Department for
Business, Energy
& Industrial Strategy

Low Carbon Hydrogen Supply 2 Competition: Stream 1 Phase 2 Guidance Notes Q&A

An SBRI Competition

Stream 1 Phase 2: prj_579

Version 2

September 2022

Any enquiries regarding this publication should be sent to us at:
nzip.hydrogen@beis.gov.uk

Low Carbon Hydrogen Supply 2 Competition: Stream 1 Phase 2 Guidance Notes Question and Answer (Q&A)

This Q&A covers answers to questions submitted to the BEIS NZIP Hydrogen Team (nzip.hydrogen@beis.gov.uk) up until 12 noon BST, 9 September 2022. The questions submitted via email, which in our judgement were of material significance have been addressed and published in this document. Questions submitted after this date and time may not be answered.

Further details are provided in the Low Carbon Hydrogen Supply 2 Invitation to Tender (ITT)/Guidance Notes document for Stream 1 Phase 2 which is available on the competition webpage. Please read the answers in conjunction with the Stream 1 Phase 2 ITT.

The following questions apply only to Stream 1 Phase 2 of the competition.

Abbreviations

BEIS	Department for Business, Energy & Industrial Strategy
BST	British Summer Time
GMT	Greenwich Mean Time
HM	His Majesty's
ITT	Invitation to Tender
NZIP	Net Zero Innovation Portfolio
Q&A	Question & Answer
RD&D	Research, Development & Demonstration
SBRI	Small Business Research Initiative
T&Cs	Terms & Conditions
VAT	Value Added Tax

Section 1: Eligibility for Funding

1. Is the maximum funding available per project £6 million excluding VAT and must the funding of up to £3m excluding VAT for engineering design be allocated from the £6m (excluding VAT) budget?

Yes. The maximum funding available per project is up to £6m excluding VAT and the minimum funding available per project is £1m excluding VAT (this must cover 100% of eligible project costs). From the maximum available funding of £6m excluding VAT, up to £3m excluding VAT can be allocated to engineering design.

2. Is it mandatory for the Phase 1 project lead organisation to remain the lead organisation for the Phase 2 project?

Where possible, the Phase 1 project lead organisation should continue to lead the Phase 2 project. However, this is not mandatory. If there is a change in the Phase 1 project lead organisation for the Phase 2 project, you must comply with the following limits of change to the consortia:

- The new Phase 2 project lead organisation must have been a partner organisation on the corresponding Phase 1 feasibility study.
- The Phase 1 lead organisation must remain as a partner organisation in Phase 2 and have a significant role in the delivery of the Phase 2 project.

Section 2: Application Process

3. Will there be an extension to the deadline for submission of Phase 2 applications?

No. Phase 2 applications must be submitted by the deadline of 12 noon GMT, 31 October 2022. The online application form will be closed for submissions at this exact date and time.

4. Are any schedule changes to the current application window/award date anticipated in accordance with the passing of Queen Elizabeth II, or personnel changes within the Cabinet of HM's Government?

No. Phase 2 applications must be submitted by the deadline of 12 noon GMT, 31 October 2022. The online application form will be closed for submissions at this exact date and time. Phase 2 contracts are expected to be awarded in February 2023. Please refer to Section 3 of the Stream 1 Phase 2 ITT/Guidance notes for further detail on competition timetable.

5. Will Phase 2 bids that practically align with other BEIS-funded projects, e.g., with a shared site/location and resultant cost savings be viewed favourably? If so, how will this be considered objectively within the boundaries of the assessment criteria?

Cost savings will be assessed as part of the Value for money to HM Government criterion in Section 7 Criterion 4b of the Stream 1 Phase 2 ITT/Guidance Notes. Please refer to the Guidance Notes for further information.

Section 3: Finance

6. When applying to Phase 2, is there a way to protect against large variable costs that are difficult to accurately estimate in advance?

When applying to Phase 2, projects may wish to use the upper bounds of any uncertainty in the cost estimates of individual items. Contingency cost cannot be given as an individual line item. At application stage, projects cannot include match funding and must charge all eligible costs to BEIS. All project costs must be realistic, justified, and eligible and will be assessed as outlined in Section 7 of the Stream 1 Phase 2 ITT/Guidance Notes.

During the delivery of the Phase 2 project, BEIS will pay for actual eligible costs incurred. However, the contract will be a capped price contract. Therefore, projects will need to manage project finances within the capped contract price. If any costs overrun during the project, projects can cover those themselves as part of risk-benefit sharing.

7. HM Government have announced that gas prices for businesses will be 'frozen' for 6 months with potential further support for selected businesses after this initial period. To ensure that all suppliers/Phase 2 projects are on a 'level playing field', please can you advise on how projects are expected to protect demonstration programmes from turbulent gas & electricity prices over the 23-month duration, if contingency costs are considered as ineligible for the bid due in October 2022? How will BEIS ensure that the value for money of our bid is assessed fairly when compared with other competing bids that are less impacted by gas/energy costs?

When applying to Phase 2, projects may wish to use the upper bounds of any uncertainty in the cost estimates of individual items. Contingency cost cannot be given as an individual line item. At application stage, projects cannot include match funding and must charge all eligible costs to BEIS. During the delivery of the Phase 2 project, BEIS will pay for actual eligible costs incurred. However, the contract will be a capped price contract. Therefore, projects will need to manage project finances within the capped contract price. If any costs overrun during the project, projects can cover those themselves as part of risk-benefit sharing.

All project costs must be realistic, justified, and eligible and will be assessed as outlined in Section 7 Criterion 4 of the Stream 1 Phase 2 ITT/Guidance Notes. Value for money to HM Government will be assessed using the guidance outlined in Criterion 4b. This guidance will be applied consistently and fairly across all Stream 1 Phase 2 bids with highest marks being awarded to the bids that best demonstrate:

- The balance of risks and benefits seen by the project consortium and seen by HM Government in their project finances.
- A strong and justified case that the project provides value for money.
- That a large proportion of the funding is used for innovative technologies/activities, to develop new evidence and deliver against programme objectives.
- That future use of assets will provide additional evidence on hydrogen production, either in long term operation or in further industrial RD&D.

8. Within a Phase 2 contract, is a project able to recover auditable employment costs amounting to approximately 40% of the direct labour cost for personnel if these employment costs do not include any profit element?

A Finance Form will be provided on the Low Carbon Hydrogen Supply 2 Competition website for projects to complete and submit with their Stream 1 Phase 2 application form. Within the Labour & Overhead Costs worksheet, there will be a column for Annual Gross Salary (Employee Salary), Additional Employer Contributions (includes NI, Pension, Benefits contributions etc.) and Overheads. When applying, projects must include their labour & overheads costs within the appropriate columns in the Labour & Overhead Costs worksheet. BEIS will not pay overheads over 50% of the total project labour costs. Applicants must provide a detailed breakdown and justification of the overhead costs in Cell E79 of the Labour & Overhead Costs worksheet. All project costs must be realistic, justified, and eligible and will be assessed as outlined in Section 7 of the Stream 1 Phase 2 ITT/Guidance Notes. No profit must be included within these costs.

9. The Phase 2 project entails significant costs for equipment and construction contracts and potential delays in re-imbursement of these costs could result in substantial cash flow and contract breach impacts on the suppliers. Would BEIS be open to agreeing a payment profile that allows the cash flow risks and consequences to be minimised?

Yes. BEIS will explore cash flow issues with the applicant as part of developing the financial and milestone profile during the Contract Award process. BEIS will offer flexibility in terms of profiles and payments, within the confines of the requirements for use of public money within which it operates. BEIS will not make payments in advance of need and typically makes contract payments in arrears on satisfactory completion of agreed milestones and deliverables. Please refer to page 47 of the Stream 1 Phase 2 ITT/Guidance notes for further detail. To minimise any delay in re-imbursement of costs, BEIS encourages all projects to follow the correct invoicing procedures as shared by the monitoring officer of their project.

10. Would BEIS be open to allowing projects to factor invoices (also known as debt factoring) using a bank as a method of improving/safe-guarding cashflow?

Please see the answer to question 9 on the flexibility that BEIS may be able to offer. Please note that it is necessary for BEIS to have a contractual relationship with a party to which it makes a payment.

Section 4: Commercial

11. Are suppliers allowed to reuse existing equipment from a previous demonstrator project for the Phase 2 demonstrator project?

Whilst match funding is an ineligible cost, projects may provide up to 100% cost savings to BEIS where the eligible cost for a product or service has been reduced below market value. Projects may also charge BEIS for the cost of depreciation for any equipment they already own (unless it is already 100% depreciated).

12. If suppliers chose to house the Phase 2 demonstrator plant on their own premises, would this be considered self-funding?

No. Projects may provide up to 100% cost savings to BEIS where the eligible cost for a product or service has been reduced below market value.

13. During Phase 2, can we sell our pilot Hydrogen generator developed in Phase 1 to a customer?

Yes, this is acceptable as suppliers will have full ownership of the equipment procured as part of the Phase 1 Feasibility study after the completion of their Phase 1 project. The eligible cost awarded to the project for Phase 1 equipment is the difference between the purchase capital cost and residual value.

14. During the detailed design stage of a Phase 2 project, if a project team encounters design challenges that impact a project's ability to build a demonstrator within the project timeframe and to complete the project, is the supplier allowed to stop/ terminate the project and will this require a repayment of the funds claimed to date?

BEIS understands that during delivery of their Phase 2 demonstrators, innovative projects may face design challenges. BEIS will appoint a monitoring officer to support the delivery of the demonstration project. Projects are required to engage with the project monitoring officer regularly and effectively throughout the project. Any risks, issues or challenges faced by a project must be raised to the monitoring officer as early as possible and a formal Change Management process must be followed to justify the selected mitigation and to evaluate alternative mitigation strategies. For more information on a contractor's cancellation rights, please refer to the BEIS Pre-commercial Terms and Conditions outlined in Appendix 7 of the Stream 1 Phase 2 ITT/Guidance Notes.

15. For Phase 2, some of our partners will be supplying standard commercial services for which they will expect to charge their standard business rates (for e.g., capital purchase of equipment, provision of gas sampling and analysis services, etc.) but will also be expected to participate in engineering studies (for e.g., desktop studies, literature reviews, etc.) as part of the project delivery team. Can BEIS clarify its position on the inclusion of standard profit for standard commercial services from partners? Can BEIS also advise on how to best manage contractual relationships where standard commercial services are to be provided (i.e., consortium partner vs sub-contractor)?

Profit is an ineligible cost on this competition and must not be included in the project costs for all project consortia members. This forms part of the Risk Benefit Sharing Eligibility Criterion 11 in Section 4 of the Stream 1 Phase 2 ITT/Guidance Notes. Projects receive financial support and retain any intellectual property generated, with certain rights of use retained by BEIS. It is up to the project lead organisation to decide on how best to managed contractual relationships with projects stakeholders (consortia member vs. sub-contractors). Projects must demonstrate a fair balance of risk and benefits for BEIS, including no element of profit for the lead or the project partners and where possible the subcontractors in the project costs. Inclusion of profit will be assessed as part of Criterion 4b in Section 7 of the Stream 1 Phase 2 ITT/Guidance Notes. The sharing of risks and benefits is an important aspect to the SBRI approach.

16. Can we change a partner/sub-contractor during the Phase 2 project?

A change of partner/sub-contractor will require prior BEIS approval and will be subject to due diligence being conducted on the new partner(s)/sub-contractor(s) as part of the Change Management process applicable to the Phase 2 competition. Additionally, for a change to a partner organisation, BEIS will require the competition T&Cs to be flowed through to any new partner(s) and the new partner(s) must sign a consortium agreement with the lead organisation.

This publication is available from: www.gov.uk/government/publications/low-carbon-hydrogen-supply-2-competition

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