



Government
Procurement
Service

PROTECT: CONTRACTS

**The Provision of Consultancy for Enabling interconnected capacity
to participate in the Capacity Market**

TO

The Department for Energy and Climate Change

FROM

Frontier Economics Limited

RM number 706 RM3344

CONTRACT FOR THE PROVISION OF CONSULTANCY FOR ENABLING INTERCONNECTED CAPACITY TO PARTICIPATE IN THE CAPACITY MARKET FROM FRONTIER ECONOMICS LIMITED TO THE DEPARTMENT FOR ENERGY AND CLIMATE CHANGE

This Contract is made this 17TH march 2014 between:

- (1) The Secretary of State acting on behalf of The Department for Energy and Climate Change, 'REDACTED TEXT'
- (2) Frontier Economics Limited whose registered office is at 'REDACTED TEXT' (Company Reg 'REDACTED TEXT')
- (3) The Contract shall commence on 17th March 2014 and conclude by 31st May 2014.

WHEREAS:

The Authority requires the Contractor to undertake to deliver the services as per your proposal dated 05th March 2014 specified in Schedule One (the "Specification"), and the Contractor is able and willing to provide these services on the terms and conditions set out below.

Signed on behalf Frontier Economics Limited

Signature.....
Title.....
Date.....

Signed on behalf of the Department for Energy and Climate Change

Signature.....
Title.....
Date.....

Terms and Conditions

General Conditions

This contract will operate subject to the Department for Energy and Climate Change Terms and Conditions of Contract for Services. If there is conflict between these terms and conditions and other terms and conditions in this document, this document will take precedence.



DECC Terms and
Conditions

Special Conditions

Special Terms & Additional Information

Sustainable Procurement

You are required to comply with all the applicable environmental laws and regulations in force in relation to the services/goods required.

All written outputs, including reports, produced in connection with the tender should, where possible, be produced on recycled paper containing at least 80% post consumer waste and used on both sides where appropriate.

Termination for Convenience

The Authority may at its absolute discretion and at any time and for any reason terminate the contracted services and work at the Authority's convenience by giving the Bidder five (5) business days notice in writing of its intention to do so. Upon receipt of such notice, the contractor shall, unless the notice directs otherwise, immediately discontinue the work and placing of orders for materials, facilities and supplies in connection with the performance of this contract.

Upon such termination, the contractor shall be entitled to payment only for the actual cost of the work completed in conformity with this contract plus such other costs actually incurred by contractor as are permitted under the terms of this contract and approved by the Authority. There shall be deducted from such sums as provided the amount of any payments made to the contractor prior to the date of the termination of this contract. The contractor shall not be entitled to any claim or claim of lien against the Authority for any additional compensation or damages in the event of such termination and payment.

Security Clearance

All contractors personnel should be cleared to the Authority security clearance level of SC as a minimum and must be available to begin work with immediate effect following contract award.

While unlikely, some aspects of the work to be undertaken may require a higher level of clearance, this will be communicated to the successful Bidder prior to the engagement on such aspects commencing. The Authority will make best endeavours in providing as much prior notice as is possible in such an event.

Conflict of Interest

You are to declare any competing interests that any part of your organisation may have. This may be considered in our determination of our final decision. A competing interest is something which exists when professional judgement concerning a primary interest (such as the robustness of work undertaken) may be influenced by a secondary interest (such as financial gain or personal rivalry).

As part of its role to provide services to the Authority (or its agencies), the Company acknowledges that it (and its employees, agents and subcontractors) may acquire substantial information concerning the Authority's procurement projects and programmes of the Authority which could provide the Company with an advantage and render unfair an otherwise genuine and open competitive procurement exercise for other goods and/or services.

In the event of a competitive procurement for goods and/or services, subject to its compliance with the terms of this Agreement, the Company shall (subject also to any requirements set out in the relevant Authority's tender documents

being satisfied) not be discounted from participating in any procurement exercise merely by virtue of its provision of other services to the Authority or its agencies PROVIDED THAT:

- the Company can demonstrate that it has fully and properly complied with its obligations as set out in this Agreement; and
- the Company can demonstrate that it has maintained “ethical walls” as referred to in paragraph below.

In the event that the Company (or a Corporate Recipient) wishes to submit a tender or participate in any tender for the provision of goods and/or services relating to the this requirement or any other procurement project or programme of the Authority, it shall demonstrate to the Authority and otherwise ensure at all times that:

- such tender is not made with the benefit of the Information;
- those persons who receive the Information directly or indirectly pursuant to this Agreement (the “BAU Team”) are not involved (and have not been involved) in the tender process in any way and do not directly or indirectly provide the Information to persons involved in the tender (the “Bid Team”);
- any Information is not available to the Bid Team (or other employees of the Company (or a Corporate Recipient) who are not acting on behalf of the Contracting Authority) on the Company’s (or the Corporate Recipient’s) computer networks and that the Bid Team and the BAU Team are, so far as practicable, located in different offices of the Company (or, as the case may be, the Corporate Recipient) and procedures are implemented including (but not limited to): (a) a clean desk policy; (b) lockable private storage areas for paper documents otherwise available to both teams; (c) secure storage and secure access to electronic documents, electronic files and e mails otherwise available to both teams; and
- the Bid Team and the BAU Team have separate reporting and management lines.
- The Company and Corporate Recipient have entered into a Non-Disclosure Agreement

In the event that the Company (or a Corporate Recipient) becomes aware that the Bid Team has received any Information which is not provided by the Authority pursuant to the procurement process and is not otherwise in the public domain, the Company (or the Corporate Recipient) shall forthwith inform the Authority of this fact and carry out an urgent review the purpose of which will be to identify the reasons for the disclosure, the extent of the disclosure and to ensure that such information is not again disclosed. Thereafter it shall as soon as practicable share with the Authority the results of such review and, in the event that the Authority believes that the continued participation of the Company (or the Corporate Recipient) is not otherwise prejudiced, implement any proposals arising from such review or any reasonable recommendations of the Authority.

SCHEDULE ONE

The Department for Energy and Climate Change requires Frontier Economics Limited whose registered office is at 'REDACTED TEXT' ("the Contractor") to deliver services in accordance with the invitation to tender issued on 20th February 2014 (see 'ANNEX A'), Clarification document issued on 24th February 2014(Annex B) and your tender response dated 05th March 2014 (see 'ANNEX C').

Prices & Charges

For the avoidance of doubt, the total contract sum is no more than £34,807.00 (exc VAT)

SPECIFICATION

DATE : 20th February 2014

**The Provision of Consultancy for Enabling interconnected capacity
to participate in the Capacity Market**

Ref number 706 RM3344

1. Introduction

The Department of Energy and Climate Change (DECC) is currently taking forward a number of measures under its Energy Market Reform (EMR) programme. Part of this package is the introduction of a Capacity Market from late 2014. The capacity market is designed to ensure that security of electricity supply is maintained for GB consumers, while offering rewards for those capacity providers most economically able to contribute towards security of supply. Further information on the Capacity Market can be found in the documents published for consultation in October 2013.

2. Aims

As part of its work on EMR, DECC has examined how it might facilitate the participation of “interconnected capacity” within the GB Capacity Market. Interconnected capacity is capacity that is provided from outside of Great Britain and transported to Great Britain when needed via one of the electricity interconnectors that links the GB electricity system with those in neighbouring countries. Government is very supportive of interconnection and is committed to implementing the EU internal energy market. Interconnection provides security of supply benefits, can be less expensive than building new plants in GB and, without it, GB would need to have levels of new build for gas plants that are extremely stretching. The introduction of the Capacity Market is expected to have an impact on interconnectors – it is expected to reduce volatility in the GB electricity market, thereby affecting the price arbitrage between GB and interconnected markets, which is advantageous to interconnectors. At the same time, enabling interconnected capacity to participate in the Capacity Market would increase competition in the auction which is beneficial for GB consumers. An appropriate policy response is therefore required.

However, finding a way for interconnected capacity to participate in the GB capacity market on equal terms as GB generation has proven a complex and difficult issue to solve. The EU Target Model, Third package and EU Network Codes require that interconnectors are treated as transmission capacity, and that the flow of energy is determined by electricity price difference only. Not being able to guarantee the direction of flow is a challenge, further complicated by differences in the Reliability Standard between interconnected markets, by difficulties in de-rating foreign capacity and enforcing penalties. As a result, DECC has not yet been able to find a model that would enable interconnected capacity to participate effectively whilst at the same time retaining value for money for GB consumers and working effectively with the rules being implemented across the EU to harmonise the workings of wholesale electricity markets.

DECC has therefore announced that in the first capacity auctions in 2014 only capacity physically located within Great Britain will be able to actively participate. However recognising the potential competitive benefit of opening up the market to non-GB sources of capacity, DECC has also announced that it intends to continue to work to seek a policy solution that would enable interconnected capacity to participate from the auctions in 2015.

The aim of this tender exercise is to build on the work already done to date in DECC to provide a thorough analysis of the options available to DECC and a recommendation of one or more policy solutions to allow interconnected capacity to participate in the Capacity Market. This/these solution(s) should be compatible with the current GB Capacity Market arrangements, take fully into account the EU single market rules, the Target Model, the new EU Network Codes which are in various stages of development and the recent guidance from the European Commission on Generation Adequacy and Capacity Mechanisms. They should also reflect the Government strategy on Interconnection from December 2013 “*More interconnection: improving energy security and lowering bills*” which encourages investment in

interconnection that provides the best value for money and security of supply benefits for GB consumers. The work should also note the ongoing developments being led by Ofgem on cashout reform and Integrated Transmission Planning and Regulation (ITPR).

More specifically, the option(s) should reflect the objectives outlined in the October 2013 consultation document:

- a. where possible capacity procured from non-GB sources must physically deliver electricity to the GB system at times of system stress;
- b. where there is no physical delivery of its electricity to the GB system at times of system stress, penalties equivalent to those faced by GB capacity should be imposed; and
- c. the solution must be compatible with the EU Target Model and third package requirements, and maximise compatibility with the internal energy market.

3. Objectives

The consultant will be responsible for developing one or more detailed policy solution(s) that could feasibly be implemented in time such that interconnected capacity can participate in the GB capacity market in the capacity auctions in 2015 whilst meeting the objectives set out by DECC.

The deliverables will be published by Government and should set out recommendations and the rationale for these, along with any broader implications these would have in relation to the Capacity Market design.

There are to be three key deliverables from this work:

- 1) A review of the treatment of interconnection in capacity mechanisms in Europe and US. Key themes should be drawn from the review, particularly highlighting where there could be relevance for a policy solution in GB.
- 2) A worked-up options paper:

Firstly, identify options which are internally consistent and capable of meeting the solution criteria (aim for 3-4 options). Then the options should be evaluated and ranked in order of preference.
- 3) A recommendation of one or more policy options. This needs to clearly explain the advantages and disadvantages of the recommended approach(es), and the justification for the recommendations. It should detail how the solution(s) are compatible with the current GB Capacity Market arrangements, EU single market rules, the Target Model, the new EU Network Codes which are in various stages of development, and the recent guidance from the European Commission on Generation Adequacy and Capacity Mechanisms.

4. Background to the Requirement

This policy area is technical and specialist in a highly complex and changing landscape. There are several EU network codes that are in various stages of development with a view to implementing the Third Package and Target model. These will have a significant impact on interconnection as a whole in Europe and any policy that DECC designs needs to accommodate future developments in this area. A further complication is that the implementation timelines of these vary considerably.

Also, under the Target Model, there are constraints on how TSOs can operate, with interconnectors being considered TSOs. With any Capacity Market policy for interconnection, DECC must respect the principles of the Target Model and ensure that we understand the legal position around who is the appropriate party to a CM agreement and any constraints that Interconnectors might have in the functions they are allowed to perform.

On a GB level, there are significant developments underway in the electricity market, considering the reform of the cash-out process and also the ITPR process being led by Ofgem. The Government has also recently published its strategy on Interconnection "*More interconnection: improving energy security and lowering bills*" in December 2013.

The successful bidder will need to demonstrate a thorough understanding of all of the above and consider them in all policy options. Furthermore, the European Commission has recently published guidance on Generation Adequacy and Capacity Mechanisms. As GB is required to obtain State-Aid approval from the EU for the Capacity Market, any policy recommendation should respect the Commission's guidance.

5. Scope

The scope of this piece of work is as follows:

- Build a comprehensive understanding of the work completed by DECC to date on this topic, how it aligns with the Government Strategy on Interconnection published in December 2013 and with Ofgem's work programmes on ITPR and cash out reform
- Develop a set of policy options
- For each policy option, answer specific questions to do with the policy design:
 - a) Consistency with the Target Model and EU Network Codes – specifically the market codes on Balancing, Forward Capacity Allocation and Capacity Allocation & Congestion Management
 - b) Identify appropriate party to the agreement (bearing in mind the highly regulated nature of the energy market and TSOs in particular)
 - c) How would the prequalification, derating and auction process work?
 - d) Level of capacity obligation (principles around this related to import/export dynamics)
 - e) Analyse the ideal maximum length of contract (bearing in mind European

- Commission guidance and the requirement for the measure to be transitional).
- f) Penalty liability - review options available
 - g) Other questions that may arise

- Build on this to develop comprehensive policy recommendations

6. Requirement

This topic is an area of significant ministerial and stakeholder interest. In order to successfully deliver this project the successful bidder will need to be able to demonstrate a suitable background in and understanding of European energy policy and the single market, particularly regarding the economic and commercial considerations associated with building and running interconnectors and the current EU legislative framework related to interconnectors within the EU. The successful bidder will also need to demonstrate a good knowledge of the GB Capacity Market design proposals and ongoing developments in the GB energy market.

The following working arrangements would be expected:

- One main point of contact managing the project
- Kick off meeting to agree the contractor's work plan
- Regular progress meetings weekly or fortnightly
- Ad hoc meetings as appropriate
- Draft report seen by DECC before the final version is rendered, sufficiently ahead of time so as to incorporate comments
- A final presentation on the finding of the work at DECC

7. Project Timetable

The timing for this project is as follows:

Deadline for bids: 5th March

Interviews, if necessary: 7th March

Notification to successful bidder: 11th March

Meeting between supplier and all key DECC teams: 14th March

Deliverable 1 draft due: 25th March

Deliverable 1 due: 1st April

Deliverable 2 draft due: 25th April

Deliverable 2 due: 9th May

Deliverable 3 draft due: 16th May

Deliverable 3 due: 27th May

Final Version due: 31st May



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Clarification Document

Ref Number: Ref number 706 RM3344

Date: 24th February 2014

Responses to written questions

Q1. We would like to suggest a change to the timing of the initial deliverables, which we believe would be more efficient and improve the effectiveness of the deliverables, without compromising the date of the project. Would you be amenable to such a suggestion?

A1. Yes – The business area are amenable to changing the initial deliverables, as long as the final deadlines remain as stated.

Q2. In section 1.1 under Document Completion in the Response Guide, it states that "if you wish to submit your tender response as attachments there should be only three attachments as follows: -

Responses to all Commercial questions;
Responses to Technical questions; and
Responses to Cost/Pricing."

However, in the eSourcing portal, it appears that we are requested to provide six separate attachments for the following:

Company Information;
Tender Contact;
Mandatory Requirements;
Methodology;
Experience; and
Price.

Please can you confirm whether we should be submitting three attachments or six.

A2. Please submit 3 Documents;

Commercial containing –

Company Information;
Tender Contact;
Mandatory Requirements;

Technical containing –

Methodology
Experience

Price containing –

Price

ANNEX C

'REDACTED TEXT'

'REDACTED TEXT'

'REDACTED TEXT'