

Tender document

**Competition of the Public Procurement Act and the
Regulations relating to public procurement part I
(below NOK 500.000)**

for

**Study on methodology for evaluation of the
functioning of the Nordic financial electricity market**

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1 GENERAL DESCRIPTION

1.1 Client

The Norwegian Water Resources and Energy Directorate (NVE) is a directorate under the Ministry of Petroleum and Energy. NVE's mandate is to ensure an integrated and environmentally sound management of the country's water resources, promote efficient energy markets and cost-effective energy systems and contribute to efficient energy use.

The study is commissioned in cooperation with the Swedish Energy Market Inspectorate (Energimarknadsinspektionen) and the Finnish Energy Authority (Energiavirasto)-

For more information about NVE, visit our website: www.nve.no

For more information about EI, see website www.ei.se

For more information about EV, see website: www.energiavirasto.fi

1.2 General introduction

The Nordic energy regulators are committed to carry out an assessment, which shall identify whether the electricity forward market provides sufficient hedging opportunities. The task for this study will be to evaluate different criteria/indicators relevant for an assessment of the Nordic electricity market and to provide insight of hedging activities from other, comparable sectors (mainly commodity markets). The study should present a justified suggestion on the specific method/s to be used by the regulators in their evaluation of the financial electricity markets as required in the Forward Capacity Allocation Guideline (FCA GL).

1.3 Partial Tenders

Partial tenders will not be accepted
Tenders for part of the agreement will not be considered.

1.4 Period of contract

Delivery date: 1st of November 2016.

1.5 Announcement

The competition is announced in the MERCELL-database and DOFFIN-database.

1.6 Time schedule

Preliminary time schedule for the process:

Activity	Time
Announcement in Mercell and DOFFIN	27.06.2016
Submission deadline	08.08.2016 12:00
Duration of tenders commitment	60 days after submission date
Evaluation	Week 32
Selection of bid and information to bidders	Week 33
Signing of contract	Week 34

Dates after submission of qualification request are tentative.

2 COMPETITION RULES

2.1 Procedure

Competition of the Public Procurement Act of 16 July 1999 No. 69 as amended, see also the Regulations relating to public procurement, laid down by Royal Decree on 7 April 2006 No 402.



2.2 Secrecy

The Client shall treat all bids and their contents in line with the Norwegian Public Administration Act § 13 and Royal Decree on 7 April 2006 No 402, concerning secrecy.

2.3 Confirmation of interest

Follow guidance given in the Merccell-database

2.4 Communication during the tender process

All communication during the process shall be routed via the Merccell-portal, **www.merccell.no**. This is to assure that all communication will be logged. When you are logged on to the competition, chose the flag marked "Communication", click on the symbol  "New message". Enter the information to the authority and then click send . The authority will then receive your message. If the question regards all bidders, the authority will answer the inquiry anonymously by giving the answer as additional information. Additional information is available under the flag "Enquiry", then the flag "Additional information". You will also receive an e-mail with a link to the additional information.

Requests received later than 5 working days prior to the deadline for the offer will not be answered.

2.5 Supplements or changes to the tender documentation

The Client reserves the right to supplement or change the tender documentation before the deadline for presenting tenders. If the changes are of a nature materially changing the scope of work or other important aspects, an extension of deadline will be announced.

Any changes in the tender documentation will be published on in the Merccell-database. The changes will take precedence over previous versions of the tender documentation.

If the supplier becomes aware of lack of information or ambiguities in the tender document that may affect the implementation of the assignment, pricing etc., the Client shall be made aware of this immediately.

2.6 Cancellation of competition

The Client may cancel the competition or reject all bids if adequate reasons are found to be existent.

2.7 Sub-contractors

There shall be one main contractor responsible for the assignment.

The main contractor may use sub-contractors for parts of the assignment. In such case, the tender shall include information regarding which sub-contractors will be used for which parts of the work.

If the Consultant intends to sub-contract any part of the assignment, the Client will require documentation of the agreement, either in the form of a signed letter of intent, or a copy of a signed contract between the Consultant and any sub-contractor.

The main contractor is fully responsible to the Client for the sub-contractors engaged and for committing them contractually to fulfil the requirements in the standard agreement.

3 QUALIFICATION REQUIREMENTS

Requirement	Supporting documentation
If the supplier is a company, proof of establishment must be submitted.	Norwegian companies: Company registration certificate. Foreign companies: Confirmation that the company is registered in a trade or business register as prescribed by the law of the country where the supplier is established.
Service provider shall have the financial capacity to undertake the assignment / contract	Annual accounts including management report and auditor's notes If a service provider has valid reasons not to submit the documentation requested by the award authority, he may prove his economic and financial position by submitting any other documentation that the award authority can accept.

From the 1st of July 2012 all Norwegian state entities shall demand electronic invoices from their suppliers.

4 SELECTION CRITERIA

The selection will be based on the following criteria:

Criteria	Weight	Documentation requirements
Price	10 %	Total price incl. VAT and travel expenses.
Methodology and work plan <ul style="list-style-type: none"> - Presentation of background and understanding of the issues to be studied, - Approach on how to solve the project 	50 %	Work plan should be properly described. (See Annex 1 for Project description)
Knowledge and experience of the consultants <ul style="list-style-type: none"> - Relevant expertise and projects in the consultancy team - Knowledge about risk management and hedging strategies in commodity markets, incl the Nordic electricity market - Strong CV of the consultants - Broad composition of the consultancy team 	40 %	Names and brief CV of the consultants (maximum 4 pages per CV: page 5 onwards will not be taken into account).

5 Submission of Tender

Special information for overseas Suppliers:

All tenders shall be submitted electronically via the Mercell portal, **www.mercell.no** by the tender deadline. Tenders delivered after the deadline will not be accepted. (The system does not permit tenders to be sent electronically via Mercell after the tender deadline.)

If you are not a Mercell customer, or you have questions regarding how the application functions, e.g. how to submit a tender, please contact Mercell Support at tel +47 21 01 88 60, or by e-mail to support@mercell.com. It is recommended to submit the tender in adequate time before the deadline. A minimum of 1 hour before the deadline is suggested.

If the authority should provide additional information that results in you wanting to change your tender before the deadline, you can access your offer, open it, make the necessary changes and send it again right up to the deadline. The last submitted tender will be regarded as the final one.

The tender requires an electronic signature when it is submitted. When sending the tender electronically, an electronic signature will be requested to confirm that you are the actual bidder who has submitted the tender. An electronic signature can be obtained at www.commfides.com, www.buypass.no or www.bankid.no.

We would like to remind you that it can take some days to acquire an electronic signature, and therefore recommend that this process be initiated as soon as possible.

The request for qualification shall be structured according to the structure presented below, accompanied with a signed cover letter.

The supplier is solely responsible for answering all questions and that all criteria are answered and/or reviewed.

The application shall have the following structure:

1. Acceptance of terms. If the supplier has reservations regarding parts of the tender documentation, required specifications or other tender documents, it shall be clearly stated in the qualifying application. Any reservations must be specified, including consequences for performance, prices or other conditions.

The same applies to non-conformity. Reservations and non-conformities shall be stated precisely and unambiguously. They shall be stated in the bid letter in such a manner that the contractor can evaluate them without it being necessary to contact the supplier, cf. Section 20-3 of the Public Procurement Act. Substantial reservations, and reservations or non-conformities that can result in uncertainty regarding evaluation of the bid compared to other bids, will result in the bid being disallowed, cf. Section 20-13(1) of The Public Procurement Act.

If the supplier's reference to standardized terms of delivery, or something similar, deviates from existing tender or contract provisions, it will be regarded as a reservation.

2. Documents proving fulfilment of the Qualification Requirements.
3. Documents proving fulfilment of the Selection Criteria (bid).
4. Documentation of contracts/agreements with sub-contractors
5. Self declaration form on salary and working conditions
6. Self declaration form connected to UN child convention article 32 and the ILO convention nr 138

Annex 1- Project specification

BACKGROUND

The long-term electricity market, the so-called forward market, has an important role in allowing market participants to hedge positions. In the Nordic electricity market, all available transmission capacity is allocated through implicit auction to the Day Ahead timeframe. Trading and hedging in the forward timeframe is purely financial, and the foundation for the forward market is the availability of highly liquid system price products. For parties wishing to hedge area price difference, Electricity Price Area Differentials (EPADs) are available for most price areas. These contracts are available on a regulated market place, Nasdaq OMX Commodities, which is totally independent from the Transmission System Operators (TSOs). EPADs are also frequently traded bilaterally or in brokered deals. EPADs use the system price as reference; therefore there is no direct relationship between EPADs and transmission capacities between the markets.

There is an ongoing process in the EU related to the development of a “Guideline on Forward Capacity Allocation” (FCA GL)¹. The Guideline is currently in the pipeline for approval of the Council of the European Union and the European Parliament. The aim of the FCA GL is to establish common rules for Forward Capacity Allocation and providing market participants with sufficient hedging opportunities related to the area price risk. The Draft FCA GL makes clear that the reference tools to allow for cross-border hedging are Long-Term Transmission Rights (LTTRs) auctioned by the TSOs. However, an exemption is possible if cross-border financial hedging tools on both side of an interconnector exist and have shown their efficiency. In such a case, issuing of LTTRs is not mandatory, as long as the competent regulatory authorities of the bidding zone border have adopted coordinated decisions not to issue LTTRs.

According to the Draft FCA GL, the regulators` decision on whether to introduce LTTRs or not, shall be based on an assessment *“which shall identify whether the electricity forward market provides sufficient hedging opportunities in the concerned bidding zones. The assessment shall be carried out in a coordinated manner by the competent regulatory authorities of the bidding zone border and shall include at least:*

- (a) a consultation with market participants about their needs for cross-zonal risk hedging opportunities on the concerned bidding zone borders;*
- (b) an evaluation.*

The evaluation (...) shall investigate the functioning of wholesale electricity markets and shall be based on transparent criteria which include at least:

- a) an analysis of whether the products or combination of products offered on forward markets represent a hedge against the volatility of the day-ahead price of the concerned bidding zone. Such product or combination of products shall be considered as an appropriate hedge against the risk of change of the day-ahead price of the concerned bidding zone where there is a sufficient correlation between the day-ahead price of the concerned bidding zone and the underlying price against which the product or combination of products are settled;*

¹ https://ec.europa.eu/energy/sites/ener/files/documents/FCA_301015_Final_Provisional_Voted.pdf

(b) an analysis of whether the products or combination of products offered on forward markets are efficient. For this purpose, at least the following indicators shall be assessed:

(i) trading horizon;

(ii) bid-ask spread;

(iii) traded volumes in relation to physical consumption;

(iv) open interest in relation to physical consumption.”

AIM OF THE STUDY

The Finnish, Norwegian and Swedish (below called the “Nordic”) energy regulators are committed to carry out an assessment, which shall identify whether the electricity forward market provides sufficient hedging opportunities in the concerned bidding zones.

The criteria listed in the FCA GL do not exclude the possibility to add other indicators/criteria for the assessment of the functioning of the market. The Nordic Regulators find it crucial that the evaluation covers the most important indicators that are relevant for the Nordic electricity market. We also find it important to use indicators that are well- founded in economic theory and applicable in light of the specific characteristics of electricity markets. Hence, the focus of this study will be related to methodology for evaluating the Nordic financial electricity market.

The task will be to evaluate different criteria/indicators relevant for an assessment of the Nordic electricity market and to provide insight of hedging activities from other, comparable sectors (mainly commodity markets).

The study should present a justified suggestion on the specific method/s to be used by the NRAs in the evaluation of the financial electricity markets as required in the FCA GL. This recommendation should be based on the evaluation of the various individual aspects listed in the following chapter.

SCOPE OF THE STUDY

The consultant(s) should consider the following in the course of the study;

- To examine and evaluate different criteria/indicators relevant for an assessment of the functioning of the Nordic financial electricity market. The analysis should take into account:
 - The characteristics of the electricity market with regard to volatility (price spikes), non-storability, seasonality
 - Experience from other commodity markets; relevant indicators for the functioning of the derivative market, e.g. oil, gas, coal, freight, aluminum, financial markets
 - Academic literature on the subject, including different methods to measure transaction costs

- The need for data to perform the analysis and the complexity of the method

The criteria already set out in the FCA GL should be included in the analysis, but also other criteria/indicators should be evaluated based on experiences from other markets/academic literature etc.

- To give an overview of risk management strategies and examples of price hedging practices from other commodity markets than electricity, with regard to:
 - What is considered as a sufficient hedge?
 - Description of the existence of proxies, reference prices etc
 - Discussion on how correlated the derivative must be in order to work as a hedge for the spot price

The analysis should include examples from other, relevant commodity markets.

This part of the analysis should partly be based on interviews with market participants actively engaged in relevant markets.

SELECTION CRITERIA

The successful vendor will present a thorough methodology and work plan for the project. We seek consultants with a good understanding of risk management and price hedging strategies in commodity markets in general, including the Nordic financial electricity market. This should be documented by CV and a list of previous relevant projects.

We also find it important that the consultant(s) is (are) familiar with different measures of liquidity and transaction costs, and have knowledge about academic literature on the subject.

Further, we consider it a strength that the consultant(s) has (have) a good understanding of the interlinkage between the physical and financial Nordic electricity market, including the bidding area structure in the Elspot market in the Nordic region.

We encourage cooperation between consultants/consultancy companies in order to achieve a broad competence and approach on how to solve the task.

The project will commence with a start-up meeting in Oslo. Further, we foresee a mid-term report with a working meeting in Oslo in October to discuss the preliminary findings. These milestones should be included in the project plan. The final report should be submitted in English.

The total budget of the project is not to exceed 350 000 NOK, VAT not included.

Annex 2 – contract conditions

<http://www.anskaffelser.no/verktoy/oppdragsavtalen-ssa-o>

Annex 3 – Self declaration on Salary and working requirements for personnel under service contracts with Norwegian public institutions

With reference to the Circular dated 16 July 2005 from the Ministry of Administration and Reform, Norwegian public institutions shall ensure that the use of personnel engaged under service contracts complies with ILO Convention No. 94 regarding work clauses to guarantee equal working conditions regardless of nationality.

The provider shall therefore ensure that its own employees and employees of any sub-contractors enjoy the salaries and working conditions laid down in tariff agreements, regulations or whatever normally applies to the place and work in question. The manager of the entity is responsible for ensuring compliance with this regulation.

All contracts that the provider enters into that cover work under this contract shall include these provisions.

If the provider fails to comply with these provisions, the Client is entitled to retain part of the payment until compliance is documented. The amount to be withheld shall equal twice the amount saved by the provider.

The provider shall upon request present documentation regarding the salaries and documentation used.

I hereby confirm that systematic measures have been implemented to meet the above requirements in connection with salary and working requirements for personnel under service contracts with Norwegian public institutions.

Place: _____ Date: _____

Signature: : _____

Annex 4 – self declaration on UN’s Childrens convention article 32 og ILO-convention nr. 138

In accordance with the provisions of the provisions of the Convention and Article 32 of ILO Convention No. 138, the following shall apply to provider:

The Contractor is familiar with the production process of the goods / products covered by the contract, and warrant that they are produced with labor in accordance with the Convention and Article 32 of ILO Convention nr.138.

In the event of breach of contract the supplier is to remedy the deficiencies noted within such time as (name of contractor), as long as this is not unreasonably short. Corrections shall be in writing and on the way (Client) decides. In the event of lack of rectification fines can be prescribed. The fines should be proportionate to the type and extent of the violations. The client may also require replacement or price reduction that is proportionate to the breach, and in relation to the client's economic interest in ensuring that the requirements are followed. Upon material breach of these points, or failure recovery, the contractor may terminate the contract.

The undersigned vendor hereby declares that the said obligations will be met.

Place: _____ Date: _____

Signature: : _____