



NVE
The Norwegian Energy
Regulatory Authority – RME

TENDER DOCUMENT

Competition of the Public Procurement Act and the Regulations relating to public procurement part I (below NOK 1.300.000)

For

Evaluating hedging possibilities on NordLink, NorNed and North Sea Link

Case no.

202011321

Submission deadline:

21.10.2020

Delivery date:

22.02.2021

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1 GENERAL DESCRIPTION

1.1 *Contracting authority*

The Norwegian Energy Regulatory Authority (NVE-RME) is a national independent regulatory authority for the electricity market in Norway. The mandate of NVE-RME is to ensure an integrated and environmentally sound management of the country's water and energy resources, promote efficient energy markets and cost-effective energy systems and contribute to efficient energy use.

For more information about NVE-RME, visit our website www.reguleringsmyndigheten.no

1.2 *Scope*

The aim of the network code on Forward Capacity Allocation (FCA) is to provide the market participants with cross zonal risk hedging opportunities. The default hedging tool in the electricity market is the long-term transmission rights (LTTRs). However, FCA does open for exemptions from issuing LTTRs if the energy regulators in a coordinative manner assess the electricity forward market to provide sufficient hedging opportunities in the concerned bidding zones. The aim of this study is to assess current hedging opportunities in the bidding zones relevant for the interconnectors NordLink, NorNed and North Sea Link (NSL), and to evaluate the consequences of introducing LTTRs on these interconnectors.

1.3 *Partial Tenders*

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

1.4 *Pricing*

The offered price of this project is fixed, and firm. The fixed price is NOK 600.000 ex VAT.

1.5 *Delivery date*

Delivery date: 22.02.2021

1.6 *Announcement*

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

1.7 *Important deadlines*

The following deadlines will apply for this assignment:

Activity	Deadline
Submission of tender	21.10.2020, 13:00
Tender opening	22.10.2020, 13:00
Evaluation	Week 43/44

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Notification of award	Week 43/44
Complaint deadline	10 days after award notification
Signing of contract	Week 43/44
Period of validity of tenders	1 month

The deadlines after the tender opening are preliminary. An extension of the period of validity of tenders must be agreed with the supplier.

2 REGULATIONS FOR TENDER COMPETITION AND TENDER REQUIREMENTS

2.1 Procurement procedure

The procurement is conducted in accordance with the Norwegian Public Procurement Act of 17 June 2016 (LOA) and Public Procurement Regulations (FOA) FOR 2016-08-12-974, Part I.

The contracting authority plans to award a contract without having any contact with the suppliers except for minor clarifications / corrections of the tenders.

Negotiations can still be completed if, after receiving the offer, the contracting authority considers it appropriate. In this case, the selection will be made in accordance with an assessment of the award criteria. It is emphasized that suppliers cannot expect dialogue about their tender and therefore they must deliver their best tender.

The supplier is strongly encouraged to follow the instructions given in this tender document with attachments, and eventually ask if something is unclear.

2.2 Confidentiality

The Norwegian Freedom of Information Act regulates the public access to the documents relating to a public procurement. The contracting authority and its employees are obliged to prevent others from gaining access to knowledge of information about technical installations and procedures or operating and business conditions that due to commercial importance are confidential, cf. FOA §§ 7-3 and 7-4 and, cf. the Norwegian Public Administration Act § 13.

2.3 Period of validity of tenders

Tenders shall remain valid for the period as specified in item 1.5.

2.4 Communication

All communication regarding this procurement shall take place via Mancell, www.mercell.no

Questions/inquiries that are received later than five (5) working days prior to the tender submission will not be answered.

3 QUALIFICATION CRITERIA

The suppliers have to fill in the electronic self-declaration form as a preliminary documentation that they fulfil the following qualification criteria.

3.1 *Supplier's registration, authorization etc.*

Criteria	Documentation requirements
Supplier must be registered in a professional or trade register in the country where the company is established.	<ul style="list-style-type: none"> For Norwegian companies: Firmaattest For foreign companies: Documentation that the company is registered in a professional or trade register as required by law in the country where the company is legally established.

4 AWARD CRITERIA

The successful vendor will present a well thought through work plan. RME will emphasise qualifications of the personnel and specifically knowledge of the European and Nordic power market.

Criteria	Weight	Documentation requirements
Problem description and execution plan	60 %	Substantive description of the research and methodology. Work plan should be properly described. (see project description)
Qualifications of personnel offered, and experience from earlier projects	40 %	Names and brief CV of the consultants. Maximum 4 pages per CV (page 5 onwards will not be taken into account). Experience and knowledge of the European and Nordic power market will be weighted.

5 TENDER SUBMISSION AND FORMAT

All tenders shall be submitted electronically and in English language via the Merccell portal, **www.merccell.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 Merccell 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.

6 ANNEXES/ATTACHMENTS

- Project specifications
- Project time line
- Tender letter
- NVE-RME's General Terms and Conditions (uploaded in Mercell).

Annex 1- Project specification

Consequences of introducing Long-Term Transmission Rights on NordLink and NorNed

6.1 Background

Norway adopted the Third Energy Package on 1 November 2019 through the EEA Agreement and in connection with this the Commission Regulation (EU) 2016/1719 of the Forward Capacity Allocation network code (FCA) will be adopted into Norwegian law in the near future. The aim of the FCA is to provide the market participants with cross zonal risk hedging opportunities. In FCA Long-Term Transmission Rights (LTTRs) shall be the primary hedging tool in the electricity market, unless the regulators make a decision to have an exemption.

FCA makes clear that the reference tools to allow for cross-border hedging are Financial Transmission Rights (FTR) or Physical Transmission Rights (PTR) with use-it-or-sell-it (UIOSI) issued 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 LTTRs is not obligatory. If on the other hand these have not proven their efficiency, it is also a possibility to introduce other measures to ensure that there are sufficient hedging opportunities as an alternative to LTTRs. The NRAs decision shall be based on an assessment, which shall include at least a consultation with Market Participants and an evaluation on whether forward financial electricity markets are well developed and have shown their efficiency or whether other cross zonal hedging opportunities are needed. ACER has proposed specific, quantitative criteria for such an assessment.

The current hedging products in the Nordic electricity market are contracts available in the financial market. In this market it is possible to buy contracts to hedge the risk associated with the volatility in the system price, and other contracts (e.g. EPADs) to hedge the area price risk. These contracts are based on commercial terms and are available bilaterally or over a commercial trading platform. Products related to the Nordic system price are typically high in traded volume and liquidity. Other tools for market participants might use to hedge, is bilateral financial trading, like with Power Purchase Agreements (PPAs). PPAs are bilateral agreements between a supplier and a consumer of power. PPAs are usually long-term contracts and provides participants with an opportunity to hedge for 15+ years ahead.

6.2 Purpose

The purpose of this study is two-fold and summarized as the following:

- 1) to qualitatively and quantitatively assess the current hedging opportunities in the bidding zones relevant for interconnectors NorNed, NordLink and NSL, and
- 2) to evaluate the consequences of issuing LTTRs on these interconnectors and discuss alternative measures.

The study should contribute to RME's evaluation of whether sufficient hedging opportunities currently exists on the relevant bidding zone borders, and to RME's understanding of possible consequences of issuing LTTRs on NorNed, NordLink and NSL.

6.3 Scope of study

This study shall be limited to evaluating hedging opportunities on bidding zone borders relevant for interconnectors NorNed, NordLink and NSL. Hedging opportunities of other Nordic bidding zone borders are not within the scope of this study, unless proven relevant for the evaluation of the borders in scope. All assessments and evaluations should be limited to a single interconnector at a time.

The first part of the study shall include a broad qualitative assessment of all hedging opportunities currently available on both sides of each interconnector separately, including contracts in the financial market and bilateral contracts (PPAs, EPADs etc.). This part of the study shall include an assessment of whether market participants' need for hedging are sufficiently satisfied in current situation, and an interview with some market participants could be conducted.

The first part shall finally present relevant indicators for measuring the efficiency of the current hedging opportunities in the financial markets, using the NordREG Methodology for assessment of the Nordic forward market 2020¹ as a starting point, and use these indicators to give a quantitative assessment of the efficiency of financial power markets on both sides of each interconnector.

The second part of the study shall present and discuss other long-term cross-zonal hedging products as alternative measures to issuing LTTRs, in line with FCA art. 30.5(b). Further, this part shall assess economic consequences of introducing LTTRs on both sides of the interconnector, for each interconnector separately. We do not expect a full socio-economic assessment, but costs and net benefits of introducing LTTRs should be included (including costs of operating two hedging systems in parallel).

6.4 Method

The consultant should consider the following in the course of the study:

Part 1

1. Assess and describe all currently available hedging opportunities in bidding zones relevant for NordLink, NSL and NorNed

¹ <https://www.nordicenergyregulators.org/2020/09/methodology-for-assessment-of-the-nordic-forward-market/>
2020/09

2. Assess market participants needs' and whether their hedging needs are sufficiently satisfied with previously described hedging opportunities.

2.1. Conducting an interview with some market participants could be relevant to answer this point.

3. Present relevant indicators for measuring the efficiency of current hedging opportunities for each interconnector, and use these indicators to evaluate the efficiency of the hedging opportunities on both sides of each interconnector.
 - 3.1. The consultant shall consider whether indicators presented in NordREG Methodology for assessment of the Nordic forward market 2020 are relevant for assessing efficient hedging opportunities on NordLink, NSL and NorNed.

Part 2

4. Present and discuss other long-term cross-zonal hedging products that could be made available to support the functioning of wholesale electricity markets as an alternative to issuing LTTRs
5. Evaluate economic consequences of issuing LTTRs on each interconnector NordLink, NSL and NorNed separately. The assessment shall at least include;
 - 5.1. Effect of introducing LTTRs on market efficiency in Norwegian bidding zones per interconnector
 - 5.2. An assessment of costs and net benefits of issuing LTTRs, hereunder whether the LTTRs could provide the market participants with better hedging opportunities than what can be provided with current hedging opportunities
 - 5.3. An assessment of the associated costs of implementing a system for allocation of LTTRs in addition to the financial forward market in the Nordic region. Look specifically at:
 - 5.3.1. The cost of having two parallel systems (allocation platform for LTTRs and the financial forward market). Transaction costs for market participants and TSOs, including the impact on network tariffs, should be assessed.
 - 5.3.2. Possible effects on the already existing financial market in terms of liquidity splitting.

6.5 Selection criteria

The successful vendor will present a well thought through work plan. NVE-RME will emphasise qualifications of the personnel and specifically knowledge of the European and Nordic power market. 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.

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

In the vendor process, the following will be weighted:

- 60 per cent: problem description with a well thought through project execution plan
- 40 per cent: Qualifications of personnel offered, and experience from earlier projects

The final report should be in English presented in a final meeting. We foresee a mid-term report with a working meeting to discuss the preliminary findings. The project will commence with a start-up meeting in Oslo or by video, this should be included in the project plan.

The total budget of the project is not to exceed NOK 600.000, VAT not included.

Annex 2 – Project time line

Project duration 3 months after approval and signed contracts. In this period the following process should be followed (changes may occur):

- Week 1: start-up meeting (during week 43/44)
- Week 4: mid-meeting 1 (during week 47)
- Week 8: mid-meeting 2 (during week 51)
- Week 18: Presentation of final report from consultants and delivery (during week 8)

Payment of 400.000 will be done before year end if the mid-meetings and presented documents are showing progress and delivery according to expectation. The rest of the payment of 200.000 will be done after the final delivery.

Annex 3 – Tender Letter

Tender letter

Supplier shall complete the table below and sign under the table.

Company name:			
Company number:			
Address:			
Visiting address:			
Telephone number:			

Contact person:			
Telephone number:		Mobile number:	
E-mail address:			

The supplier hereby confirms that the submitted tender is in accordance with the terms and conditions that are given in the tender documents.

☐ We stand by our tender until the date given in the tender document. The tender can be accepted by the contracting authority anytime up to the end of the period of validity of tenders.

☐ We declare that we satisfy the competition's qualification requirements.

Place

Date

Signature

Name in block capitals