
TERMS OF REFERENCE – ELECTRICITY REGULATORY CONTRACT REVIEW

Background

The Electricity Regulatory Contract (ERC) is a guiding legal document that binds PNG Power Ltd (PPL) and the Independent Consumer & Competition Commission (ICCC) to the Provisions of the ICCA Act 2002 and the Electricity Industry Act.

The ERC sets PPL's price path and service standard targets and gives certain powers to ICCA to ensure that PPL's compliance processes are in line with the regulatory principles. The ERC has a term of five (5) years which expires on the 31st December 2017.

It is therefore necessary to engage the services of a consultant to assist PPL develop a draft ERC submission to ICCA and provide necessary technical and regulatory advices during the ERC review process.

OBJECTIVE

To establish an effective and comprehensive legally binding document (ERC) covering all the aspects of PPL's sustainability in the business as a regulated entity promoting efficient and effective delivery of electricity services to the country.

SCOPE OF WORK

The scope of the review will be progressed in two phases.

Phase 1

Produce a revised draft ERC that reflects improvements from the current Contract and to prepare a submission to ICCA that supports the revised draft ERC

Phase 2

Assist PPL to respond and produce submissions on the draft ERC and Issues Paper to be published by ICCA and provide expert technical and regulatory advices on any issues raised by ICCA, stakeholders or the public during the ERC review process until the signing of the 2018 -2022 ERC.

Details of the tasks that the Consultant will undertake as part of the review exercise shall include but not limited to the following;

- A) Review and analyze the successes and failures encountered in compliance with the current ERC principles with specific references to;
- PPL's capacity to meet the reliability and service standard targets
 - The rebates associated with low quality of services
 - The capacity to meet the required Capital Expenditure Level
 - The capacity to overcome Force majeure events and pass through cost to customers
 - Notices, reporting and submission deadlines
- B) Review the current tariff adjustment mechanism (Weighted Average basket of Tariffs) and assess whether or not it is the most effective and beneficial approach to raising the required revenue/income. The review to take into account;
- the formulae used in deriving the Maximum Weighted Average Price (MWAP);
 - the economic indicators and whether they are still appropriate;
 - the projected cost ratios or Real Weights.
 - the smoothing factor (X);
 - Any other factors or issues that affect electricity sales income and are relevant to pricing and tariff setting.
- C) Assess and consider the merits or otherwise of including non regulated special tariffs to mining projects (Power Purchase Agreements) in the calculation of Weighted Average Basket of Tariffs (WABT) increase. The special tariffs to mining projects are not subject to price control and the consideration is to see how PNG customers as a whole can benefit from the sale of electricity to mining projects.
- D) Assess and determine the Weighted Average Cost of Capital (WACC) that gives the optimum return to PPL and prepare the necessary supporting information for review by the ICCC.
- E) Examine the value of capital stock and ensure the capital expenditure made during the term of the current contract is prudent and included in the asset base going forward.
- F) Review the Force Majeure provisions as needed.
- G) Consult previous documents and studies done on other regulated entities by the ICCC and other institutions in establishing Regulatory Contracts and related issues. Discuss how the earlier reviews can be aligned and all issues addressed in a coherent manner.

- H) Advise on the opportunities and potential entry of new competitors in to the electricity industry market in preparation for the introduction of access regulation and the introduction of contestability for electricity consumers including;
- Likely areas for new entry in to the electricity supply and sale segments
 - The pre-requisites for the entry of new competitors
 - The potential impact on the industry and the economy as a whole
 - The existing legislations in place giving exclusive rights for PPL to operate within certain boundaries of its networks
 - The degree of competition given that PPL is a vertically integrated electricity supplier and its monopoly position in the electricity industry market.
- I) Make recommendations for PPL to address the impediment of regulatory requirements to enhance the prospects of improving reliability and efficient electricity services in line with the regulatory principles, including but not limited to;
- Aligning regulatory requirements to PPL's compliance capacity
 - Aligning regulatory requirements to government policies on the electricity industry, environmental issues, social issues and etc...
 - Maintaining the customer base with improved services and reasonable tariff levels when the monopoly barrier is removed.
 - Minimize the degree of competition
- J) Review the whole of the current Regulatory Contract and recommend and include improvements to the Contract.

To be consistent with submissions, responses, data/information sharing between ICCG & PPL and strategies applied during the review process, PPL proposes to engage the services of an individual or a firm from phase one through to signing of the final ERC.

INFORMATION TO BE PROVIDED BY PPL

PPL will make available it's 15 year financial plan both operational and capital expenditure plans as well as annual financial management reports and power industry information as required for this review. Any other information that is required for the review will also be made available.

DELIVERABLES AND PAYMENT SCHEDULE

The payment for the services of the consultant will be processed based on the expected outputs delivered during the review.

Proposed Deliverables and Cost/Payment Schedule.

Deliverable	Payment Breakup (%)
i) A preliminary report on issues to be addressed in the review and a discussion of each issue for PPL to consider and reach agreement.	30%
ii) First draft ERC for the period 2018 to 2022	20%
iii) Final draft ERC for the period 2018 to 2022	20%
iv) A submission to ICCC on the revised ERC that highlights the major changes and justifications for the price path.	30%

CONSULTANT QUALIFICATION AND EXPERIENCE

The Consultant should have appropriate academic qualifications and have extensive experience in technical and economic regulations and has undertaken work on regulatory matters and preparing Regulatory Contracts. Experience in dealing with the electricity supply industry and preparing Electricity Regulatory Contracts is an advantage.

DURATION OF CONSULTANCY SERVICE AND REPORT SUBMISSIONS

The assignment will commence immediately and the Preliminary Report should be submitted within two weeks of receiving our instructions to proceed. The first draft of the ERC should be submitted within a month's period.

The final draft and the accompanying submission to ICCC will be due in mid-November 2017.

PNG POWER CONTACT:

All matters related to this subject should be referred to Mr Stanley Kewa; skewa@pngpower.com.pg ; telephone: 3243294 and mobile: 75807230.

Endorsed by: _____


Mr. Togaro Asiba, A/Director Strategic Planning & Business Development

Approved by: _____


Mr. Alex Oa, A/Chief Executive Officer