest.
- 1.9 The project remains within budget and the Decentralised Energy Project Delivery Unit has also provided support. The project has a budget of £90,000 for financial year 2014/15 for legal and commercial work.
- 1.10 The target is to procure the grant of the licence by 30 November 2014. This should enable practical operation to begin by the beginning of April 2015.

2. Recommendation

That the Board note this progress report.

3. Introduction and Background

- 3.1 On 23 October 2012 the IPB approved the proposal that the GLA apply for a new type of electricity supply licence which the GLA has been developing in collaboration with the regulator (Ofgem) and the Department of Energy and Climate Change and London boroughs.
- 3.2 IPB approval was on the basis that on or before the completion of the licence application process, when the terms of the grant of the licence and detailed business case are known, a Mayoral Decision is obtained before any commitment is accepted.
- 3.3 Since IPB approval was obtained progress has been made as follows:
 - Specialist market advisors, lawyers and the Mayor's Decentralised Energy Project Delivery Unit have been retained.
 - Extensive consultation with Ofgem regarding the application has taken place since formal application for the licence was delivered to Ofgem on 1 March 2013.
 - A detailed draft economic model has been prepared in consultation with Transport for London, with whom discussions are in train for the purchase by it of electricity supplied from decentralised energy systems by the GLA under its licence. The model has also been seen by Ofgem. The financial outcome of the model is positive, but cannot be confirmed until tenders for the provision of the market services have been received from tenderers who have responded to the preliminary questionnaire during August of this year.
 - The procurement processes for the market services are in progress. The preliminary stage of receiving expressions of interest from licensed suppliers who were requested to pre-qualify was completed on 23 May of this year. The results are summarised in the confidential Appendix to this report and are satisfactory. This stage was accompanied by an Industry Day attended by licensed electricity suppliers and London boroughs.

- Selected London boroughs have been briefed and provisionally identified the electricity capacity best sold under licence lite, together with other suitable public sector electricity generating capacity in London. The next step is to engage them in the procurement processes for the purchase of their electricity by the GLA.
- The Government has shown increasing interest in the GLA's progress on the licence lite project. In May 2014 Matthew Pencharz and a GLA officer attended a round table discussion on licence lite chaired by the Secretary of State for Energy and Climate Change, Ed Davey to discuss progress of licence lite.
- The press has been briefed on the application. An article on the Mayor's licence lite application appeared in the Guardian newspaper in May.
- The proposed timetable is for the licence to be granted to the GLA in November 2014 and for operations to commence in April 2015.

4. Issues to note

- 4.1 No new barriers or risks have arisen during the course of the progress made, other than those already reported to the IPB at its meeting on 23 October 2012, save as to timing referred to below.
- 4.2 Market interest in the licence application has been confirmed, as has the level of support expressed by government together with Ofgem's interest in engaging in the process. Ofgem sees the GLA's application as novel and involving a substantial commitment in their time.
- 4.2 Timing has altered from that estimated in October 2012, for the following reasons:
- a) Ofgem is following an over-all objective of reviewing means of access to the electricity market, in order to stimulate more competition in it. The Mayor's licence lite application plays an important part in that. The effect is that although Ofgem's sustained interest and support for the Mayor's licence application has been assured, the pace of progress by Ofgem was initially slow as a result of the licence lite project being part of a wider initiative.
 - b) The procurement route that the GLA is advised to follow for procuring the market services meant that invitations to tender could not be sent out until all the terms and conditions for the provision of the services have been specifically settled. The result is that the invitations to tender waited upon the detailed discussions with Ofgem reaching an advanced stage. That has now happened, the procurement process being under way as described above.
- 4.3. There are no issues currently arising out of the draft economic model, but it cannot become a firm model until the tenders are received from licensed suppliers for the required market services in August 2014.

- 4.4 The objective is for submission for a Mayoral Decision to approve the grant of the licence to the GLA by Ofgem and to approve entering into the necessary contracts to enable the project to proceed to completion in October 2014. Subject to that, the licence may be granted to the GLA in November 2014, operations commencing in April 2015.

5. Equality comments

Equality issues have been considered. Most notably the project when complete will involve the GLA carrying out its electricity supply activities under the regulated terms of an electricity supply licence. These terms include provisions regarding those with protected characteristics.

5. Risks arising / mitigation

- 5.1 There remain uncertainties regarding the timing of the licence application process, since the type of electricity licence application is new to all parties involved. The order of the processes and resulting timing considerations therefore remain difficult to predict. However, these timing issues do not materially alter the outcome and no new barriers to progress have emerged.
- 5.2 There has been no change in the risks already reported to the IPB or in how they may be mitigated

6. Financial comments of the Executive Director Resources

- 6.1 As this IPB report is to provide the Board with an update on the progress of developing a new junior electricity supply licence there is no significant change in financial implications to what was reported at IPB on 23 October 2012.
- 6.2 The project was within the agreed budget as quoted at IPB on 23 October 2012; £20,000 for consultancy fees and the licence application fee (met from 2012/13 Environment Programme budget). A further £38,000 was allocated to Licence Lite in 2013/14 of which £37,900 was spent mainly on risk analysis and advice and preparation of a risk matrix from the 2013/14 Environment Programme budget.. A budget of £90,000 has been allocated for the year 2014/15 from the Environment Programme budget (funded from Central programme budget that was approved at February 2014 IPB).
- 6.3 The financial model assumes Year 1 operating costs of £5m and appropriate arrangements will be required to ensure that the GLA is not exposed to any risk of incurring unbudgeted costs should income be insufficient to cover costs or other difficulties arise.
- 6.4 Any changes to this proposal must be subject to further approval via the Authority's decision-making process.
- 6.5 The Environment Programme Delivery Team within the Development, Enterprise and Environment Directorate is responsible for managing this project.

8. Next steps

8.1 The next steps following report to IPB are summarised below:

Activity	Timeline
Closing date for pre-qualification questionnaire responses	23 rd May 2014
Issue of Invitation to Tender to pre-qualified licensed suppliers	9 th June 2014
Appointment of market services provider	August 2014
Submission for MD	October 2014
Licence granted	November 2014
Commencement of operations	April 015

Appendices:

Appendix 1 – Procurement Process Results