

# **Tender document**

**Competition of the Public Procurement Act and the  
Regulations relating to public procurement part I  
(below NOK 1.100.000)**

for

**Determination of a required rate of return on the  
interconnector «NorthConnect»**

**Reference number: 201835436**

**Submission date:**

**10.08.2018**

**12:00 p.m.**

**Contract period:**

**17.08.2018- 16.11.2018**

# Contents

1 GENERAL DESCRIPTION .....	3
1.1 Client.....	3
1.2 General introduction.....	3
1.3 Partial Tenders.....	3
1.4 Period of contract.....	3
1.5 Announcement.....	3
1.6 Time schedule.....	3
2 COMPETITION RULES .....	3
2.1 Procedure .....	4
2.2 Secrecy .....	4
2.3 Confirmation of interest.....	4
2.4 Communication during the tender process .....	4
2.5 Supplements or changes to the tender documentation .....	4
2.6 Cancellation of competition.....	4
2.7 Sub-contractors.....	5
3 QUALIFICATION REQUIREMENTS .....	5
4 SELECTION CRITERIA.....	6
Annex 1 – Project specification .....	7
Annex 2 – Contract conditions .....	9

# 1 GENERAL DESCRIPTION

## 1.1 Client

The Norwegian Water Resources and Energy Directorate (NVE) is the Norwegian Energy Regulator. NVE's mandate is to ensure an integrated and environmentally sound management of Norway's water resources, promote efficient energy markets and cost-effective energy systems and contribute to efficient energy use. For more information about NVE, visit our website [www.nve.no](http://www.nve.no)

## 1.2 General introduction

The Norwegian Water Resources and Energy Directorate (NVE) has the pleasure to invite interested consultancy firms to submit proposals for consultancy assistance on the determination of a regulated rate of return on the interconnector «NorthConnect». The full description of the Assignment is presented in the enclosed Project Description (Annex 1).

## 1.3 Partial Tenders

Partial tenders will not be accepted.

## 1.4 Period of contract

The services shall be provided in the period from 17.08.2018 - 16.11.2018.

## 1.5 Announcement

The competition document is announced in the MERCELL – database and Doffin-database.

## 1.6 Time schedule

Preliminary time schedule for the process:

Activity	Time
Announcement in Merccell	29.06.2018
Submission deadline	10.08.2018 12:00 p.m.
Duration of tenders commitment	One month after submission deadline
Evaluation	1 week
Selection of bid and information to bidders	1 week
Signing of contract	17.08.2018

Dates after submission are tentative.

# 2 COMPETITION RULES

## **2.1 Procedure**

The procurement is conducted in accordance with the Norwegian Public Procurement Act of 17 June 2016 (LOA) and Public Procurement Regulations (FOA) Part I



## **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 exists. The tender is subject to approval of the NVE-budget for 2018.

## 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.
The supplier shall have experience from similar contracts.	Description of the supplier's up to 3 most relevant assignments the last 3 years. The description must include the assignment's value, date and recipient (name, telephone and e-mail). It is the responsibility of the supplier to document relevance through the description. The supplier can document the experience by referring to the skills of personnel he has and may use for this assignment, even though the experience has been gained while the personnel have performed service for another supplier.

## 4 SELECTION CRITERIA

The selection will be based on the following criteria:

Criteria	Weight	Documentation requirements
Financial proposal	30%	Complete Financial proposal shall include: <ul style="list-style-type: none"><li>• Total price of the project</li><li>• Fee rates of all personnel</li><li>• Specified budget with input of all personnel and other expenses (travels, equipment etc).</li><li>• Financial Proposals shall be denominated in NOK</li></ul>
Technical proposal	70%	The Technical Proposal shall include, but not necessarily be limited to: <ul style="list-style-type: none"><li>(i) Comments on Project Description</li><li>(ii) Description of Methodology and Work Plan</li><li>(iii) List of personnel with input (man-hours) and role in the assignment and CVs of all personnel (maximum 4 pages per CV).</li></ul>

## Annex 1 – Project specification

NorthConnect has applied for a construction license and a foreign exchange license to build a 1400 MW DC-connection between Sima in Norway and Aberdeenshire in Scotland. NVE has been commissioned by The Ministry of Petroleum and Energy to provide an overall assessment of NorthConnect's license application. This includes regulatory issues, amongst others, to design a model of economic regulation of the cable. The project is owned by Lyse (22.25%), Agder Energi (22.25%), E-co (22.25%), and Vattenfall (33.25%).

If the NorthConnect project is realized, Norwegian regulatory authorities will regulate 50 percent of the cable, similar to the NordLink and NSL connections that are currently under construction. The Norwegian part of these interconnectors are owned by the Norwegian TSO (Statnett). The other half is regulated by the regulatory authorities on the other side of the connection, in this case Ofgem. The UK regulator currently has a "cap and floor" regime for interconnectors to the UK, which the British part of NorthConnect is likely to be included in.

The Norwegian Energy Act was in 2017 changed to open up for private ownership of interconnectors. The majority of the Energy and Environment Committee in the Parliament stated specific terms in their approval. One of these terms were that *any extraordinary income from interconnectors, not owned by the system operator (Statnett), should benefit the Norwegian community and costs associated with the actual interconnector should not be charged the Norwegian customers (NVE translate).*

Furthermore, in the revised national budget for 2017 the following was stated:

*In connection with the licensing of the private interconnectors, the authorities will set conditions and determine specific regulation based on the general considerations and the nature of the connection.*

*One way of designing an economic regulation where any extraordinary income from inter-connectors benefits the customers, is to set an upper limit (cap) on revenues. If revenues above the cap is transferred to Statnett, it will reduce the transmission network tariff to the customers. A revenue cap can be based on annual income, income over a multi-year period, or accumulated income over the lifetime of the investment. For example, the revenue cap can be derived from investment costs, so it is a return of a certain level that defines the cap. A regulation should ensure that owners of interconnectors has good investment and operating incentives while at the same time extraordinary returns benefits the community. The regulation should be determined on a professional basis (NVE translate).*

A regulatory model for NorthConnect will ensure that the project is commercially viable to implement (whether the company is granted a license depends on whether the project is economically profitable). The revenue from the cable shall cover costs, depreciation and a reasonable return to the owners.

NVE is currently working on the design of a regulatory model for NorthConnect, taking into account the terms from the Parliament (Stortinget). We will base the model on the British "Cap and Floor" regulatory model<sup>1</sup>, to make the regulation of the cable as comprehensive as possible. At the same time,

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<sup>1</sup> <https://www.ofgem.gov.uk/electricity/transmission-networks/electricity-interconnectors>

as far as appropriate, we will make the model comparable to the Norwegian regulation of network companies and other conditions specific to Norway. An important difference between the regulation of the British and Norwegian part of NorthConnect is that British regulation allows for a revenue floor that ensures NorthConnect a minimum income. For the Norwegian part of the cable, the terms provided by Stortinget prohibit a revenue floor. Consequently, NorthConnect will not receive any risk relief on the Norwegian side. This affects the design of the regulatory model.

### **About the purchase**

NVE ask for a report that recommends a reasonable revenue cap for NorthConnect. The cap must be determined for the entire economic lifetime of the investment. NVE will assist with estimates of costs to be included and the design of the regulatory model. The recommendation shall mainly consist of an assessment of the level of the rate of return that should be included in the calculation of the revenue cap. We also ask for an assessment of the relationship of risk exposure between the choice of regulatory model and the level of the revenue cap. For example, the choice between a model where NorthConnect's revenues are settled against the revenue cap e.g. every five years and excess revenue is transferred to Norwegian customers (similar to the UK model), or a model where NorthConnect keeps all revenue until it has reached a revenue cap calculated as the present value of the entire lifetime of the interconnector.

NVE will assist with guidance and clarifications of the design of the model. The consultant will also have access to updated estimated revenues on the interconnector.

### **Deliveries**

The final product must be a single report. The report shall be in Norwegian or English and shall contain a supplementary summary. Reports written in Norwegian should include an English summary.

The time of delivery is 16th November 2018.

### **Workform**

During the process, the consultant will hold at least three meetings with NVE: start-up meeting, meeting during the work and meeting shortly before final delivery. These meetings will take place in NVE's premises in Oslo or through video conference.

### **Economic framework**

An estimate of the number of hours that will be used to perform the assignment together with an hourly rate shall be given. In assessing the offer we will evaluate this together with the description of the delivery.



## **Annex 2 – Contract conditions**

NVE's general terms and conditions (uploaded in Mercell).