

3. Forward commitment procurement

1. Fuel Cells UK's position

1.1 Fuel Cells UK:

- a. Strongly supports the principles of Forward Commitment to Buy (FCB) as an economic tool within the business to business sector, to drive investment and innovation.
- b. Strongly supports the Government's commitment, set out in its Sustainable Procurement Action Plan, to Forward Commitment Procurement (FCP) in the public sector, to promote socially and environmentally beneficial technologies and as a tool for realising policy objectives.
- c. Believes that the Government should design a framework for managing and evaluating FCP projects to ensure that costs and specifications are appropriately set and that the needs of the market have been adequately taken into account in the design of any programme.
- d. Recommends that the Government facilitates the development of a suite of Forward Commitment Programmes to support fuel cells in stationary and transport applications, thus helping to accelerate commercialisation and bring forward the associated policy benefits. (see section 3). These could be applied at central, regional or local level, with economies of scale being achievable where several regions / locations collaborate on the procurement.

2. The economic case

- 2.1 FCB is essentially a tool to manage risk more effectively. At its simplest, FCB is concerned with customers (whether these be in the public or private sector) making a commitment to purchase a product that is not yet commercially available, provided that the product meets some predefined specification.
- 2.2 This creates a guaranteed demand and a degree of certainty in the market that effectively underwrites some of the risk for developers and investors, giving them the confidence to scale up production and commit to intensive product development needed to deliver a product with the right performance at the right price.
- 2.3 The approach has been proven to accelerate development, allowing developers to exploit funding revenues and market conditions that would normally only be available once the product was commercially viable.
- 2.4 Two leading fuel cell companies, Ceramic Fuel Cells Ltd and Ceres Power have already benefited from FCB strategies and have signed deals with major energy suppliers, EWE and Centrica respectively.
- 2.5 FCB is of particular relevance to products that are desirable not just in commercial terms, but which also transfer some kind of benefit to society, or which help deliver policy objectives.

Case study. Ceres Power and Centrica's agreement.

Ceres Power announced on 14 January 2008 that it has signed a major new agreement with Centrica (trading as British Gas) including a funded trialing programme and a volume forward order for residential combined heat and power products ('CHP').

Under the terms of this new agreement, British Gas will pay £5 million to Ceres Power in staged milestone payments over an 'Initial Phase', with the first payment of £1 million to be made following Ceres Power's shareholder approval, and the remainder subject to achievement of certain technical milestones. During the Initial Phase, Ceres will complete the value engineering of the CHP Product and conduct commercial infield trials with residential customers.

British Gas has also placed a forward order to purchase in aggregate a minimum of 37,500 CHP Products on an escalating basis over a four-year period. This order is conditional upon the successful completion of the Initial Phase and on the companies agreeing standard

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commercial terms including the price for supply of the CHP Products. Some forecasts predict that residential CHP could take 30 per cent of the new installation boiler market by 2015.

3. The policy case

- 3.1 The concept of FCB was originally developed by the Environmental Innovations Advisory Group (EIAG), a joint Defra / BERR initiative. The phrase coined within Government was Forward Commitment Procurement (FCP).
- 3.2 The EIAG recognised that forward commitments by public sector procurers offer a powerful mechanism for the market to accelerate the delivery of innovative solutions and policy objectives.
- 3.3 FCP requires no additional funding. It is the promise of purchase on delivery of a specified product that drives the process.
- 3.4 FCP encourages a focus on solutions and outcomes, rather than simply technology, and provides a clear signal to the developer about what the market wants and what price it is prepared to pay.
- 3.5 In addition to assistance with policy, such as the acceleration of low carbon vehicles, there are many other economic benefits in the public interest associated with the creation of new industries and the accompanying infrastructure that accompanies these.
- 3.6 The result is a win-win situation for both parties, with market certainty for the developer and low cost innovative solutions for Government.
- 3.7 The Government has committed to scale up FCP as part of its Sustainable Procurement Action Plan, and the Department for Transport (DfT) is examining the role that FCP could have in stimulating development in the low carbon vehicle sector. FCP programmes are being run by HM Prison Services and the London Fire and Emergency Planning Authority to look at new technologies and processes to minimise waste.

4. Summary

- 4.1 FCB has applications for both the public and private sector. In the private sector, it can be a way of organisations gaining a competitive edge, acquiring future technology before others in the market. Whilst the same is true for the public sector, there is the added benefit of realising policy goals and accelerating the advancement of technologies that offer social, environmental and economic benefits.
- 4.2 Existing agreements, with Ceramic Fuel Cells and Ceres Power have demonstrated the ability of FCB to stimulate investment and provide clear signals as to the specifications that are needed for market entry, thereby driving technology development.
- 4.3 Fuel Cells UK recommends that the Government facilitates the development of a suite of Forward Commitment Programmes to support fuel cells in stationary and transport applications, thus helping to accelerate commercialisation and bring forward the associated policy benefits.