
ENERGY REGULATORS REGIONAL ASSOCIATION

REQUEST FOR PROPOSAL

AD HOC CONSULTANCY TO BE PROVIDED FOR the Bhutan Electricity Authority (BEA)

I BACKGROUND

Ad Hoc Consultancy Projects

In order to expand the in-house consultancy, research and advisory capacity of our organization, ERRA started to offer small-scale ad hoc consultancy to its member organisations. These small scale ad hoc consultancy projects tackle one particular or specific regulatory issue of the member organization applying for the program. The below Request for Proposal is issued by ERRA for the purposes of small scale consultancy to be provided for the Bhutan Electricity Authority (BEA), a full member of ERRA.

a. ERRA

The Energy Regulators Regional Association (ERRA) is a voluntary organization comprising of independent energy regulatory bodies primarily from Europe, Asia, Africa, Middle East, South and North America. To date ERRA lists 31 Full and 10 Associate Members.

The Association was legally registered in Hungary in April 2001 and its Secretariat operates in Budapest.

b. Bhutan, BEA Overview

Bhutan is a small Himalayan Kingdom nestled between India and China with a population of around eight hundred thousand. The Royal Government of Bhutan started to develop its hydropower sector in the early 1960s. Currently, there are two electricity utilities (generation and transmission & distribution) in the country namely Druk Green Power Corporation Limited and Bhutan Power Corporation Limited. The economic development of Bhutan is primarily dependent on the revenue generated from hydropower. Bhutan has a hydropower potential of 30,000 MW. At present only four hydropower plants with total installed capacity of 1480 MW are operational and there are plans to develop about 10,000 MW installed capacity in the future with 3658 MW under construction.

Bhutan Electricity Authority (BEA) is an autonomous agency established to regulate the electricity generation and transmission, distribution & supply in Bhutan. It is a newly established independent Electricity Regulator in the country with a huge task to regulate the state owned utilities and facilitate private participation. As per the Electricity Act of Bhutan 2001, the main functions of the

BEA are to develop regulations, standards, codes, principles, procedures and tariff setting including tariffs for generation, transmission, distribution and retail sale.

II PROJECT SCOPE

a. Scope

Development of Guideline for Determination of Regulatory Asset Base (RAB).

b. Purpose

To develop a guideline on determination of RAB for Hydropower Projects using the case of 720 Megawatt (MW) Mangdechhu Hydroelectric Project in Bhutan which is scheduled to be commissioned in November 2018. The guideline will help the Bhutan Electricity Authority (BEA) to establish the true and efficient RAB of the utilities regulated by the BEA and thereby determine a fair tariff.

c. Background

The current methodology used to determine the electricity tariff is the cost plus regulation or traditional Rate of Return Regulation (RORR) where overall price levels are adjusted according to the Utilities' accounting costs and cost of capital. Therefore, under this cost plus regulation the utilities are not incentivized to make prudent investments which has led to increase of the utility assets by 12% annually. Since there is no guideline or procedure in place to determine the RAB of the utility, the asset base in their book of accounts is used to determine the tariffs. This practice of passing the asset related cost of the utilities without adequate scrutiny has generated a lot of criticism from the general public. The RAB need to be scrutinized thoroughly so that the true and efficient cost of the utility is established while determining the tariff.

One of the key challenges faced by the BEA in the determination of the RAB is the lack of adequate skills and knowledge within the BEA. Since the 720 MW Mangdechhu Hydroelectric Project is nearing for completion in 2018, the BEA will be required to determine the RAB for first time and subsequently determine the generation tariff. Given the shortage of skilled manpower in carrying out this task in the country, it is critical for the BEA to seek assistance from outside experts.

d. Requested Services

Based on the above requirement, the BEA is looking for a consultant who has worked in a regulatory agency and has experience determining the RAB of hydropower projects, transmission and distribution utilities. The consultant should also have experience of developed regulatory guidelines or procedures and be able to impart the knowledge and skills to the BEA staff to implement the guideline.

e. Expected Output

Development of guidelines to determine the RAB incorporating the best regulatory practices.

- Steps to determine RAB through actual cost for instance where historical cost record does not exist and determining cost of asset under cost overrun aspects.
- Steps to determine individual components of RAB such as depreciation, capital work in progress, capital contribution, return on working capital and investment for generation plant (MHPA) to be commissioned.
- Highlights of importance of regulatory accounting system.
- The guideline should be in-line with the Tariff Determination Regulation (TDR) 2016 of BEA and Domestic Electricity Tariff Policy (DETP) 2016 of Royal Government of Bhutan (RGoB).
- RAB guideline should incorporate the best regulatory practices.

f. Final Deliverables

- **Guideline:** The purpose of this guideline would be to provide a process, methodology and reference guide for the Bhutan Electricity Authority (BEA) to establish effective regulatory asset base of Mangdechhu Hydroelectric Project (licensed electricity generating company) for determining fair electricity generation tariff.
- The **detailed report** on development of guideline for determination of RAB that will assist future development of similar activities such as guidelines and regulations to be used by BEA.

g. Proposed Timeline

Date	Activities
31 August, 2018	Selection of Consultant
17 September, 2018	Correspondence with the selected Consultant and sharing of required information (country, electricity sector, regulations, project information, etc.) through email.
17 September – 14 October, 2018	Studying materials by the selected Consultant and Submission of the draft guideline to BEA.
15 – 30 October, 2018	Visit Bhutan (5 days) Present draft guideline to BEA, Consultation meeting with Mangdechhu Hydroelectric Project Authority, Stakeholder consultation meeting with Department of Hydropower and Power Systems (DHPS), Druk Green Power Corporation Limited (DGPC), Bhutan Power Corporation Limited (BPC) & BEA, Knowledge sharing regarding current practices of BEA, Visit to near by power plant.
1 – 15 November, 2018	Submission of the preliminary draft guideline for determination of RAB and Seek clarification from the consultant.

16 – 30 November, 2018	Finalization of the guideline by BEA.
1 – 30 December, 2018	Submission of final report to ERRA along with the approved guideline.

h. Expertise required

The proposed mission shall be conducted by a single expert with experiences in RAB determination.

- Qualifications and Experiences
- At least Master Degree
- Excellent command and good writing skills in English
- Excellent communicator
- Minimum 10 years of relevant professional experience
- At least one proven experience in RAB determination

III GENERAL INFORMATION

Deadline for the Proposal:

August 15, 2018 to the ERRA Secretariat.

Budget: The maximum available budget for the project is gross EUR 4,000 including air ticket, per diem expenses and honorarium of the Consultant. Accommodation, visa fee and local transport arrangements is financed by BEA in the maximum value of 1,910 EUR.

Contact for further information:

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IV PROPOSAL REQUIREMENTS

- a. CV of the Consultant
- b. Proposed approach of the consultancy
- c. Relevant experience
- d. Proposed budget

V SELECTION CRITERIA

- a. Credentials required to certify experience
- b. Proven expertise
- c. Service
- d. References
- e. Price