[redacted]

DPS FRAMEWORK SCHEDULE 4: LETTER OF APPOINTMENT AND CONTRACT TERMS

Part 1: Letter of Appointment

PricewaterhouseCoopers LLP
1 Embankment Place
London
United Kingdom
WC2N 6RH

Dear [redacted]

Letter of Appointment

This letter of Appointment Thursday, 28th January 2021, is issued in accordance with the provisions of the DPS Agreement (RM6018) between CCS and the Supplier.

Capitalised terms and expressions used in this letter have the same meanings as in the Contract Terms unless the context otherwise requires.

Order Number:	CR20152
From:	**Department of Business Energy and Industrial Strategy**, 1 Victoria St, Westminster, London, SW1H 0ET("Customer")
To:	**PricewaterhouseCoopers LLP,** 1 Embankment Place, London, United Kingdom, WC2N 6RH ("Supplier")

Effective Date:	Monday, 1st February 2021
Expiry Date:	End date of Initial Period: Wednesday, 31st March 2021 End date of Maximum Extension Period: Friday, 30th April 2021

Services required:	Set out in Section 2, Part B (Specification) of the DPS Agreement and refined by: The Customer's Project Specification attached at Appendix A and the Supplier's Proposal attached at Appendix B.

Key Individuals:	BEIS Project Manager

Contract Charges (including any applicable discount(s), but excluding VAT):	As per AW5.2 Price Schedule response highlighted within the RM6018 Contract Terms, section; Annex 1 – Contract Charges. The total value of this contract shall not exceed £94,940.00 Excluding VAT.

[redacted]

Insurance Requirements	Additional public liability insurance to cover all risks in the performance of the Contract, with a minimum limit of £5 million for each individual claim. Additional employers' liability insurance with a minimum limit of £5 million indemnity. Additional professional indemnity insurance adequate to cover all risks in the performance of the Contract with a minimum limit of indemnity of £2 million for each individual claim. Product liability insurance cover all risks in the provision of Deliverables under the Contract, with a minimum limit of £5 million for each individual claim.
Liability Requirements	**Suppliers limitation of Liability** (Clause 18.2 of the Contract Terms);

GDPR	As per Contract Terms Schedule 7 (Processing, Personal Data and Data Subjects.

FORMATION OF CONTRACT

BY SIGNING AND RETURNING THIS LETTER OF APPOINTMENT (which may be done by electronic means) the Supplier agrees to enter a Contract with the Customer to provide the Services in accordance with the terms of this letter and the Contract Terms.

The Parties hereby acknowledge and agree that they have read this letter and the Contract Terms.

The Parties hereby acknowledge and agree that this Contract shall be formed when the Customer acknowledges (which may be done by electronic means) the receipt of the signed copy of this letter from the Supplier within two (2) Working Days from such receipt

For and on behalf of the Supplier:

Name and Title: [redacted]
Director

Signature: [redacted]

Date: 29 January 2021

For and on behalf of the Customer:

Name and Title:
[redacted] Deputy Director

Signature [redacted]

Date:
01 February 2021

[redacted]

ANNEX A

Customer Project Specification

1. Background

Policy context

The Energy Savings Opportunity Scheme (ESOS) is an existing scheme that requires large businesses to carry out an energy audit every four years. Currently these audits are focused on short term cost savings from energy efficiency and do not necessarily look at strategic longer term considerations for investment in plant, buildings and equipment. In particular there is a concern that short term cost saving actions may conflict with longer term investments that will be required to get businesses on a trajectory to meet UK net zero targets, for example investment in zero carbon technologies and clean heat. It is therefore proposed that ESOS audits take consideration of what businesses will need to do to move to net zero in the longer term.

However, within BEIS there is currently insufficient knowledge of the market and potential impacts on business to effectively design this net zero element to ESOS. This research is designed to fill this gap and provide the insight necessary to design an effective net zero element to ESOS.

The strategic context for this work sits within the wider context for strengthening the existing ESOS scheme. To reach our 20% energy efficiency improvement ambition for businesses by 2030, and our 2050 net zero targets we need to maximise the energy savings from large businesses. ESOS is a tool that provides large businesses with information on how to save energy and can also be used as an engagement tool with businesses. As such it is a necessary part of wider government efforts to meet energy efficiency targets.

BEIS has publicly committed to consulting on strengthening ESOS. The aims of this consultation are to increase the number of businesses acting on ESOS reports, increase the number and scope of measures adopted and orient ESOS towards meeting UK net zero targets.

The outputs of this work will be used to inform the future direction of ESOS. Early outputs from the project may provide insights that can be used in finalising a consultation document on ESOS, which we expect to publish in early 2021. More detailed outputs will be combined with consultation responses to develop future ESOS policy in more detail, including a formal impact assessment and drafting of ESOS legislation.

Current ESOS scheme

The Energy Savings Opportunity Scheme (ESOS) requires large businesses in the UK to measure their total energy consumption at least every 4 years and carry out audits of the energy used by their buildings, industrial processes and transport. The audits are intended to identify practicable and cost-effective energy saving opportunities. Completion of an audit is mandatory, but implementation of the recommendations from the audit is left to the

discretion of the participant. The scheme is estimated to lead to around £1.6bn net benefits to the UK, with the majority of these benefits applying to participating businesses as a result of reduced energy costs. In February 2020 BEIS published the result of the Post- Implementation Review of ESOS, which can be found at https://www.gov.uk/government/publications/energy-audits-and-reporting-research-including- the-energy-savings-opportunity-scheme

ESOS covers large undertakings and corporate groups containing large undertakings in the UK. An organisation is defined as large under ESOS if either it employs 250 or more people or it has an annual turnover in excess of 50 million euros, and an annual balance sheet total in excess of 43 million euros. ESOS covers both UK-registered and overseas companies. Around 7000 ultimate parent groups notified compliance in Phase 1 which covered around 27,000 organisations. The median cost of an ESOS audit in Phase 1 was £7,000 and the median time spent on ESOS by participants was 16 days.

There are two main routes to compliance – organisations may gain ISO 50001 certification for all or part of their organisation, or they may commission an audit by an accredited ESOS assessor for the whole organisation or for those parts not ISO-certified (other routes are to use DECs, Green Deal for Business or use an internal assessor who is ESOS accredited). Most organisations choose to commission an external audit.

The audit should measure all energy consumption the organisation used for transport, buildings or industrial processes for a period of 12 months. The audit should then identify all 'significant' areas of energy consumption – this is energy consumption that covers at least 90% of total energy consumption. Organisations may choose to exclude up to 10% of energy on a site basis, on an activity basis (i.e. transport, buildings or industrial processes), or on a fuel type basis.

Organisations must, where practicable, use energy consumption profiling in their analysis of energy use for the ESOS energy audit, though a method for doing this is not set. Auditors must carry out site visits as part of the ESOS energy audit, but can use a site sampling approach rather than visiting every site. No specific site sampling method is set out for ESOS.

Energy audits should analyse the organisation's energy consumption and recommend practical and cost-effective energy saving measures, identifying the estimated costs and benefits of these measures. ESOS does not mandate specific energy auditing methodologies that must be used, though guidance is provided on suggested methods. Recommendations can include reporting and monitoring, improving servicing and maintenance, behaviour change projects and capital investment projects. ESOS audits do not have to be presented in any particular format.

As part of the ESOS consultation we are also considering how to make ESOS reports more standardised in order to improve the quality and consistency of reports, including setting a more specific methodology for carrying out the audit and providing guidance on presenting

recommendations to maximise take up of energy efficiency measures.

Proposal for a new net zero element

The aims of a net zero element to ESOS would be to:

- Refocus the ESOS scheme from short term cost savings to cover longer term strategic considerations around use of energy
- Identify potential risks to the business of moving to net zero and possible trajectories
- Ensure that investment in energy efficiency now doesn't prejudice future changes (e.g. clean heat)
- Widen recognition among businesses that they need to take action now or in the future to move to net zero

We expect that a net zero audit would cover:

- What actions the business would need to take to eliminate or significantly reduce their fossil fuel use and/or direct emissions (in the short or long term) and when intervention might occur – we would expect an ESOS assessment to identify where existing technology and processes are not compatible with net zero and identify any solutions that currently exist, but where solutions don't currently exist in the market or are still in early development we would simply expect this to be flagged as a risk within the audit
- What actions the business could take to make an impact on grid electricity emissions, such as renewables investment, load shifting and investment in smart technologies
- What actions the business could take to reduce emissions from staff business travel
- Businesses would have the option to look at wider net zero impacts such as staff commuting, waste, resource use, supply chain emissions, and customer impacts, but this would not be mandatory
- The audit should also identify what conflicts may exist between energy/cost saving actions and carbon reduction

The interim evaluation of ESOS that was published in 2017 identified from surveys of participants that the majority of ESOS participants viewed ESOS as a compliance activity first and foremost rather than as an energy saving opportunity, though case studies showed that some organisations did treat the scheme as an opportunity and made significant energy savings. When designing a net zero element to ESOS the preference is that this is seen as a useful exercise for participants rather than an additional regulatory burden.

2. Aims and Objectives of the Project

Overall aim

This project will provide BEIS with information on the current market for net zero audits and possible options for including an additional net zero audit element to the existing ESOS scheme. It will also look at the impacts on the energy audit market and on ESOS participants of including this new element within the scheme, including business benefits, how to

encourage behaviour change within the scheme and likelihood of changing behaviour.

The project will provide:

- Market intelligence on current net zero audits, including demand, supply and skills availability
- An analysis of existing approaches to net zero audits that could be used or adapted for ESOS
- Options for a new approach if no current approach is considered appropriate
- Potential impacts on the market of including this element within ESOS
- An analysis of likely business benefits from these proposed models
- An analysis of likely business take-up of any measures proposed by a net zero audit

This work will lead to an improved understanding of the current market and allow informed development of a net zero element within ESOS.

Detailed objectives

This research will aim to answer the following four broad questions:

1. What is the current market and policy situation regarding net zero audits and business advice on moving to net zero?
2. What should be included within the net zero element of an ESOS audit?
3. How would including a net zero element within ESOS audits affect the current net zero audit and/or energy efficiency audit markets?
4. What impact would a net zero element to ESOS have on businesses?

1. What is the current market and policy situation regarding net zero audits and business advice on moving to net zero?

Sub-questions to be answered are:

- What types of products/information are being offered?
- What level of demand/take up is there for these?
- Are these services offered across different business types, or is there more demand in some subsectors?
- In particular, are there services/demand for industrial businesses?
- What do businesses and sector experts expect the role of government to be as regards business advice and information on net zero?

2. What should be included within the net zero element of an ESOS audit?

- Are there existing approaches or standards for net zero audits that could be used or adapted for ESOS? What are the strengths and weaknesses of these approaches? How prescriptive are they?
- If not, what might such an approach or standard look like? Are there any other relevant existing standards that this could be modelled on (for example in other countries or in another field), or would something need to be created from scratch? What are the strengths and weaknesses of different approaches? How might government encourage or drive the creation of such a standard?
- ESOS audits already cover carbon savings to be achieved by reducing electricity use, but a net zero economy is likely to also require a degree of electricity load-

shifting (for example through smart technologies or use of battery storage) to ensure that demand is matched to supply. What evidence is there on the likely benefits from including consideration of these technologies within a net zero audit, in comparison to the potential cost and complexity of including this?

- Would it be proportionate in comparison to the existing scope of ESOS for a net zero audit to look at wider effects of the business on carbon emissions outside of their direct energy use, such as staff commuting, waste reduction, resource use, consumer behaviour and supply chain impacts, or would this lead to a significant increase in audit scope and complexity and consequently costs? Would including these elements make the audit too broad and/or complicated to result in conclusions that could be implemented? Conversely would excluding these elements reduce the usefulness/relevance to businesses, in terms of identifying the biggest and most strategically relevant issues for the organisation to tackle to reach net zero?
- How might offsetting be considered within a net zero audit and in what circumstances? What are the pros and cons of including this, in relation to producing a credible set of actions to take the business to net zero?
- How might the net zero element be dovetailed with the existing ESOS format to make the results most useful to business and easiest to understand – should there be two separate sections to the ESOS report (covering existing requirements and additional net zero requirements), or should the recommendations on energy efficiency and carbon reduction be considered together in one section? Would combining measures together in a suggested package of measures or pathway to net zero be more effective in driving action by participants, and how would the benefits compare against the possible additional cost of producing this? Would producing a pathway been seen by businesses as adding value or as overly restrictive?
- If a net zero audit included an element of benchmarking to allow organisations to compare performance would this be more effective at driving them to act, and how might that element be designed?
- How would introducing a net zero element affect businesses that currently comply with ESOS using ISO 50001, given that this doesn't have a net zero element?

3. How would including a net zero element within ESOS audits affect the current net zero audit and/or energy efficiency audit markets?

- To what extent do existing ESOS lead assessors have skills that go beyond current ESOS requirements that would be relevant to a net zero audit, such as expertise in clean heat and other low carbon technologies, a knowledge of what is commercially available in this space now, and an understanding of cutting edge and innovative technologies that may not be ready for deployment now but could be relevant in the future? How much additional training might be necessary for the average ESOS assessor to achieve these additional skills and how would this affect the market in ESOS lead assessor services?
- Is the market likely to supply this training, or would adding this requirement result in insufficiently skilled assessors carrying out the net zero element of the audit?
- Do the relevant skills and experience exist in the consultancy market as whole (for example could consultants with these skills/experience become ESOS certified)?

4. What impact would a net zero element to ESOS have on businesses?

- Would including a net zero element in ESOS be seen by businesses as having benefits? Would this more strategic element increase or decrease engagement with ESOS?
- Would the additional information provided by a net zero audit provide substantial new and useful information to the business and/or beneficial recommendations which would not otherwise be available in the absence of including this element in ESOS?

- How likely is it that businesses would take action on the basis of a net zero audit (as opposed to direct energy savings recommendations from existing audits)?
- How can the design of this element of ESOS encourage participants to invest in carbon saving as opposed to energy saving measures?

The answers to these questions should be as broadly applicable to the full range of ESOS participants as possible, within the constraints of the methodology outlined below – including participants across England, Wales, Scotland and Northern Ireland.

3. Suggested Methodology

If applicable: **Total number of Interviews (qualitative)**	**Insert numbers:** **30-40**
Any other specific requirements	Desk-based research

We suggest the following methodologies for answering each of the 4 research questions.

1. What is the consultancy market currently providing in terms of business advice on moving to net zero?

We suggest that the contractor carries out desk-based market research of the ESOS market to answer this question. They should combine this with a small number of interviews (~10) with experts/professional bodies (such as Energy Institute and Quidos) to understand what advice is currently provided, and with sector representatives to understand the role that business would anticipate government to play in providing information and advice on net zero.

2. What should be included within the net zero element of an ESOS audit?

The contractor should firstly undertake a small piece of desk-based research to understand whether there are any international precedents for net zero audits which can be drawn upon. Relevant examples should be explained as case studies for BEIS to draw on as part of the final report.

To answer this section comprehensively, we would like the contractor to draw on the interviews carried out in this study (with both sector representatives, experts, and assessors), combined with their own knowledge and expertise, to make judgements on how they would recommend the net zero element of ESOS to be configured. If it is considered that there are multiple potential successful configurations, we would like the contractor to develop a small group of distinct approaches for BEIS to consider, with the key elements and points of differentiation explained. We also request that the contractor explains the advantages and disadvantages of the key features of each approach, and provide recommendations as to which model(s) it suggests BEIS take forward to consider for implementation.

We may also suggest that the contractor tests any approaches they develop as part of this

work in interviews with a small group of energy managers in large businesses (~10 interviews). Ideally this testing would include businesses with a range of existing levels of engagement with energy efficiency/carbon reduction.

3. How would including a net zero element within ESOS audits affect the current net zero audit and/or energy efficiency audit markets?

To answer this question, we need to understand the current skillset of existing assessors and their existing knowledge. We suggest this should be achieved through a combination of the interviews with experts/professional bodies (as outlined in question 1) and interviews with a small sample (~10-20) of assessors across the ESOS market, to understand their existing capabilities and gauge whether additional training would be required. The sample of ESOS assessors should include a proportional spread of assessors with experience in auditing buildings, transport and industrial processes in relation to the current ESOS market.

4. What impact would a net zero element to ESOS have on businesses?

We expect this question will be answered through a combination of contractor expertise, desk-based research and interviews with a small group of energy managers in large businesses (as outlined in question 2 above). In particular, the contractor could 'test' whether the net zero element is likely to be seen as beneficial, and whether it would promote further action to reduce emissions. These interviews should also ascertain what elements of the model(s) developed are seen as beneficial and which may be problematic, and could therefore be used to further refine the model in the final stage of the study.

4. Deliverables

If there are any clear differences in responses from interviews relating to different industries or different types of organisation that are covered by ESOS legislation we would like this to be brought out in the findings.

Deliverables:

- Regular updates on emerging findings and project progress (frequency TBD)
- Interim report (1 March)
- Presentation slide pack (31 March)
- Final report (31 March)
- Technical annex containing details of methodology and a summary of key points made in the various types of interviews (31 March)

[redacted]

Part 2: Contract Terms

Contract Terms v6.0