

**TA 9425-REG – Capacity Building and Sector Reform for
Renewable Energy Investments in the Pacific**

RFP - Selection 138977

Consultant Terms of Reference

A. Context:

1. The Asian Development Bank (ADB) supports client electric utilities in the Pacific region through technical assistance and investment financing. Access to efficient, affordable, and sustainable energy services is crucial for human development and prosperity, and a central component of ADB's poverty reduction strategy in its developing member countries.
2. Most utilities in the Pacific operate either as statutory authorities (i.e. are not corporate entities separate from the state), or as state-owned companies with varying forms of incorporation. Despite copious support over several decades from various external sources, including ADB, most utilities in the Pacific region have not fully achieved their targets with respect to energy access or service quality and reliability. Their performance against industry-standard benchmarks falls short in many dimensions, albeit to varying degrees. Most utilities have not yet achieved their service quality or access objectives, let alone attained financial self-sufficiency.
3. The causes of Pacific utilities' underperformance are manifold, but afflict most Pacific utilities similarly, albeit to varying degrees: governance arrangements and regulatory policy do not establish, nor properly incentivize management to achieve, appropriate performance targets; utilities are frequently abused as tools of social policy, or to serve short-term political objectives; financial management and accounting practices are not designed or practiced to achieve appropriate outcome targets; management authorities and functions within utilities are poorly defined and often fragmented; utilities' workforces are insufficiently trained, supported, equipped, or incentivized to meet performance expectations, etc. (The Pacific Power Association has published benchmarking reports for many of its member utilities that provide a fair indication of utility performance. These can be accessed here: <https://www.ppa.org.fj/publications/>.)
4. Most utilities in the Pacific are heavily reliant on diesel for power generation. In addition to exposing the utilities – and the countries' economies and energy security – to the risks of global fuel market volatility, the utilities' remote locations and small sizes magnify the already high cost of diesel generation. Although renewable power generation is cost-competitive with diesel generation at current levels of penetration, investment is constrained by capacity barriers, a need for sector reform, a lack of financing options. Meanwhile, in order to shield consumers from the high costs of service delivery and suppress tariffs, utilities are frequently forced to endure decapitalization by imposition of tariffs that fail to account for, inter alia, depreciation costs on long-term assets.
5. ADB is expanding its engagement with its Pacific developing member countries and their utilities to support increased access to, and delivery of, efficient, affordable, and sustainable electricity service. As an accredited entity to the Green Climate Fund, ADB is working to support its clients in accessing capital through the Green Climate Fund to accelerate investment in renewable power generation. In support of this work, and to ensure long-term sustainability of

these and other investments in its client utilities, ADB is administering a grant from the Green Climate Fund to support energy sector reform and utility capacity building in its developing member countries.

B. Objective:

6. To varying degrees, current legal, policy, and regulatory frameworks fail to provide for mechanisms and incentives for utilities to operate efficiently, or to operate and maintain their assets sustainably. Sector investment planning frameworks are typically not underpinned by sound analysis of economic benefits and costs, nor subjected to scrutiny by competent oversight authorities to ensure the public's interest is best served. Within utilities themselves, business processes are not conducive to the utilities' delivery against appropriate performance indicators in most key dimensions – a problem commonly perpetuated and compounded by inappropriate corporate governance and oversight arrangements.

7. The purpose of this technical assistance is to support a paradigm shift in ADB's countries of operation in the Pacific through wholesale reform of sector frameworks and of utilities themselves. Recognizing that each utility has its own unique characteristics and challenges, a programmatic approach tailored to each utility's needs is required. This begins with completion of a comprehensive diagnostic review of the client utility's operations and the environment in which the utility operates. Internal policies and practices (e.g. financial management and accounting, operational procedures, maintenance practices, customer billing systems) as well as external factors (e.g. SOE governance, regulation, and relevant government policies) need to be thoroughly assessed and understood to determine how deficiencies, gaps, or incongruence in these and related areas combine to impede a utility's performance and achievement of sustainability. It is from here that a sector and utility reform program can be designed.

8. To design reform programs that are tailored to the needs of our individual client countries and their utilities, as a first step, consultants will conduct a baseline performance evaluation and an in-depth, comprehensive diagnostic assessment of each utility's circumstances and practices. This will provide the basis for the design of a reform program that yields a wholesale and enduring transformation of the sector and utility.

9. The reform program that is designed for each country's sector and its utility should be prepared for incorporation into the design of capital investment projects that are financed by ADB (and other development partners, separately or in collaboration with ADB). The reform programs themselves will be designed to be implemented in conjunction with the implementation of ensuing investment projects.

10. Reformed sectors and utilities should be characterized by: (i) utilities that perform comparably to public utilities of similar size in OECD economies across a range of industry-acknowledged metrics¹, (ii) legal and regulatory frameworks that are conducive to private participation in service delivery, (iii) sector investment plans and policy objectives are founded on sound analysis of benefits and costs.

¹ e.g. Selected Financial and Operating Ratios of Public Power Systems, American Public Power Association

C. Contract Structure

11. ADB may enter into a Contract with the consultant evaluated as the preferred bidder in accordance with ADB's procurement rules and regulations for the provision of the stated services. The Contract will be for a not-to-exceed maximum value consisting of the agreed cost of the first potential engagement (sub-project) outlined below, together with a provisional sum for future potential, but yet undefined sub-projects.

For the avoidance of doubt, ADB provides no guarantee regarding the extension of any potential contract for the provision of these services to incorporate additional countries, nor the consumption of additional funds from the provisional sum to provide additional services related to the first anticipated deployment.

12. Unless specifically instructed in writing by ADB, consultants will deploy to each country for a period of approximately six months, and will embed their key expert team members within subject utilities for no less than 50% of that period, concurrently or intermittently. Non-key experts will likewise perform no less than 50% of their services at the utility.

13. For the first deployment, consultants are anticipated to deploy to the Pohnpei Utilities Corporation in Pohnpei State, Federated States of Micronesia.

14. Subject to consultants' satisfactory performance, and agreement with utilities and governments in other states of the Federated States of Micronesia and/or other ADB developing member countries in the Pacific, consultants may, at ADB's sole discretion, be deployed to other utilities to deliver the same scope of services under the same methodology as a separate sub-project. If required, this continued engagement shall be formalized through a variation of contract, subsequent to the agreement of the parties on the specific project scope and associated costs. Terms of reference will be adapted to each specific successive assignment and the assessment of suitable lump sum proposals shall as a basis, use the unit rates stated in the Contract.

15. **Assignment summary.** For each confirmed assignment, consultants will be embedded within the client utility to establish a baseline of the utility's performance across a range of industry-standard utility metrics (financial and operational). Concurrently, the consultants will examine the utility's management structures, procedures, and systems, as well as governance arrangements (corporate governance and sector regulation and policy), and identify inefficiencies, distortions, and gaps to serve as a basis for design of a comprehensive utility performance improvement program. Consultants will also review relevant legislation, regulatory arrangements, and state policy as part of the sector reform dimension of the assignment. Subsequently, as part of the final report, the consultant shall submit preliminary proposals and cost estimates for sector improvements to be implemented as part of their report recommendations.

D. Consultant Team Profiles and Subject Matter Expertise:

16. The consultant firm will field teams of key and non-key experts to deliver outputs supporting the objectives of the assignment. The consultant firm is required to assemble teams for deployment to each utility. Teams will be composed of key and non-key experts whose skills, experience, and expertise are appropriate to the specific requirements of the subject utility. Key experts for the first anticipated deployment should be presented in consultant firms' proposals. Qualifications of key experts are provided below. All key experts shall be citizens of ADB member countries.

17. **Team Leadership (Key Expert).** The consultant's team leader will possess at least twenty years' experience in the electric industry, including at least ten years of successful performance in electric utility operations in an executive or director-level capacity. The team leader will also possess substantial experience in an advisory capacity to small public electric utilities in developing countries. The team leader will be responsible for coordination of all activities under the contract, and for delivery of required outputs, reports, and recommendations, as outlined below.

18. **Sector Policy Expert (Key Expert).** The sector policy expert will have at least 15 years of experience and demonstrated thought leadership in the public policy arena (e.g. publication in professional journals, public speaking at industry events) with a focus on energy policy development and implementation. The expert will hold an advanced degree (Master of Arts/Science or higher) in economics, business administration, accountancy, public policy, law, or other relevant field at the discretion of ADB. The expert will oversee analysis and preparation of recommendations relating to sector regulation and governance, as well as sector policy and strategic direction (including industry structure, market design, liberalization and access for new entrants, i.e. third-party access and private investment in generation).

19. **Non-key experts.** The consultant shall include details of all relevant non-key experts keeping in mind that the general scope of the overall contract and the specific requirement of the potential first sub-project.

20. The consultant team, collectively, should possess the necessary skills, experience, and subject matter expertise to undertake an assessment of each utility's operations and operating environment, and develop recommendations to address documented deficiencies. The work will encompass, *inter alia*:

21. **Utility Operations.** The consultant will perform a comprehensive diagnostic assessment of the utility's performance against standard industry indicators, encompassing all aspects of operations, including, but not limited to:

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| • SAIDI | • energy losses | • operating and current ratios |
| • SAIFI | • revenue per kWh | • debt service coverage ratio |
| • CAIDI | (disaggregated by customer class) | • and appropriate labor productivity metrics |
| • system load factor | • debt to total assets ratio | |

The diagnostic will also assess, inter alia,

- (i) completeness of the utility's asset registry;
- (ii) asset and inventory management systems and condition of utility's fixed, moveable and expendable assets;
- (iii) the utility's operational and maintenance performance, policies, and procedures;
- (iv) customer billing and collection systems and procedures;
- (v) customer service functions;
- (vi) review and analysis of the utility's organizational and management structures;
- (vii) human resources and staff management policies and procedures; and
- (viii) the utility's management information system(s).

22. **Financial Management and Accounting.** The consultant will assess the utility's financial management and accounting systems' and procedures' adequacy in terms of identification and recording of all the utility's costs and its sources of revenue, disaggregated across all of the utility's activities. The assessment will encompass review of

- (i) the utility's internal audit and control procedures and capabilities,
- (ii) budget formulation, execution, and reporting; and
- (iii) format and structure of financial statements and reporting, and financial reporting design completeness.

The assessment will review the utility's most recent audited financial statements and reports for a minimum of the previous three years and identify shortcomings in design, structure, or data availability or quality that obscures or impedes meaningful assessment of the utility's performance and effective management decision-making, governance, and regulation.

23. **Sector Regulation and Governance.** The consultant will assess existing regulatory (including tariff policy and procedures) and governance arrangements, as prescribed in law and as practiced. The assessment will, as a minimum, examine

- (i) existing regulatory reporting requirements (e.g. the utility's regulatory chart of accounts);
- (ii) revenue requirement determination approaches;
- (iii) tariff methodologies and rate design;
- (iv) tariff-approval process and procedures; and
- (v) institutional capacity for effective regulation.

The assessment will also review existing arrangements for corporate governance of public utilities, and compare against best practices as set forth in the OECD's guidelines on corporate governance for state-owned enterprises.

24. **Sector Policy, Utility Capacity Building, and Business Process Reengineering.** The consultant will draw on the assessments analyses performed in each of the areas outlined above to prepare a comprehensive report on the utility's operations and performance; its systems, policies, procedures and business processes; management and governance arrangements; and sector regulation, policy, and strategic planning.

The consultant will produce detailed recommendations for a utility performance improvement program, including a timeline for implementation and detailed cost estimates (including detailed terms of reference for implementation consultants to guide its implementation, as well as requisite capital investments in critical business-process systems).

The recommendations should include detail on the process for implementation, including improvement on the utility's governance and management, operational efficiency, financial viability and service delivery. The recommendations will also include a least-cost generation investment plan, renewable energy and energy efficiency investment roadmaps (incorporating a long-term demand forecast), and strategy for entry of private-sector investment to support sector development and policy objectives.

D. Deliverables (per each utility assignment):

22. The consultant will deliver the following reports for review by the subject utility's management, government stakeholders, and Asian Development Bank, in electronic form (either as e-mail attachments or online through a cloud-based repository, e.g. Dropbox), in PDF and Word or other editable text format, per the schedule indicated below. From the dates of issuance of each deliverable, the utility's management, government stakeholders, and Asian Development Bank shall have a period of 14 days to review the deliverable and issue either (a) an acceptance of, or (b) comments requiring clarification on, the relevant deliverable. In the event of comments, the consultant shall incorporate the comments within five working days, unless otherwise agreed in writing with ADB, and issue ADB with a revised report. Once the revised report is received, ADB and other stakeholders shall have a period of seven days to accept the report or request further revisions. Any delays due to the provision of incomplete deliverables by the consultant shall be absorbed within the consultants' time schedule for subsequent project stages

(i). **Inception Report.** The inception report will document the consultant's initial observations on the subject utility's operations, operating environment, and context (e.g. recent and anticipated developments, such as imminent capital investments planned by the utility or other development partners). The report will summarize discussions with utility counterparts and other relevant stakeholders, and will present a revised workplan for the remainder of the assignment to the subject utility. The inception report shall be delivered to ADB and the subject utility within 30 days of issuance by ADB of a notice to proceed.

(ii). **Analysis Report.** The analysis report will present the consultant's findings based on the diagnostic review of the utility's performance, its systems, and context, including confirmed values for all relevant key performance indicators. The report shall also provide the high-level contents of subsequent preliminary and final project reports for approval. The report shall be delivered within 90 days from issuance of a notice to proceed.

- (iii). **Workshop for Utility & Government Stakeholders – Analysis Report.** Subject to acceptance by ADB of the consultant's analysis report, the consultant will present on its contents to an audience comprising the subject utility's management and relevant personnel, government stakeholders, and Asian Development Bank. The consultant will use this occasion (along with other appropriate means and venues) to solicit and receive comment on the analysis report from the subject utility's management and government stakeholders to inform subsequent project stages. The workshop should occur within 120 Days from the issuance by ADB of a notice to proceed, but no earlier than 21 days from the delivery of the analysis report for review and comment by its recipients.
- (iv). **Preliminary Recommendations Report.** Based on the findings of the analysis report and comments from the subject utility's management and government stakeholders, the consultant will produce a preliminary recommendations report for reform and capacity-building measures designed to address performance and other deficiencies identified in the analysis report. The preliminary recommendations report shall be produced and delivered within 150 days of issuance of a notice to proceed.
- (v). **Workshop for Utility & Government Stakeholders – Preliminary Recommendations Report.** Similar to the workshop for the analysis report, the consultant will present the contents of the preliminary recommendations report to the subject utility's management and relevant personnel, government stakeholders, and Asian Development Bank. The workshop should take place within 160 days of issuance by ADB of a notice to proceed.
- (vi). **Final Report** – The final report will incorporate the contents of the analysis report, the preliminary recommendations report, with revisions reflecting discussion of these reports with utility and government stakeholders, and with the Asian Development Bank. The final report should include a detailed implementation framework for reform and capacity-building measures, including specific terms of reference and qualifications for expert consultants necessary for the implementation and high-level design specifications and cost estimates for procurement of any associated goods, materials, or services (e.g. IT systems for the utility's corporate management processes). The final report shall be delivered within 180 days of issuance of a notice to proceed.

The consultant is expected to shorten the above timelines, where possible. Any concerns regarding the insufficiency of above timelines to complete a project shall be raised to ADB during the request for an offer to undertake a particular project and substantiated accordingly. Any decision to vary the timelines shown shall be at ADB's sole discretion.

23. Consultant reports should include an executive summary, not to exceed ten pages, summarizing the key findings and analyses presented in the main body of the report and any appendices, with references to supporting data and material in the main body or appendices. The main body of the report and appendices have no limit in length. No single document, however, should exceed 15 MB in size (with the exception of raw data files that the consultant may consider necessary to make available to ADB or the subject utility).

E. Milestone Payment Schedule

The Consultant shall be paid following the approval of the milestones deliverables outlined above in accordance with the following schedule:

- Inception Report – 20%
- Analysis Report – 20%
- Preliminary Recommendations Report – 30%
- Final Report – 30%

Expenses incurred during the workshops shall be included in the subsequent milestone payments. Notwithstanding the requirements of the RFP whereby expenses are provided in detail for the purposes of evaluating proposals, the consultant shall account for all possible expenses within its lump sum offer (i.e. ADB will not reimburse expenses based on actual cost).

First Sub-project under the Contract:

In addition to providing their general approach and resource requirements for the provision of the services under this Contract, consultants are invited to submit their proposals based on the presumed first deployment to Pohnpei Utilities Corporation in the Federated States of Micronesia, commencing in May 2018 and concluding by end-2018, following the general Terms of Reference, deliverables schedule, and milestone payment schedule contained within this RFP.

Consultants are required to submit CVs for all proposed key and non-key experts it deems necessary to provide the services. Key experts' CVs will be individually evaluated and scored as part of the proposal evaluation. Non-key experts' CVs will be reviewed, but not individually evaluated or scored. Collectively, the proposed teams of key and non-key experts will be evaluated as part of consultant proposals under the heading *team composition*, and considered with respect to evaluation of proposals' *approach and methodology*.

Consultants are required to demonstrate *their firms'* experience (and those of associated firms included in the proposal) with similar assignments. Consultants should present at least five, but no more than ten, project sheets for assignments executed by the lead firm or any of the associated firms indicating:

- (i) The overall scope of the assignment;
- (ii) The role of the referenced firm (as lead contractor or sub-contractor, and form of association if as part of a consortium or joint venture);
- (iii) Specific inputs provided by the firm (e.g. number of expert person-months provided and net value of services provided by the firm vs. overall value of the subject contract);
- (iv) A description of the outputs provided by the firm.

To demonstrate firm capacity, consultants are required to present, for lead and associated firms, the following:

- (i) Year of establishment of each firm;
- (ii) Number of years of experience directly relevant to the assignment, and concise demonstration of the referenced experience's relevance;
- (iii) The annual turnover of the commercial consulting arm of the lead firm and each associate firm included in the proposal;
- (iv) Representation and substantiation (CVs) of the number of full-time management-level employees of the lead firm and each associated firm who are available to provide services under the assignment and who possess relevant skills and experience.

Consultants are advised to conduct independent research on utilities in developing member countries of the Asian Development Bank in the Pacific. Suggested resources include:

- (i) Utilities' websites and government resources (e.g. for policy and legislation);
- (ii) The Pacific Power Association's website, including benchmarking reports conducted for the majority of its membership in for fiscal years 2012 and 2013/14;
- (iii) The Secretariat of the Pacific Community;
- (iv) The International Renewable Energy Agency;

With the exception of Pohnpei Utilities Corporation, consultants **must not** directly contact utilities' management or personnel, nor government officials in their respective countries, with reference to the prospective deployment to such utilities or countries for the performance of services under the assignment. The schedule for successive deployments to utilities beyond Pohnpei Utilities

Corporation has not been confirmed, and is subject to ongoing dialogue between ADB and the respective utilities and governments.

It is expected that consultants will embed their team within the subject utilities during the field assignment. It is expected that the subject utilities will provide adequate working/office space for the consultant team, and access to utility management, staff, facilities, and information on all relevant aspects of the subject utility's operations.

The award of contract from this solicitation, and deployment to the first and successive utilities, is subject to the continued availability of funding.

Except in the event of an actual or perceived conflict of interest, as judged by ADB at its sole discretion, the preparation by consultants of reform and capacity-building measures, and the terms of reference for consultants to implement said reforms and capacity-building measures, **does not preclude** award of a follow-on contract to consultants for implementation of the reforms and capacity-building measures, with or without ADB financing.