



Department
of Energy &
Climate Change

Supply Chain Plan Consultation

Addendum to Electricity Market Reform: Consultation on Proposals for
Implementation

November 2013



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You can download this publication from: <https://www.gov.uk/government/consultations/proposals-for-implementation-of-electricity-market-reform>

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Contents

- General information5**
- Supply Chain Plan Consultation7**
 - Introduction7**
 - The Supply Chain Plan Requirement7**
 - Assessing the Plans: the Criteria.....9**
 - Assessing the Plans: the Process11**
 - Assessing the Plans: Timetable.....12**
 - Next Steps.....13**
 - Consultation Questions13**

General information

Purpose of this consultation

This consultation seeks views on proposals for implementing the key eligibility criteria of a supply chain plan to enable projects to take part in the allocation process for a Contract for Difference (CfD). It is an addendum to the Electricity Market Reform (EMR) Consultation on Proposals for Implementation.

Issued: 25 November 2013

Respond by: 24 December 2013

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Consultation online survey: https://econsultation.decc.gov.uk/decc-policy/emr-market-change/consult_admin_view

Consultation reference: URN 13D/302 – Supply Chain Plan Consultation

Territorial extent:

This consultation applies to England, Scotland, Wales and Northern Ireland.

How to respond:

Your response will be most useful if it is framed in direct response to the questions posed, though further comments and evidence are also welcome. Electronic responses should be sent to the email above.

Additional copies:

You may make copies of this document without seeking permission. An electronic version can be found at <https://www.gov.uk/government/consultations/proposals-for-implementation-of-electricity-market-reform>.

Other versions of the document in Braille, large print or audio-cassette are available on request. This includes a Welsh version. Please contact us under the above details to request alternative versions.

Confidentiality and data protection:

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure in accordance with the access to information legislation (primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

If you wish for the information you provide to be treated confidentially, please indicate this in your written response to the consultation and include your reasons for the request. An automatic

confidentiality disclaimer generated by your IT system will not, of itself, be regarded by us as a confidentiality request.

If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances.

We will summarise all responses and place this summary on our website at www.decc.gov.uk/en/content/cms/consultations/. This summary will include a list of names or organisations that responded but not people's personal names, addresses or other contact details.

Quality assurance:

This consultation has been carried out in accordance with the Government's Code of Practice on consultation, which can be found here:

<http://www.bis.gov.uk/files/file47158.pdf>

If you have any complaints about the consultation process (as opposed to comments about the issues which are the subject of the consultation) please address them to:

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Supply Chain Plan Consultation

Introduction

- 1.1 This consultation seeks views on proposals for implementing the key eligibility criteria of a supply chain plan to enable projects to take part in the allocation process for a Contract for Difference (CfD).
- 1.2 Responses are invited from all interested parties by 24 December 2013.
- 1.3 This consultation is an addendum to the Electricity Market Reform (EMR) Consultation on Proposals for Implementation which was launched on 10 October 2013 and closes on the 24 December 2013¹. That consultation document sets out Government's intention to require projects to submit supply chain plans (which will be assessed by Government) in order for the project to go forward to the Contracts for Difference (CfD) allocation process. This document builds on what was previously published and should be read in parallel. It provides a greater level of detail about the intended policy, its requirements, and the proposed process for implementing the policy. DECC invites interested parties to submit comments and evidence.

The Supply Chain Plan Requirement

- 1.4 As stated in the 10 October 2013 EMR Consultation Proposals for Implementation, the Government has decided that projects must have an approved supply chain plan before they can apply for a CfD. The proposal is that projects with a capacity of 300MW or above will need to provide the EMR Delivery Body (National Grid) with a letter from Government certifying that they have an approved supply chain plan for the project when making an application for a CfD. Until this letter has been received, projects will be unable to go forward to the allocation process.
- 1.5 Under this proposal, the project's supply chain plan must set out how the project will support the long term economic growth and viability of the global low carbon energy supply chain – in particular how it will foster innovation, competition and support the development of skills. The Government considers that encouraging open and competitive supply chains and promoting innovation and skills will drive down the cost of low carbon generation over the long term and result in lower energy costs to consumers, as well as supporting future low carbon generation. Promoting low carbon generation will help deliver our objective of mitigating climate change, and EMR delivers this at least cost so that consumers have access to the secure energy they need at affordable prices.

¹https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/255254/emr_consultation_implementation_proposals.pdf

- 1.6 By introducing the supply chain plans requirement, the Government is seeking to highlight the importance of supply chain development. Focusing on the way projects are delivered can help develop the industrial base, reduce costs, encourage participation by smaller businesses, and promote innovation and skills².
- 1.7 Supply chain plans ('the plan' or 'plans') will be assessed on whether they demonstrate sufficient action is being taken by the project in relation to supporting supply chain development (whether in the UK or abroad) to deliver the Government's objectives of promoting low carbon generation, lowering energy costs to consumers. Evidence will be needed to demonstrate steps already taken and what plans are in place for future actions.
- 1.8 Projects under 300MW will not be subject to the requirement because the Government considers that the policy should capture only those projects large enough to influence their supply chains and make a material contribution to development of skills, competition and innovation in the low carbon generation market. The Government also does not wish to impose additional administrative costs on smaller projects less able to absorb them.
- 1.9 The regulations made by the Secretary of State implementing the policy to require a supply chain plan will be underpinned by supporting guidance. This guidance will include a template for the submission of the supply chain plan, detail about the proposed application of the assessment criteria, any relevant supporting information which is likely to be required, the proposed scoring process and general guidelines on the content of an acceptable supply chain plan. It will build upon the process and criteria set out in this consultation, taking into consideration relevant responses and industry views. The guidance is intended to reflect the approach the Secretary of State intends to follow in deciding whether to approve or reject a supply chain plan.
- 1.10 A draft version of the guidance will be published in spring 2014 to allow projects time to develop their plans before the first possible date to submit these. The Secretary of State will not be able to assess plans before the regulations come into force in summer 2014, and once the regulations become law, the guidance can be finalised. Implementation of EMR is subject to State aid approval, and we are working with the European Commission to secure this.
- 1.11 Once the guidance has been finalised, the Secretary of State intends to only make changes to it following an adequate period of consultation with the affected parties. Sufficient notice will be provided so that projects intending to apply for a CfD in the future can take the new guidance into account before making decisions about their supply chain and drafting the supply chain plan. Should the Secretary of State wish to change the criteria set out in the regulations, the Secretary of State will consult on the proposed changes and bring forward amending regulations.
- 1.12 The Secretary of State intends to publish all submitted plans after approval, to demonstrate good practice, subject to addressing any issues of commercial confidentiality. Publishing plans will improve transparency on how costs can be reduced and allow a degree of public scrutiny of projects. It also offers projects the opportunity to utilise the ideas of others in

² Annex C of :

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/249571/ia_cfd_secondary_legislation.pdf

strengthening future supply chain plans in terms of supporting supply chain growth and competition, innovation and skills. Taken together, the supply chain plans requirement has the potential to increase competition and lower future development costs³.

- 1.13 When the project has been built, the Secretary of State may request a post-build report and may publish this report, removing any commercially sensitive material. The intention of the post-build report is to provide the Secretary of State with information about how, and to what extent, the supply chain plan has been implemented - noting that the project developer may have altered the approach for good reason during the construction of the project (which should be clearly explained in the post-build report).
- 1.14 Currently, we do not believe this should be a legal requirement, but if projects do not submit a post-build report when requested, Government will consider whether this should be made mandatory under the regulations.
- 1.15 The Secretary of State's decision to approve subsequent supply chain plans would have regard to the degree to which a developer has implemented previous supply chain plans. It is understood that some circumstances will give rise to valid grounds for deviation from the approved supply chain plan. Where such a deviation has occurred, we would expect projects to be able to lay out clear reasons for this in the post-build report.

Assessing the Plans: the Criteria

- 1.16 Submitted supply chain plans will be assessed against a set of criteria intended to stimulate a robust and competitive supply chain with the aim of encouraging the production of low carbon generation and in turn, driving down the cost of electricity to consumers.
- 1.17 The criteria that Government proposes the plans are assessed against are as follows:

(i) Skills

- Whether a workforce with the necessary skills to undertake and construct the project is in place and, if not, what steps the project will take to address this. *This will allow for consideration of the deliverability of the project, and whether it is likely to lead to the deployment of additional low carbon generation.*
- How the workforce's skills will be maintained and developed for the life of the project, as well as during the construction of the project. *This will allow for consideration of how the project will contribute to improving the available pool of skilled labour in the*

³ Annex C of :

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/249571/ia_cfd_secondary_legislation.pdf

sector, and will in turn help to address the current shortage of skilled labour across the low carbon supply chain and increase the deployment of low carbon generation.

- The outcome we would like to achieve through these criteria is assurance that the necessary investment in skills and training is planned or underway, either through internal training or working in partnership with education institutions, and based upon the future estimates of the skills requirement. *The aim is to minimise skills shortages and increase productivity that otherwise could increase the cost of labour and the cost of the project itself, as well as delaying delivery - thereby minimising costs to consumers. A high scoring plan will set out the approach to skills and training in the key supply chain companies too.*

(ii) Competition

- How the project will encourage broader supply chains in order to increase competition and bring down future costs. *In particular, Government is interested in how the project will encourage competitive procurement processes and more open competition across the supply chain to ensure the widest possible pool of candidates are able to bid for contracts. A project may fulfil the criteria with other examples aimed at broadening the supply chain and encouraging new entrants. It is important that technically competent and cost-efficient suppliers are able to compete for contracts to ensure that low cost/high value projects are delivered. Removing barriers to entry to the supply chain and increasing competition amongst suppliers is proven to reduce the cost of low carbon technologies⁴, and minimises the cost to consumers of deploying low carbon generation that require support.*
- The outcome we would like to achieve through this requirement is to increase the number of companies that can compete for contracts and create wider awareness of the commercial opportunities amongst both companies that currently supply to the relevant low carbon generation sector and those that have the capability to do so, but have not yet reached critical mass or have entered the market. *By encouraging new entrants to the relevant sector, the criterion aims to develop a robust pipeline of suppliers to safeguard the viability of future projects. Moreover, truly competitive procurement processes should become an industry standard and thus reduce costs and supply chain risks.*

(iii) Innovation

- Whether approaches have been taken or will be taken to deliver the project in a way that will boost innovation in the sector. *This is a broad criterion and could be met by*

⁴ <http://www.thecrownestate.co.uk/media/305094/offshore-wind-cost-reduction-pathways-study.pdf>

demonstrating innovation in a number of ways, for example in the build/installation process itself or the technology used or the way the project will be operated. The examples given could demonstrate research and development, technological development or innovative procurement practices that allow companies with less established products/processes to compete. It is important to ensure that both projects and the supply chain as a whole work together to develop ways of delivering low carbon generation more efficiently and drive down costs, in order to minimise costs for consumers.

- The outcome we would like to achieve through this requirement is for new technology, methods and processes to be trialled across the project's lifetime from inception to decommissioning. *The impacts of this criterion will be in the long term: through the deployment of more efficient equipment and faster/better installation methods which reduce the cost of developing future projects. The levelised cost of energy should fall over time.*

Other project information:

1.18 We believe it will also be helpful if projects set out other information such as the stage of development of the project, a high level project plan that shows project milestones including the key actions in the supply chain plan, key decisions, and financial commitments and payments made to date. We do not expect that these would be detailed but an overview of the project will enable us to take the stage of the project into consideration and for the developer to demonstrate forward implementation of the supply chain plan.

1.19 We are mindful of the fact that some projects will have been in development prior to the full announcement of the requirement for projects to submit a supply chain plan. We therefore intend to take this into consideration in relation to projects that have made financial commitments and payments before October 2013 when this policy was fully announced, but would welcome views on whether this is an appropriate measure and cut-off point.

1.20 We will also take the size of the project into consideration when assessing the actions and evidence provided.

Assessing the Plans: the Process

1.21 Projects will need to consider the resulting impacts of the submitted actions under each criterion in their supply chain. Each supply chain plan will be assessed using a scoring system for the three criteria: innovation, competition and skills. We are minded to score each of these main criteria against four broad sub-criteria:

- a. A list of specific actions or commitments that the project has either already undertaken or will undertake in the future.

- b. An outline of the impact on the supply chain as a whole from the actions listed, using examples from the contracted supply chain if not a vertically integrated project.
In this instance, the 'supply chain' could refer to suppliers in the manufacturing, installation and project development, and/or operations and maintenance elements of the relevant low carbon generation project.
- c. An assessment of the wider impacts across the relevant low carbon generation industry from the actions listed.
- d. Relevant evidence of any claims or statements (with any annexed material clearly cross referenced in the main supply chain plan).

1.22 The amount of evidence submitted should be limited to relevant information only and any information which is irrelevant to the question of whether the criteria have been met will not be taken into account. In order to minimise the time taken to process plans, the plan should clearly signpost any additional evidence contained in annexes.

1.23 We do not believe that submitting a supply chain plan will be a significant additional burden on projects, as projects should have such information available as part of successful project management practices. We would welcome views on your assessment of the costs and benefits of the policy. The costs to Government are set out in the Impact Assessment⁵ published on 10 October 2013 with the EMR Consultation on Proposals for Implementation.

1.24 We are interested in views on whether the three main criteria of innovation, competition and skills should be weighted, giving more importance to one of the criteria. We are minded to weight the main criteria evenly or put more weight on competition due to the importance of creating a robust supply chain and bringing down long term costs. We also believe that there may be a case to weight sub-criteria 'a' and 'b' more highly than sub-criteria 'c' and 'd' and again would welcome views.

Assessing the Plans: Timetable

1.25 A developer will be able to submit a supply chain plan any time after the legislation underpinning the CfD allocation process comes into force. The period within which a plan must be approved or rejected begins from the day following the receipt of a complete submission. No plan will be considered prior to the start of the CfD process to ensure that all projects are placed on a level-playing field.

⁵ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/249571/ia_cfd_secondary_legislation.pdf

- 1.26 We will aim to assess the supply chain plans within 30 working days but borderline cases may take longer. However, for the purposes of the regulations which underpin the plans, we intend that the Secretary of State must approve or reject plans within 90 days of receipt. We do not envisage it will take that long unless there is an exceptional case. If applications are incomplete and further information is requested then we will 'stop the clock' until full information is provided. Where a project has not responded to a request for further information by the assessment team within a certain time period their plan will be rejected by default.
- 1.27 Once the plan has been reviewed, DECC will provide the project with a letter indicating whether their supply chain plan has been accepted or rejected. The project should then submit this letter to the EMR Delivery Body when applying for a CfD, whose role in this context will be only to check receipt of an approval letter.
- 1.28 Once a plan has been approved, the approval will be valid for 12 months and if a project applies for a CfD when the approval is no longer valid, they will need to re-submit their supply chain plan.
- 1.29 If a plan is rejected, a letter will be sent out setting out the reasons for the rejection, and the plan may re-submitted with additional content at any point. There will be no limit to the number of times that a project can re-submit their supply chain plan.

Next Steps

- 1.30 This consultation closes on 24 December 2013. We will aim to publish the Government response, and lay the regulations for the supply chain plan requirement in Parliament in spring 2014 with the aim of having them in force by the end of July 2014. We will also publish the final guidance at this time.

Consultation Questions

CFD 56	What impact, in terms of benefits and costs, do you think the supply chain plan assessment will have?
CFD 57	What additional steps could Government consider to deliver our objectives? If applicable, you may wish to draw on your experience of the FIDeR

	process.
CFD58	Should the supply chain plan assessment process take into account the development stage of the project? If so, how could this best be reflected and measured in the supply chain plans to be submitted e.g. considering any procurement commitments that are in place, status of construction etc?
CFD59	Do you have any views on whether the three main criteria of innovation, competition and skills should be weighted and whether the sub-criteria should be scored evenly?
CFD60	Do you have any other comments or suggestions for the assessment criteria or scoring process that you think would support the aims of EMR to drive down the cost of low carbon generation (by promoting innovation, skills and open and competitive supply chains)?

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