

Date: 9 March 2022

Item: GLA Group Collaborative Procurement of Power Purchase Agreements

This paper will be considered in public

1 Summary

- 1.1 TfL has been engaged in the GLA Energy Procurement Collaboration Programme with the Greater London Authority (GLA), the Metropolitan Police, the London Fire Commissioner, and the London Legacy Development Corporation (the GLA Group) for the past year. It aims to pool the electricity demand of TfL with that of other GLA Group bodies with smaller energy requirements, to allow the GLA Group to benefit from enhanced purchasing power, reduce carbon emissions and reduce the cost of the electricity procured, through the joint procurement of renewable Power Purchase Agreements (PPAs).
- 1.2 Alongside, but independently of this, the GLA has been working to establish a financing facility, with the GLA as a minority investor, that could contribute to the funding of the renewable assets developed to deliver those PPAs (the GLA Financing Facility).
- 1.3 This paper provides an update on this work and presents an overview of the proposed Memorandum of Understanding (MoU) between members of the GLA Group which has been produced to establish cooperation for future joint procurement of renewable energy. Upon signing the MoU, TfL will be committing to evolve from its current own energy procurement strategy for PPAs, to developing one with the rest of the GLA Group in respect of electricity demand.

2 Recommendations

- 2.1 **The Committee is asked to note the paper and the proposed entry by TfL into the Memorandum of Understanding described in it.**

3 Background

- 3.1 On 23 June 2021, the Committee noted the proposed approach to work with the GLA Group bodies (listed in paragraph 1.1) to identify group synergies in the procurement of renewable electricity. This has led to the development of a proposed MoU which establishes an understanding and cooperation by which PPAs could be jointly procured. The procurement would be overseen by a joint team comprising of TfL and other GLA Group bodies' staff, with TfL leading the project and procurement activity and the GLA providing strategic co-ordination resource. The MoU has been agreed in principle by other members of the GLA Group but has not yet been entered into.
- 3.2 Independently of the envisaged PPA procurements and the MOU, the GLA is seeking to establish a Financing Facility that could be offered to and (optionally) used by renewable developer bidders to fund the renewables assets needed to deliver those PPAs.

4 Anticipated Benefits

4.1 There are two principle (but separate) benefits to this approach:

- (a) **Collaborative procurement:** Across the GLA Group, annual electricity consumption totals approximately 1.7TWhs. Of this, TfL is the majority user, with an annual requirement of approximately 1.6TWh. A principal benefit of working jointly to procure PPAs is the other GLA Group bodies gaining access to TfL's purchasing power and enabling them to pursue renewable PPAs. This should accelerate the overall transition to zero carbon energy supplies in London in a cost-effective manner and contribute towards delivery of the Mayor's ambition for London to reach net zero carbon by 2030. To undertake such a procurement takes specialist expertise and requires larger energy volumes to be attractive to the market.
- (b) **Finance Facility:** Instructed by the GLA, and independently of TfL, KPMG undertook an analysis of the potential financial benefit (informed through market engagement) of combining a PPA with a finance facility. KPMG concluded that there are potentially estimated benefits of £76m – over 15 years – greater than procuring PPAs without a finance facility (TfL's current strategy). This is based on 50 per cent of the GLA Group's total energy consumption being procured via this mechanism. As TfL is the largest energy consumer within the GLA Group, it would receive the majority (>90 per cent) of any saving realised. These benefits are thought to be accrued through simplification of the financing transaction, ultimately lowering the PPA price (noting this benefit has not been yet tested in the market).

4.2 The GLA Group Collaboration Board agreed with the proposal to move forward with the collaboration work as proposed under the MoU, based on the benefits outlined.

5 The Memorandum of Understanding

5.1 The MoU outlines the approach by which the GLA Group will explore the joint procurement of PPAs. The document is not legally binding, save for clauses related to confidentiality, variation, transparency, principles of cost sharing, and governing law and jurisdiction. However, it does demonstrate a commitment to work jointly.

5.2 A summary of the main elements of the MoU are outlined below:

- (a) it commits each member of the GLA Group to explore the procurement of up to 50 per cent of its total electricity consumption from new build PPAs¹. This aligns with TfL's existing energy purchasing strategy as noted by the Committee in September 2020;
- (b) to achieve 50 per cent of the GLA Group electricity demand being supplied by renewable PPAs by 2030, procurement tranches will be staggered throughout the 2020s, with no two procurements being run concurrently. The intention is that the GLA Group bodies with smaller energy requirements participate in only one or two tranches in total, to reduce the complexity of each procurement and therefore deliver the programme in the most economically efficient manner;

¹ TfL's 50 per cent contribution includes the TfL-only PPA2

- (c) the process will be governed through the formation of a Steering Committee. Each GLA Group member will assign a senior representative to sit on the Committee. The Committee is not decision making but each member will have the requisite delegated authority in respect of its own organisation to approve (or for such representative to seek internal organisational approval for) the award of a PPA contract. Due to the volume of energy being procured by TfL in any given tranche, however, any contract award would also continue to require agreement in accordance with TfL's Standing Orders prior to execution. The Steering Committee will be used to agree the procurement parameters and GLA Group body participation for each tranche, as well as each Steering Committee member approve on behalf of its organisation in due course, the decision to award a contract;
- (d) a core project team will be formed, with representatives from each GLA Group member participating as required. The core project team will be made up predominantly of TfL officers, with GLA representatives to oversee the process and co-ordinate with the other GLA Group bodies. The project team will produce the documentation required to enable GLA Group bodies to decide upon participating in any given tranche, as well as run each procurement process; and
- (e) TfL will incur costs for each PPA tranche to the extent that TfL would incur such costs if it were to procure PPAs on its own (without other GLA Group bodies). The additional cost incurred because of added complexity of joint procurement will be borne by the other functional bodies. To enable this, a budget will be agreed by the Steering Committee prior to the launch of any PPA tranche. Where external advisors are required, they will be procured in such a manner so as to split the costs between what would be required for a TfL-only activity, and one involving other GLA Group bodies. These cost sharing principles are a legally binding element of the MoU.

5.3 The details of the proposed memorandum are subject to approval by the current GLA energy procurement collaboration steering group, and the endorsement of all the relevant GLA Group bodies'.

6 Programme

- 6.1 Upon signing the MoU, the joint TfL and GLA project team will be established to undertake the "planning for delivery" phase, which will be fully funded by the GLA. This stage will engage with renewables developers and seek external legal support to test the deliverability of the joint procurement approach and develop a detailed programme for the first tranche. This activity is expected to complete in Quarter 2, 2022/23.
- 6.2 As noted in paragraph 5.2(b), procurement tranches will be staggered throughout the 2020s. An indicative timeline is appended to this paper and will be refined through the first phases.

List of appendices to this report:

Appendix 1: Draft Collaborative Procurement Timeline

List of Background Papers:

June 2021 TfL Energy Purchasing & GLA Energy Procurement Collaboration Programme

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