

Contract Award Criteria

Mid-Term (Y-1) Stability Market Assessment Methodology

Version 3

Tender Year: 2023-2024

Delivery Year: 2025-2026



Version Control

Version	Description	Date
V1	Initial publication at EOI stage of the tender process. The purpose of sharing this at EOI stage is to provide transparency on the intended assessment methodology approach. This document is subject to amends and updates at Invitation to Tender (ITT) stage.	3 October 2023
V2	Updated publication at the ITT stage of the tender process. This version updates the draft version (V1) that was published at EOI stage of the tender process.	20 December 2023
V3	Stage 6 section updated with more detail about how utilisation will be assessed. Specifically, the “Information that will be assessed” and the “Finding the optimum solutions” sections.	16 February 2024

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Purpose of this document and the ITT Pack

This document and the other documents that make up the Invitation to Tender (ITT) Pack which has been provided in good faith. The purpose of these documents is to provide the market with information about the tender rules and requirements to enable market participants to make an informed tender submission as part of the ITT. This document has been updated accounting for feedback received through the consultation that was held prior to the ITT. As a result, ITT documents may supersede earlier documents and/or information previously communicated during the EOI.

Commercial Decisions

Any commercial decisions made by bidders to facilitate or support tender submissions are made at the full discretion of the tender participant. Neither ESO nor any other companies in the National Grid plc group, nor

any directors or employees of any such company shall be liable for any results of these commercial decisions and does not accept responsibility for any commercial decisions made by participants.

Contract award strategy

The ITT assessment for the 2025/2026 delivery year of the Mid-Term (Y-1) Stability Market will be conducted against the predetermined assessment methodology and Contract Award Criteria as detailed in this document, in accordance with the Instructions to Tenderers document.

This document should be read in conjunction with the rest of the ITT Pack, with specific attention to the Instructions to Tenderers and the relevant submission documents.

The award of an overarching framework agreement for the Mid-Term (Y-1) Stability Market will be based on whether proposed solutions meet stages 0 – 3 of the tender criteria set out in this document. Those that meet this criteria will be considered for the award of a delivery call-off contract for the 2025/2026 delivery year (through stages 4 – 6 of the criteria). The award of the 2025/2026 call-off contract will be based on the most economically efficient combination of solutions that meet the requirement, taking into consideration the cost of purchasing the same 2025/2026 requirement through the Balancing Mechanism (BM).

ESO may procure above, or below, the 2025/2026 delivery year requirement according to the bids received, the methodology set out in this document and other tender documents, and what the ESO believes (at its sole discretion) to be the most economic action to take.

The first Mid-Term (Y-1) Stability Market tender will be referred to as ‘**Mid-Term 25/26**’ herein.

Assessment process

Bids received in response to ESO’s invitation to tender (ITT) for **Mid-Term 25/26** shall be assessed by a designated team of evaluators who shall assess the solutions against the Contract Award Criteria and scoring methodology outlined in this document.

Detailed below is a summary of the criteria that will be considered and the assessment process that will be followed when awarding the **Mid-Term 25/26** contracts, including a reference to the submission document that is applicable for each of the criteria.

Table 1

Stage No	Assessment criteria	Assessment method	Shortlisting strategy	Applicable document
0	Initial compliance check	N/A – checking to ensure all submissions have been received in full	Non-compliant submissions may be rejected at this stage.	<i>All submission documents</i>
1	Mandatory due diligence criteria	Bidders must pass all pass/fail questions.	Submissions that do not meet any minimum pass/fail requirements will be rejected.	<i>Commercial Submission Document, tab “A – Mandatory Questions”</i>
2	Technical Criteria, inclusive of the feasibility simulations	Bidders must pass all pass/fail questions.	Submissions that do not meet any minimum pass/fail requirements will be rejected.	<i>Technical Submission Document, tab “Section A Solution Outline” and tab “Section B Feasibility Simulation”</i>

3	Delivery Criteria	Pass/fail – bidders must pass all pass/fail questions.	Submissions that do not meet any minimum pass/fail requirements will be rejected.	<i>Technical Submission Document, tab “Section C Delivery Criteria”</i>
4	Eligibility Criteria	Pass/fail – bidders must pass all pass/fail questions.	Submissions that do not meet any minimum pass/fail requirements will be rejected.	<i>Technical Submission Document, tab “Section A Solution Outline”</i>
5	Financial Health Criteria (securities)	Bidders must pass by satisfying requirements	Submissions that do not satisfy financial health requirements will be rejected.	<i>Commercial Submission Document, tab “B – Financial Health”</i>
6	Economic optimisation	Must be identified as within economic portfolio of solutions to receive a 2025/2026 delivery year call-off contract.	This stage will be used to identify the most economically efficient portfolio of solutions for the 2025/2026 delivery year.	<i>Primarily Commercial Submission Document tab “C – Pricing Submission”</i>

Throughout each stage listed in the assessment process, where there is any ambiguity or an incomplete response, this may or may not be clarified by ESO. Clarifications will be issued with a set response deadline. Tenderers should note that clarifications are only to clarify ESO’s understanding of the tender or to clarify clear errors. They are **not** an opportunity to resubmit a response and should **not** be viewed as an extension of time.

Solutions that pass stages 0 – 3 will be entitled to receive an overarching framework agreement. These solutions will progress to be considered in stages 4 through 6.

Only those that are successful in stages 4 through 6 will receive a call-off contract for the 2025/2026 delivery year.

How will the process in Table 1 above apply in future tender years where a bidder already has an existing framework?

Table 2

Stage No	Does this stage still apply when a bidder already has an existing framework agreement for the Mid-Term (Y-1) Stability Market?
0	A compliance check will still be conducted to ensure all submissions have been received in full.
1	Where bidders declare there has been no change compared to the initial response to these questions, the bidder will be fast tracked past this stage. Where there has been any change, the bidder will be required to re-complete this criterion and be re-assessed.
2	Where bidders declare there has been no change compared to the initial response to these questions, the bidder will be fast tracked past this stage. Where there has been any change, the bidder will be required to re-complete this criterion and be re-assessed.
3	Where bidders declare there has been no change compared to the initial response to these questions, the bidder will be fast tracked past this stage. Where there has been any change, the bidder will be required to re-complete this criterion and be re-assessed.

4	This will need to be re-assessed during each tender round for each call-off contract.
5	This will need to be re-assessed during each tender round for each call-off contract.
6	This will need to be re-assessed during each tender round for each call-off contract.

Stage 1: Mandatory due diligence assessment methodology

Bidders need to complete the mandatory due diligence questions in the Commercial Submission Document (Tab A – Mandatory Questions).

These questions will be evaluated using the scoring methodology outlined in this section.

Table 3

Item	Question Type	Explanation/ Impact of Non-compliance
1	Pass/fail questions.	Must pass all pass/fail questions. Submissions that do not meet any minimum pass/fail requirements will be rejected.
2.	For Information Only questions.	The “For Information Only” questions are not scored.

Stage 2: Technical Criteria assessment methodology

Section A – solution outline assessment methodology

Bidders need to complete the technical compliance questions in the Technical Submission Document (Tab Section A – Solution Outline). These questions will be evaluated using the scoring methodology outlined in this section.

Table 4

Item	Question Type	Explanation/ Impact of Non-compliance
1	Pass/fail questions.	Must pass all pass/fail questions. Submissions that do not meet any minimum pass/fail requirements will be rejected.
2	For information only questions.	The “For Information Only” questions are not scored.

Section B – feasibility simulation questions assessment methodology

Bidders must answer the questions in tab Section B Feasibility Simulation of the Technical Submission Document about the results of the feasibility simulations that must be completed. These questions will be evaluated using the scoring methodology outlined in this section. For more details on the Feasibility Simulation requirement please refer to the Feasibility Simulation Guidance.

Table 5

Item	Question Type	Explanation/ Impact of Non-compliance
1	Pass/fail questions.	Must pass all pass/fail questions. Submissions that do not meet any minimum pass/fail requirements will be rejected.
2	For Information Only questions.	The “For Information Only” questions are not scored.

Stage 3: Delivery Criteria assessment methodology

Bidders need to complete the Delivery Criteria questions in the Technical Submission Document (Tab Section C – Delivery Outline). These questions will be evaluated using the scoring methodology outlined in this section.

Table 6

Item	Question Type	Explanation/ Impact of Non-compliance
1	Pass/fail questions.	Must pass all pass/fail questions. Submissions that do not meet any minimum pass/fail requirements will be rejected.

Stage 4: Eligibility Criteria assessment methodology

Bidders need to complete the Eligibility Criteria questions in the Technical Submission Document (Tab Section A – Solution Outline). These questions will be evaluated using the scoring methodology outlined in this section.

Table 7

Item	Question Type	Explanation/ Impact of Non-compliance
1	Pass/fail questions.	Must pass all pass/fail questions. Submissions that do not meet any minimum pass/fail requirements will be rejected.

Stage 5: Financial health assessment methodology

Bidders need to complete the financial health questions in the Commercial Submission document (tab B – Financial Health). The financial health assessment is made up of the following parts:

1. Agreement to provide the Acceptable Security (as defined by the tender rules and terms and conditions).
2. Dun & Bradstreet (D&B) analysis of the party providing the security.
3. Credit check of the party providing the security.

Each part will be assessed using the methodology outlined below.

Part 1 Agreement to provide the Acceptable Security

Bidders must confirm they will provide an Acceptable Security as defined in the General Terms and Conditions in line with the contractual requirements.

This part of the financial health assessment asks bidders to:

- Confirm they will provide an Acceptable Security as defined in the General Terms and Conditions in line with the tender rules and contractual requirements.
- Confirm which form of Acceptable Security they will be providing (e.g. a Parent Company Guarantee (PCG))
- Provide a draft version of the chosen Acceptable Security
 - Where relevant confirm that the type of security is based on the ESO template

- Confirm the details of the guarantor company (Company name, Company registration number) who will be providing the Security. This will be used to enable Part 2 and Part 3 of the financial health assessment.
 - For example, where a PCG is being provided, the details of the parent company would be provided. Alternatively, where a Performance Bond is being provided, the name of the guarantor would be the Rated Bank.

This part of the financial health assessment will be evaluated using the scoring methodology outlined in the table below.

Table 8

Item	Question Type	Explanation/ Impact of Non-compliance
1	Pass/fail questions.	Must pass all pass/fail questions. Submissions that do not meet any minimum pass/fail requirements will be rejected.
2.	For Information Only questions.	The "For Information Only" questions are not scored.

Part 2 Dun & Bradstreet analysis

Within one month after the tender submission deadline, ESO will assess the Dun & Bradstreet Failure and Delinquency Scores of the named guarantor company (not the bidder). This assessment will be done using Dun & Bradstreet Credit, and a prorated scoring analysis. The following formula will be used: **Dun & Bradstreet Score / 100 * Maximum Available Score**

Table 9

Dun & Bradstreet Score	Max Dun & Bradstreet Available Score	Maximum Available Score
Company Failure Score	100	50
Company Delinquency Score	100	50

Please note these formulas are built into the Commercial Submission Document and should not be edited.

Where either or both the Dun & Bradstreet Failure and Delinquency scores are not available, ESO will use the Dun & Bradstreet PAYDEX score as an alternative. This will be scored with the same weighting as the Failure and Delinquency Score combined. If a PAYDEX score is not available, then the default score used for the assessment will be 0.

Part 3 Credit check

During the financial health assessment ESO will conduct a pass/fail assessment on whether the guarantor (e.g., parent company, Rated Bank) providing the Acceptable Security has an acceptable credit rating based on the list below.

- A- Standard and Poor's (S&P) long-term rating; or
- A3 Moody's long-term rating;

This part of the financial health assessment will be evaluated using the scoring methodology outlined in the table below.

Table 10

Item	Question Type	Explanation/ Impact of Non-compliance
1	Pass/fail.	Must pass all pass/fail questions.

Submissions that do not meet any minimum pass/fail requirements will be rejected.

Should the guarantor company providing the Acceptable Security (parent company, Rated Bank) not have an acceptable credit rating for either S&P or Moody's then ESO reserve the right to either:

- 1) accept an alternative credit rating that is equivalent to the listed credit ratings above if this can be evidenced; or
- 2) request the security is provided by an alternative provider that meets the acceptable credit ratings. If the Tenderer does not agree to do so, ESO shall consider this a 'fail'; or
- 3) Accept a lower rating at ESO's discretion on a case-by-case basis subject to performance on other aspects of the financial health check and perceived level of overall risk associated with the bid.

Financial health assessment summary

The overall financial health assessment will be based on the combination of these three parts based on the table below.

Table 11

Result	Description	Comments
Pass	<ul style="list-style-type: none"> • Satisfies the pass/fail requirements of Part 1 • Scores above 50 in Part 2 • Satisfies the pass/fail requirements of Part 3 	Tenderer has satisfied the requirements of the financial health check in full.
Subject to Review	<ul style="list-style-type: none"> • Satisfies the pass/fail requirements of Part 1 • Scores below 50 in Part 2 • Satisfies the pass/fail requirements of Part 3 	<p>If Part 1 and Part 3 have been satisfied, then the Tenderer will typically be allowed to pass by ESO (subject to the below).</p> <p>ESO may explore the reasons for the lower D&B score. ESO reserve the right to retain or remove tenderer from tender process as result of these findings.</p>
Fail	<ul style="list-style-type: none"> • Fails to meet the pass/fail requirements of either Part 1 or Part 3 	Tenderer has failed to satisfy the financial health requirements.

Stage 6: Economic optimisation methodology

Inertia

The Economic Assessment will be used to identify the overall optimal combination of solutions, to ensure the inertia requirements identified between October 2025 and September 2026 (the delivery year for **Mid-Term 25/26**) are met at the lowest overall costs to consumers using price information based on the availability fees and utilisation fees. This will be subject to the end portfolio of solutions being technically feasible and the costs being lower than our counterfactual options.

Information that will be assessed

V3 Clarification: *This section has been updated within the V3 publication of this document.*

- An availability price (£ per settlement period (£/SP)), which should be inclusive of fixed costs faced by the provider, for example all applicable network / use of system charges, levies & losses.

- A utilisation price (£ per Hour (£/h)), which should be inclusive of all variable costs to the providers, for example: fuel.
 - The availability price and utilisation price proposed by bidders should be the most competitive price that can be offered.
- Service start date and any associated late start adjustments.
- Inertia contribution in GVA.s, as stated in the technical specification.
- Any mutually exclusive or independent constraints will be factored at this point.

This information will be assessed to find the overall combination of optimal solutions considering both total availability costs and total utilisation costs:

- The economic assessment tool will calculate the total availability costs by using:
 - Submitted availability price (£/SP)
 - A calculated availability profile based on the 90% availability requirement and the service start date specified by providers (in total number of SP per year)
- The economic assessment tool will calculate total utilisation costs by using:
 - Submitted utilisation prices (which may be calculated into £/SP or £/GVA.s/h from the submitted £/h price)
 - ESO's indicative utilisation load across a range of simulations. The simulations consider potential inertia shortfalls and the cost that provided inertia solutions would produce to meet these.
 - Bidders should note that where they sit within the utilisation price stack will impact how they are assessed against this utilisation load. Bidders will not be assessed against a fixed amount of utilisation hours.
 - For reference, the indicative mean utilisation is currently expected to be between 5-15% (please refer to the Technical Specification for more details). This is our best view of the utilisation profile at this time, representing an indicative view of the mean utilisation during the delivery year and is not representative of the absolute minimum and maximum a provider could expect to be utilised. This mean utilisation range is derived from a number of different scenarios that the ESO has forecasted and as such should be taken as indicative only. The ESO will continue to review the forecasted utilisation profile prior to tender submissions and communicate any change to this range with the market. Please also note the utilisation of each provider in the delivery year will differ (potentially considerably), according to their relative merit order in the utilisation price stack.

Start Date

For solutions arriving after 1st October 2025, ESO will assess these based only on the period for which they are available after their stated start date.

However, for the purpose of the economic assessment, ESO may account for the alternative BM counterfactual costs that are incurred associated with late starting solutions. This alternative cost will not be an adjustment that is applied to the total cost of each solution but instead accounted for in the overall annual cost optimisation and the level of BM counterfactual required.

Finding the Optimal Solution

We will use optimisation methods to find the most cost-effective set of solutions that meet our requirements for the 2025/2026 delivery year. It will be set up to minimise total cost of solutions, subject to meeting all inertia requirements as well as constraints, such as mutually exclusive options.

The solutions will be assessed against a range of plausible system condition simulations with equal weighting given to each simulation. The system condition simulations will determine the inertia shortfall at each half-hourly period and will consider such elements as typical wind conditions and expected demand levels. **V3**

Clarification: Successful units will represent the lowest cost combination of options across the entire range of simulations, rather than any individual simulation.

Mutually exclusive constraints will be added based on the rules set by ESO and any additional information in individual tender submissions, as well as to reflect any constraints that prevent multiple exclusive solutions from the same unit from being successful.

Each option will have an inertia contribution. The economic assessment will be running on national level and once a solution is found, ESO will check if the solution is feasible technically. The cost will be the total present value over the tender period from 1st October 2025 to 30th September 2026.

In addition to the options submitted by tender parties, there will be options that represent the typical cost of buying different amounts of inertia using Balancing Mechanism units. This may mean that the full requirement is not bought through the Mid-Term (Y-1) Stability Market if the cost would be excessive and there are alternative actions that could be taken to meet the requirement.

Bidding & Assessment Principles

- Providers can submit up to 3 bids for the same underlying asset/group of assets with different volume and price proposal. All the bids for the same unit will be treated as mutually exclusive. For more details, please refer to Section 14 of the Instructions to Tenderers.
- There is no linking between units or bids through 'all or nothing groups' or 'efficiency groups' allowed for this market. For more details, please refer to Section 14 of the Instructions to Tenderers.
- ESO reserve the right to over or under-procure against the identified requirements at ESO's sole discretion.
- The assessment will be conducted on a national level initially. The results will then undergo locational checks to make sure that no more than 12GVA.s of inertia could be lost to a credible fault. If you think this could exclude your solution, please contact the ESO. The locational needs may prohibit some solutions from winning, in this case the next economic solution will take its place.
- Minimum bid size is set at 100MVA.s without any limits on maximum bid size. ¹
- Minimum bid price is set at £0/hr and maximum bid price is set at £99,999/hr.
- In case two providers could provide the same volume at the same price to fulfil the requirement, ESO will use the voltage level connection point as tie-breaking rule. In case of those two providers being on the same voltage level, ESO will use a "random number" technique to determine which unit will be taken forward.

¹ For the purpose of this tender 1GW.s = 1GVA.s

Counterfactual

To ensure consumer value, the options submitted in this tender will be assessed against a counterfactual cost. This will typically mean the cost of using balancing mechanism (BM) units to meet inertia requirements. To value these costs, the ESO need to match the inertia requirement in each settlement period with available generation, which is a function of each scenario's generation background and availability to start up. An optimisation tool will be utilised to find the lowest cost solution for each half-hour, while meeting constraints, such as the requirement. The BM costs are determined by combining the cost of accepting offers on the available generators up to their stable export limit (SEL). ESO need to maintain the balance of generation and demand, so the cost of bidding off an equal amount of generation elsewhere is also included. Additionally, non-energy actions from BM units may be used in counterfactual to support finding the optimal solution.

The BM costs used as a counterfactual to any proposed provider solution would be directly derived from utilisation profile modelling, which is designed to assess the generators on the system for each settlement period able to meet demand and taking into consideration the possible variability in weather and generation availability. The result from this modelling would output distribution of the inertia shortfall under different conditions and marginal plants able to be synchronised to meet this shortfall. The marginal plants would become the basis of counterfactual costs, which are offers and bids prices from BM. The ESO will use historical bid and offer prices submitted to the BM but adjusted for wholesale market trends. Please note ESO will not publish the granular cost information of the bid/offer prices used as this is considered sensitive information.

This model is run across the whole **Mid-Term 25/26** contract period and will be used to compare the cost of tendered options with the alternative of not procuring that inertia and instead using the BM (potentially inclusive of both energy and non-energy actions) to manage the requirement. If it is cheaper to manage some level of requirement using BM units (whether these are energy or non-energy actions) than to use tendered options, ESO may buy less than the requirement through this tender.

Additional Notes

Returning to the stack

ESO expects that all bidders and solutions that are successful in receiving a delivery year contract will provide their contracted service between 1st October 2025 and 30th September 2026 in full, as this is a condition of the Tenderer Declaration that all Tenderers must return as part of their Tender Submission.

However, if for any reason this is breached after Tender Acceptance Letters have been issued, and a Provider defaults during the first 180-days after Contract Award, ESO reserve the right to return to the stack and procure the most economic replacement(s). For the avoidance of doubt, this might be done in successive order or in parallel based on the order of the stack at the point of Contract Award. Alternatively, ESO reserve the right to manage the system through the Balancing Mechanism or re-tender for the remaining requirement if necessary.

Site Visits, Presentations, Interviews

ESO reserves the right to undertake site visit(s), request a presentation from participants, or undertake an interview with all or some of the bidders who meet the above criteria. These will be used to provide greater understanding of participant's submissions.

Negotiations

ESO reserves the right to initiate negotiations with Tenderers.