Annex D.

Italy: Call for tender structure

Context

Founded in 1997, Consip is the Italian central purchasing body, it is 100% owned by the Ministry of Economy and Finance (MEF). Since 2000, Consip has been tasked with the implementation of the Programme for the Rationalisation of Public Spending on Goods and Services, which includes the use of tools such as framework agreements. Energy is one of the product/service categories that Consip provides to public administrations. In 2005, Consip’s energy unit realised, by means of analysis and market research, that there was room for designing a framework agreement, for the first time, in the procurement of heating services. This area absorbed 34% of the national energy expenditure (about EUR 3.4 billion annually) and accounted for approximately 5% of the Italian energy market. The expected target was to achieve economical savings of 5-10% and equivalent energy savings.

Consip issued the first edition of the Integrated Energy Service tender in 2006, and further developed services provided under this umbrella, which now includes the provision of electrical systems. The framework agreement is now running under the third edition, and the fourth edition notice has been recently published.

Objectives

The key objective of the framework agreement was to provide services for the largest possible number of administrations disseminated throughout the country, while ensuring sufficient flexibility as it was not possible to list the buildings to be heated and their technical/physical features.

Taking into account the strong environmental considerations, another objective of the framework agreement was to ensure that it was a performance-based approach that would achieve shared savings. The suppliers would be paid for a fixed flat rate, and then further compensated once the energy performance target has been achieved.

Consip’s final objective was to gradually increase environmental performance targets, as well as sustainable market development. New framework agreements are therefore now referred to as “Total Energy Building Framework Agreements”.

Implementation

Before the issuance of each tender edition, Consip undertook a market analysis based on historical data and information deriving from the answers provided by suppliers to questionnaires published on Consip’s website, as well as public announcements of companies’ schedules and scope of forthcoming procurement initiatives. Online
questionnaires included information about the geographical coverage of the companies and reasons that would prevent companies from bidding.

Prior to the first edition, Consip thoroughly analysed the needs and capacity of contracting authorities and suppliers. Despite the interest shown by major stakeholders, investments in energy efficiency were not developing due to several barriers:

- Absence of specific standards (measures, benchmarking, procedures, etc.) and low awareness of existing opportunities of energy efficiencies in public buildings.
- Lack of expertise among public employees to partner with the industry.

To overcome these challenges, Consip included in the tender documentation the identification of a technical person for each contracting authority that suppliers should commit to train on energy efficiency themes. Informative meetings on the subject have also been organised that aim to raise awareness of the topic and promote the use of a framework agreement strategy that enables economies of scale and a decrease of administrative costs.

To analyse the supply side, several meetings took place with the main trade associations and with all energy service companies (ESCOs) that had won in previous relevant tenders to discuss the critical aspects that emerged during the execution of the previous relevant contracts. This meant that suppliers were involved before the decision of a tendering strategy and were offered the opportunity to present their views, so that the best strategy could be chosen by Consip.

Considering the inherent coverage uncertainty in terms of buildings, Consip decided to design the first tender with the view of implementing a framework agreement open to all public administrations. Therefore, the tendering process was developed starting from a business case on a specific public building that was extrapolated to the entire value of the tender and number of forecasted buildings. The following editions thus benefited from a refined assessment of the contract coverage.

### Table A.D.1. Coverage of the framework agreement

<table>
<thead>
<tr>
<th>Tender edition</th>
<th>Number of contracting authorities</th>
<th>Contract value (Million EUR)</th>
<th>Number of buildings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>324</td>
<td>803</td>
<td>5.800</td>
</tr>
<tr>
<td>2</td>
<td>298</td>
<td>1.367</td>
<td>7.200</td>
</tr>
</tbody>
</table>

*Note:* Results of the 3rd edition are not available yet

**Impact and monitoring**

The tendering process has always been an open procedure on the basis of the most economically advantageous tender (MEAT), whereby 60% was allocated to price and 40% to quality. Considering previous market analyses and to best develop the capacity of the supply base in the local areas, each tender has been divided into 12 geographical lots aimed at increasing competition and fostering the participation of small and medium-sized enterprises.
Table A.D.2. Suppliers participating in the calls for tenders

<table>
<thead>
<tr>
<th>Tender edition</th>
<th>Number of participating ESCOs</th>
<th>% of ESCO SMEs</th>
<th>Number of ESCO winners</th>
<th>% ESCO SME winners</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>34</td>
<td>50%</td>
<td>13</td>
<td>15%</td>
</tr>
<tr>
<td>2</td>
<td>58</td>
<td>67%</td>
<td>32</td>
<td>75%</td>
</tr>
<tr>
<td>3</td>
<td>65</td>
<td>62%</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>

*Note:* Results of the 3rd edition are only partial

In order to reduce energy consumption at the national level, Consip adopted a strategy based on energy performance contracts. The basic idea is that the supplier of the energy service should be motivated and encouraged to optimise energy consumption and resource management to improve their profitability.

Award criteria were aimed at encouraging suppliers to reduce primary energy consumption and the associated CO₂ emissions of the entire building/heating plant system by measures such as substitution of hot water heating, insulation, and renewable thermal sources.

In the first two editions of the framework agreement, energy efficiency results were certified by the Italian Electrical Energy and Gas Authority. In the third edition, ESCOs were asked to implement a measure and verification system of energy consumption and savings. This element was part of the awarding criteria.

An average of 25% of cost savings for public administrations was achieved involving approximately 13 000 buildings. Contracts for the first two editions executed had a total (estimated) financial value of EUR 2.216 million.

**Challenges and risks**

Considering the structure of the tender, one of the main challenges was to ensure sufficient competition in all regional lots. The extent and duration of the market consultation phase helped minimise the risk of there being no proposal for one lot. On average, more than 50 ESCOs participated in each tender edition, and around 50% of ESCO winners were SMEs.

The novelty of the procurement strategy, and notably the performance-based technical specifications aimed at fostering innovation, posed a significant challenge. This approach, while incentivising suppliers’ creativity, creates an additional risk of receiving proposals that do not meet the technical criteria. Asking for suppliers’ feedback on the draft technical specifications helped to minimise this risk. All suppliers involved were able to comply with the technical criteria requested, and there was enhanced competition on the technical features included in the tender.

**Key lessons learned**

The pre-procurement market consultation was one of the most important parts of the procurement process, and was carried out using online questionnaires for suppliers, in addition to meetings with suppliers. The duration of this phase in the first edition took about two years to be completed in accordance with the complexity of the project and the novelty of the tender structure. It then progressively reduced in subsequent editions as a result of information previously collected.
Thorough market investigation provided Consip with a greater understanding of the structure and appetite of the supply side, which enhanced competition in the call for tender phase.

Considering the nature of the contractual relationship between Consip and the awarded suppliers with performance-based framework agreements, the duration of the contract has been identified as a crucial factor in ensuring sustainable relationships. Since suppliers are only compensated once the energy performance is being reached, the duration of the agreement has an immediate impact on the suppliers’ return on investment.

The principle environmental impacts are related to CO₂ emissions caused by energy consumption. In order to reduce these impacts, the contracts included a performance clause requiring a minimum amount of energy to be saved measured in tonnes of oil equivalent (TOE). This minimum threshold has been significantly exceeded.

Cumulatively, these framework agreements resulted in almost 78 000 TOE saved, translating into EUR 62 million. It enabled the avoidance of 200 000 tonnes of CO₂ emissions.

In addition, the framework agreements helped standardise the energy service procurement process across the country, since almost 630 contracting authorities have had recourse to the same procurement instrument for a total contract value of EUR 2 216 million.

The success of this framework contract has helped Italian public authorities to lead by example in energy savings regarding citizens and the private sector, as they have complied with their procurement obligations and with the Directives 2006/32/EC and 2012/27/UE on energy end-use efficiency and energy services.

The last edition of this framework agreement won the European Energy Service Award in 2014, and was among the five finalists at the Procurement of Innovation Award 2015.