**Specification for analytical support to CCC work on a UK Emission Trading Scheme (UK ETS)**

Tender Reference Number: OB/0519

**Specification of Requirements**

Invitation to Tender for support to CCC work on a UK Emissions Trading Scheme (UK ETS)

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Deadline for Tender Responses: 27 May 2019

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#  Preamble

The Committee on Climate Change (CCC) is an independent, statutory body established under the 2008 Climate Change Act. The CCC is tasked with:

* Providing independent advice to Government on setting and meeting carbon budgets and preparing for Climate change.
* Monitoring progress in reducing emissions and achieving Carbon Budgets.

# Background

In leaving the EU, the UK is expected to leave the EU Emissions Trading System (EU ETS). Policy mechanisms to replace the price signal currently provided by the EU ETS are under consideration. The UK Government has launched a consultation on a national carbon trading scheme (a UK ETS).[[1]](#footnote-1)

Under the terms of the Climate Change Act (2008), if the UK Government wishes to make provision for a trading scheme then it is required to:

* Obtain the advice of the Committee on Climate Change (Section 48(1)(a);
* Before setting a limit on the total amount of activities to which a trading scheme applies for a trading period or periods, obtain Committee on Climate Change advice on the amount of that limit (Section 48(2)).

The Governments of the UK, Scotland and Wales have requested advice from the CCC on the establishment of a UK scheme.[[2]](#footnote-2)

The CCC wishes to obtain consultancy support to work closely with its secretariat to inform this advice. We are looking for a person (or persons) to work in and with the team, rather than an externally delivered report.

# Aims and Objectives

The key aim of the project is to assess and make recommendations for design of a UK ETS, to inform recommendations that the CCC will make to Government.

This assessment should consider 2 key scenarios: (1) a standalone UK ETS; (2) a UK ETS linked to the EU ETS.

The design and operational issues on which we are seeking to advise include:

* Design: emissions cap and trajectory over time; supply flexibility and price management; distribution of allowances as between auction and free allowances; free allocation methodology; benchmarks; small emitter opt-out and ultra-small emitter exemption; phases and review periods; the possibility of monetising the allowances to fund UK industrial decarbonisation.
* Operation: MRV; auctioning and market rules; banking and borrowing; governance; practical arrangements; registry.
* Methodology and implications of inclusion of aviation.
* Implications for abatement in Scotland, Wales, Northern Ireland and England.

It is envisaged that scope of the scheme will be the same, or very close to, the existing rules for the EU ETS (i.e. that the Government is not looking, at this stage, to bring others sectors into the scheme).

One of the key issues will be to advise on the level and trajectory for the emissions cap over time. We will want to advise on the carbon price implications of the suggested cap. To provide such an assessment we hope to be able to draw on BEIS models. But it would be helpful if the successful contractor had access to an alternative modelling facility to provide such forecasts.

We are looking for the successful contractor to provide resource (staff with existing understanding of emissions trading schemes and associated issues) to work alongside the Committee secretariat, on a tight timeline, to inform Committee advice.

If a UK ETS goes ahead, the UK Government will be looking for the scheme to start in January 2021, so rules that are close to existing EU ETS rules are likely to be easier to bring into effect than rules requiring significant changes. But the Committee will want to be aware of any constraints introduced by such timing and weigh such considerations against effective design of a UK ETS scheme.

# Methodology

As part of your tender, you should set out your experience and capability to contribute to the following tasks. In all tasks, even where not explicitly drawn out below, there will be a need to have in mind and consider the design and operational issues summarised in section 3 (and set out in the government request to the CCC).

**Task 1:** **Respective merits of a UK standalone scheme or scheme linked to the EU ETS.**

What are the potential benefits in terms of cost reduction of a wider market? What are the implications of a wider market for overall emissions reduction in the UK and EU? What are the implications for UK domestic action through other measures? What are the implications – whether benefits or costs – for wider international action and co-operation?

What other considerations are key to this assessment?

In the time available we are not necessarily looking for a review of the literature to inform such assessment. But knowledge of the key evidence and literature on which to draw, and to support the assessment, will be required.

**Task 2: Assessment of an appropriate cap for a UK ETS and its trajectory from start 2021 to 2030**

To inform advice on the level of a cap (under either a standalone scheme or a linked scheme) we expect that a good starting point will be estimates of the cost-effective path for the traded sectors of the economy, as estimated by the CCC to inform its 5th carbon budget advice. The successful contractor will have access to the Committee’s work for this trajectory and more recent evidence that might lead to an adjustment of this trajectory:

* The Committee’s 5th carbon budget trajectory for the traded sectors of the economy;
* More recent evidence of abatement potential, since the Committee’s 5th carbon budget advice;
* Updated evidence of actual emissions;
* Updated BEIS energy and emission projections.

**Task 3: Implications of the cap for carbon prices in the UK**

Any assessment of an appropriate level of UK ETS cap should be informed by assessment of implications for carbon prices.

For a range of assumptions for the level of a cap we should expect to cover, for a standalone scheme and for a linked scheme:

* Implications for scheme carbon price;
* Sensitivity of scheme carbon price to variation in assumptions for (a) baseline emissions; (b) abatement potential and costs; (c) fossil fuel prices; (d) other UK policy instruments.
* Uncertainties in price pathway and how these might be ameliorated.

Modelling capability to assess UK carbon prices from a UK scheme will therefore be required.

* In the first instance, we expect such capability to be provided by BEIS through their carbon pricing model. The role of the appointed contractor will be to:
	+ Liaise with BEIS and their contractors to inform runs of the BEIS model to CCC assumptions for the level of baseline emissions; the level of the cap; other design assumptions.
	+ Assess the capability and robustness of the BEIS model and input assumptions to inform CCC understanding of the results, and assessment of the weight to be given to any results.
* Ideally, the contractor should provide an alternative source/modelling capability to assess UK carbon prices. The response to this tender should outline what this facility will be. It should outline the capability of the model to consider different assumptions for baseline emissions, abatement potential and costs; fossil fuel prices; other design parameters. We are aware, however, that modelling capability of this kind may be in short supply. If unavailable, it would be helpful for the contractor to set out what other sources it would expect to draw on to consider price implications of a UK cap.

Alongside technical modelling capability, however, there will be a need to consider market behaviour (e.g. hedging, banking, borrowing, foresight) and how this might impact prices and design.

**Task 4: Competitiveness implications**

Implications of UK carbon prices will feed through to an assessment of costs to participants and competitiveness.

This will need to consider scenarios for carbon prices outside the UK, and competitiveness concerns are likely to vary, for example, as between a UK only and a linked scheme.

The task will be to assess the scale and nature of competitiveness issues, and how they might be ameliorated? This could include consideration of other design issues in section 3, such as methods for allocation of allowances and use of revenues.

In the time available we are not necessarily looking for a review of the literature to inform such assessment. But knowledge of the key evidence and literature on which to draw, and to support the assessment, will be required.

**Task 5: Overall recommendations**

There is likely to be a degree of iteration between tasks 1-4. But emerging from these assessments - and concurrent work on design and operational issues to which the contractor will contribute - we would seek to draw out key conclusions and recommendations for a UK scheme (whether standalone or linked to the EU ETS).

We would expect those recommendations to cover:

* the design and operational parameters set out in section 3;
* methodology and implications for inclusion of aviation;
* use of revenues to fund industrial decarbonisation;
* implications for the devolved administrations;
* implications for other UK policy instruments and for overall carbon prices (taking account of interactions with other instruments);
* overall implications for competitiveness (taking account of design as a whole);
* any practical issues attached to the transition to the new UK scheme;
* estimated UK abatement.

It will also be necessary to cover practical issues attached to the tightening of the cap in a UK scheme over time (i.e practicality and mechanisms for tightening the cap beyond any level initially proposed). In particular, it is likely that this CCC advice will be provided before the UK, Scottish and Welsh government responses to CCC advice on the level of the UK’s long-term emission reduction targets are known.[[3]](#footnote-3) It will be before CCC advice on the level of the 6th carbon budget (2033-37) is provided (advice due by the end of 2020). Should that advice, and government decisions, imply a tightening of the trajectory beyond that required for the existing legislated budgets, how might that be best achieved?

# Outputs Required and Timetable

The outputs from the project will include:

* Interim advice throughout the contract period to CCC to inform secretariat and Committee considerations.
* (Possible) preparation of presentations to the Committee to inform its advice.
* A final report, pulling together key analysis to accompany (on-line or as an annex) Committee advice to the UK Government.

The proposed timetable for the project is set out in the following table.

|  |  |
| --- | --- |
| **Date** | **Action/Deliverable** |
| 27 May  | Deadline for responses to tender |
| w/c 27 May | Interviews |
| Asap after 27 May decision | Start work with CCC |
| End-July | CCC advice to UK Government – to be accompanied by final report |

# Quality Assurance

All research tasks and modelling must be quality assured and documented. Contractors should:

* Include a quality assurance (QA) plan that they will apply to the analysis and any modelling
* Specify who will take lead responsibility for ensuring quality assurance. This responsibility should rest with an individual not directly involved in the research, analysis or model development.
* Provide a QA log to demonstrate the QA undertaken, which must identify who undertook the QA and the scope, type and level of QA that has been undertaken.

Sign-off for the quality assurance must be done by someone of sufficient seniority within the contractor organisation to be able to take responsibility for the work done. Acceptance of the work by the CCC will take this into consideration. The CCC reserves the right to refuse to sign off outputs which do not meet the required standard specified in this invitation to tender.

The successful bidder will be responsible for any work supplied by sub-contractors and should therefore provide assurance that all work in the contact is undertaken in accordance with the quality assurance expectation agreed at the beginning of the project.

The CCC expects that:

* Economic analysis must be delivered in a simple, transparent Excel spreadsheet, where key assumptions (agreed with the CCC) can be varied. All assumptions and figures should be adequately referenced, and include any supporting workings. This spreadsheet will be the property of the CCC.
* Existing analysis and work regarding technical challenges and deployment constraints should be reviewed (e.g. including technology options and barriers developed by the CCC) and incorporated into this assignment.

# Challenges

Tenderers should highlight any challenges or risks that they envisage in delivering all the outputs of the project, whether in terms of scope of the work, resources or timelines. Alternative suggestions will be considered if the risks are such that the project is unlikely to be able to be delivered in its current form.

# Working Arrangements

The successful contractor will be expected to identify:

* A named member(s) of staff who will be assigned to the project to work (day-to-day) with the CCC, and for a significant amount of this time embedded with the CCC
* A further named point of contact through whom all enquiries or requests over performance or levels of support required can be filtered.

A CCC project manager will be assigned to the project and will be the central point of contact.

# Skills and experience

CCC would like you to demonstrate that you have the experience and capabilities to undertake the project. Your tender response should include a summary of each proposed team members experience and capabilities.

 Contractors should propose named members of the project team, and include the tasks and responsibilities of each team member. This should be clearly linked to the work programme, indicating the grade/ seniority of staff and number of days allocated to specific tasks.

Contractors should identify the individual(s) who will be responsible for managing the project.

# Consortium Bids

In the case of a consortium tender, only one submission covering all of the partners is required but consortia are advised to make clear the proposed role that each partner will play in performing the contract as per the requirements of the technical specification. We expect the bidder to indicate who in the consortium will be the lead contact for this project, and the organisation and governance associated with the consortia.

Contractors must provide details as to how they will manage any sub-contractors and what percentage of the tendered activity (in terms of monetary value) will be sub-contracted.

If a consortium is not proposing to form a corporate entity, full details of alternative proposed arrangements should be provided. However, please note CCC reserves the right to require a successful consortium to form a single legal entity in accordance with Regulation 28 of the Public Contracts Regulations 2006.

CCC recognises that arrangements in relation to consortia may (within limits) be subject to future change. Potential Providers should therefore respond in the light of the arrangements as currently envisaged. Potential Providers are reminded that any future proposed change in relation to consortia must be notified to CCC so that it can make a further assessment by applying the selection criteria to the new information provided.

# Budget

The maximum budget for this project is £100,000 excluding VAT.

Contractors should provide a full and detailed breakdown of costs (including options where appropriate). This should include staff (and day rate) allocated to specific tasks. In particular it would be helpful to set out:

* The element of costs attached to staff time embedded (part or full-time) with the CCC
* The element of any costs attached to literature review, should these be felt necessary
* The element of cost attached to provision of a modelling capability, or alternative sources, to assess UK carbon prices.

Cost will be a criterion against which bids which will be assessed.

Payments will be linked to delivery of key milestones. The indicative milestones and phasing of payments can be adjusted and agreed with the contractor and Project Manager. Please advise in your tender response how this breakdown reflects your usual payment processes:

In submitting full tenders, contractors confirm in writing that the price offered will be held for a minimum of 60 calendar days from the date of submission. Any payment conditions applicable to the prime contractor must also be replicated with sub-contractors.

The Department aims to pay all correctly submitted invoices as soon as possible with a target of 10 days from the date of receipt and within 30 days at the latest in line with standard terms and conditions of contract.

# Evaluation of Tenders

CCC will select the bidder that scores highest against the criteria and weighting listed below, see the ITT for further information.

**EVALUATION CRITERIA AND SCORING METHODOLOGY**

|  |  |  |
| --- | --- | --- |
| Criterion | Description | Weighting |
| 1 | **RELEVANT EXPERIENCE / DEMONSTRATION OF CABABILITY** | 15% |
| 2 | **MANAGING YOUR RELATIONSHIP WITH THE CCC** | 10% |
| 3 | **QUALITY ASSURING THE SERVICES YOU PROVIDE** | 10% |
| 4 | **PROJECT TEAM – SKILLS AND KNOWLEDGE** | 25% |
| 5 | **METHOD, ABILITY AND TECHNICAL CAPACITY**  | 20% |
| 6 | **UNDERSTANDING OF REQUIREMENTS** | 10% |
| 7 | **RISK AND CHALLENGES** | 10% |
|  | 100% |

**Scoring Method**

Tenders will be scored against each of the criteria above, according to the extent to which they meet the requirements of the tender. The meaning of each score is outlined in the table below.

The total score will be calculated by applying the weighting set against each criterion, outlined above; the maximum number of marks possible will be 100. Should any contractor score 1 in any of the criteria, they will be excluded from the tender competition.

|  |  |
| --- | --- |
| **Score** | **Description** |
| 1 | Not Satisfactory: Proposal contains significant shortcomings and does not meet the required standard |
| 2 | Partially Satisfactory: Proposal partially meets the required standard, with one or more moderate weaknesses or gaps  |
| 3 | Satisfactory: Proposal mostly meets the required standard, with one or more minor weaknesses or gaps. |
| 4 | Good: Proposal meets the required standard, with moderate levels of assurance |
| 5 | Excellent: Proposal fully meets the required standard with high levels of assurance |

**Structure of Tenders**

Contractors are strongly advised to structure their tender submissions to cover each of the criteria above and supply a price schedule specifying the daily rates (ex-VAT) you will charge for each level of your staff.

**Evaluation for Interviews, if held**

CCC reserves the right to award the contract based on applicants’ written evaluation only if one candidate emerges from the evaluation stage as significantly stronger than the others.

Should interviews go ahead, CCC will shortlist the top three suppliers with the highest marks from the written proposals. Interviews are provisionally expected to be held on 28 or 29 May. If this date changes, CCC will notify applicants.

The areas to be covered in the interview, and markings allocated to each topic area will be sent to the shortlisted supplier prior to interview.

Further details of interviews will be sent to successful applicants on selection.

**Feedback**

Feedback will be given in the unsuccessful letters or emails.

1. <https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/799573/THE_FUTURE_OF_UK_CARBON_PRICING.pdf> [↑](#footnote-ref-1)
2. <https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/799576/Final_CCC_Commission_letter_020519_v2.pdf> [↑](#footnote-ref-2)
3. The CCC long-term targets advice was provided on 2 May, so is known. The Scottish Government has accepted the advice. [↑](#footnote-ref-3)