

Request for Proposals (AER 001/2017)



هيئة تنظيم الكهرباء - عمان
AUTHORITY FOR ELECTRICITY REGULATION, OMAN

Development of high-level blueprint for the introduction of electricity
retail competition in Oman

May 2017

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1 INTRODUCTION

The electricity and related water sector in the Sultanate of Oman was extensively restructured following the implementation of the law for the regulation and privatisation of the electricity and related water sector ("the Sector Law"), promulgated by Royal Decree 78/2004.

The Sector Law established the Authority for Electricity Regulation, Oman ("the Authority") and imposed on the Authority, amongst other things, the duties to encourage the promotion of competition and to assess the scope for further liberalisation measures.

In its 2015 Annual Report, the Authority announced that it believes "the market is ready for Supply competition" and that it would "initiate the consultation and preparatory work required by the Sector Law prior to submitting proposals to the government."

In the publication of its Forward Work Plan for 2017 the Authority announced that it "aims to develop an overall programme of work and timescale to advance the Competitive Market Review (CMR)" that "will identify key issues to be considered as part of the CMR" and "the Authority intends to publish consultation papers and arrange stakeholder consultation discussions as part of the process."

The Authority now wishes to retain experienced consulting advisors to provide support with the development of a high-level blueprint for the introduction of electricity retail competition.

1.1 Background

The Sector Law established that the supply of electricity to customers was a licensed activity and created a number of regional integrated distribution and supply licensees, of which there are now (in effect) five: Dhofar Power Company (DPC); Majan Electricity Company (MJEC); Mazoon Electricity Company (MZEC); Muscat Electricity

Distribution Company (MEDC); and Rural Areas Electricity Company (RAECO - which also has a number of other functions).

The Sector Law gave supply licensees the duty to meet all reasonable demands for a supply of electricity to connected premises within its Authorised Area. In doing so supply licensees (with the exception of the Rural Areas Electricity Company) may only acquire electricity from the Oman Power and Water Procurement Company (OPWP - the single buyer).

Supply licensees may only charge customers on the basis of a Permitted Tariff or a Cost Reflective Tariff, as the case may be. Until December 2016 only Permitted Tariffs had been approved and these were supported through significant Government subsidies. However, from 1 January 2017 the introduction of a Cost Reflective Tariff was approved for large Government, Industrial and Commercial customers with an annual consumption of greater than 150,000kWh. For the first time this included time of day as well as seasonal pricing signals.

At present around 10,000 customers are charged on the basis of the new Cost Reflective Tariff and these customers have had their meters upgraded, where necessary. The process of collecting meter reading data from these customers through automated rather than manual processes and routing such data through a central meter data management system (MDMS) has already begun, though it is not yet fully complete.

Permitted Tariffs and Cost Reflective Tariffs must be approved by the Council of Ministers and although it is expected that the level and structure of the Cost Reflective Tariff will continue to evolve in order to reflect underlying changes in power procurement, transmission, distribution and supply costs, it is not at present expected that suppliers will be permitted to set tariffs that they believe reflect the costs of supplying different customers, or different customer groups, in the near future.

Work to reform Oman's power procurement arrangements, with a view to introducing a form of compulsory Pool that will establish a system marginal price is ongoing and it is

intended to introduce these arrangements as early as 2019/20. However it is not at present intended that this will end the OPWP's monopoly position. Suppliers will therefore still be required to acquire electricity exclusively from OPWP (with the exception of RAECO).

The integrated distribution and supply licensees and RAECO are subject to regulatory licence controls on their maximum allowed revenues, which are due to expire at the end of 2017. Separate controls for distribution and supply activities already exist and licensees understand that distribution and supply are separate functions. Work to introduce new controls has already commenced and a key part of this activity is to ensure that regulatory accounting statements are introduced that more clearly and accurately reveal the separate nature and costs of distribution and supply activities.

The new revenue controls are also expected to introduce stronger output based controls in the form of incentivised performance targets for certain key activities, such as meter reading, billing, collection and query management, as well as for connection.

It is possible that the new revenue controls will permit the recovery of specific and separate approved costs in relation to the introduction of competition, potentially including unbundling and systems related costs required during the forthcoming revenue control period from 2018 to, perhaps, 2021 or 2022.

1.2 Requirements for Assignment

It is anticipated that the Consultant company and team members should each have significant practical experience in at least the following areas:

- The development, operation and regulation of competitive utility retail markets;
- The operation and financing of incumbent and new entrant utility supply businesses; and
- The development of utility market development blueprints (or similar).

The project should begin by mid-July 2017 (specific date to be mutually agreed with the Authority) and be completed by the end of November 2017, at the latest.

Interested Consultants are asked to provide, by 31 May 2017:

- Details of their relevant experience with similar projects, including individual project summaries indicating the client, the services provided and the approximate value of the Consultant's contribution to the project;
- Details of the organisation and structure of the proposed consulting team members, with an explanation of the role and man days assigned to each team member;
- Detailed CVs for all proposed team members;
- A workplan and methodology that indicates the Consultant's proposed approach to the project.

Experience of similar consulting assignments internationally is essential and appropriate references to international experience should be a key part of each of the deliverables. In addition, successful relevant consulting assignments in the GCC region and in Oman would be advantageous. Although the project outputs should be provided in the English language an understanding of the Arabic language would also be useful. However, the AER counterpart team and Disco staff will also be expected to assist with understanding relevant documentation available only in the Arabic language.

Consultants shall also demonstrate, to the satisfaction of the Authority, that they have no ongoing commercial relationship with any of Oman's distribution and supply licensees or with the Rural Areas Electricity Company, which may lead to any concern, real or perceived, as to the independence of the Consultant or team members proposed. Where the Consultant has any ongoing assignments with Licensees these should be identified and the Consultant should declare any overlap of team members and the extent of their involvement in such other projects. The Consultant should clearly state the working procedures enforced by the company in relation to potential conflict of interest situations.

The experience and qualifications of team members proposed by the Consultant will be afforded significant weight in the evaluation of proposals and selection criteria.

Consultants or team members without the necessary experience will not be considered for the assignment.

Unless it is concluded that the introduction of retail competition is not likely to be feasible in the foreseeable future the Authority intends to publish the high level blueprint and to use it as the basis of a stakeholder consultation exercise. It is therefore important that the reports are clearly written and well presented. The Consultant shall provide with their proposal written examples of similar work prepared by, or supervised by, the proposed Project Manager.

It is intended that the consultation exercise should be led by experienced consultant team members, supported by the staff of the Authority's Executive Director's Office and the Economic and Financial Affairs Directorate. The Consultant should demonstrate in its proposal how it intends to support the knowledge transfer process.

2 SCOPE OF WORK

The Consultant is asked to develop a high-level blueprint for the development and introduction of a competitive retail market in the Omani electricity sector, including:

- Identification of preconditions that must be satisfied prior to liberalising the supply market;
- identification of the key issues that must be resolved and by whom;
- identification and allocation of responsibilities of the various stakeholders;
- development of a realistic high level timetable; and
- an assessment of the regulatory resources necessary and of the essential distribution and supply business costs likely to be incurred.

As part of the blueprint the Authority has prepared a series of key questions on which it seeks guidance, though the consultant should indicate in its methodology additional questions that, from its own experience, it believes must also be taken into account and should feel free to formulate the Authority's list in a different form, if it feels that would help bring greater clarity.

The Authority's preliminary list of high level issues is as follows:

1. What is the high level case for competition and the vision for competition in the Omani electricity market over the next 5-7 years and the next 15 years? What benefits might be expected from the introduction of competition?
2. What should be the process to follow to put in place a framework to permit competition? What has already been done and what now requires to be done, by whom and by when?
3. Barriers to entry: is it sufficient to put in place an enabling framework consistent with the present Sector Law and licences, or do we need to modify the law and take other relevant actions to ensure the market proves sufficiently attractive to

new entrants? This should include an analysis of the costs, revenues and potential returns that could be generated by an efficient new entrant supplier and an assessment of the legal, regulatory and other recommendations required to make the market sufficiently attractive to new entrant investors.

4. Unbundling: what distribution and supply licensee unbundling arrangements are essential and desirable in terms of the immediate and medium term development of the Omani retail electricity supply market and what would be the realistic timescales for introducing them? In addition, what would be the expected costs of introducing such measures?
5. How does the Authority protect customers' interests by making the market attractive to ensure innovation and efficiency pressures are put on incumbent suppliers, whilst ensuring customers are guaranteed to be able to obtain a supply and receive a reasonable service?
6. Should both incumbent suppliers and affiliated distribution companies be permitted to recover all costs related to the introduction of competition or even incentivised to support, or should the Authority rely primarily on legal mechanisms to drive the market forwards? If so what issues might arise and how might they be dealt with?

The experience and qualifications of the Consultant and of team members proposed by the Consultant will be afforded significant weight in the evaluation of proposals and selection criteria. Any Consultant or team members without the necessary experience will not be considered for the assignment.

The outputs of the project will be:

- an inception report and confirmation of the work plan and methodology (which must be agreed by the Authority) 3 weeks following commencement of the project;

- short interim briefing reports describing progress and conclusions (as appropriate) on each of the questions identified above and identifying obstacles on a monthly basis;
- focussed briefing meetings with the Authority's senior management representatives at least twice during the project, at mutually agreed times;
- a draft high-level blueprint, identifying the key steps to be taken to prepare for the introduction of retail supply competition during the period 2017-2021 and during the period 2022-2026; and
- presentation of the overall blueprint and next steps to the Authority's Members (if required) and to senior representative from other interested stakeholders including, but not limited to, incumbent distributor/suppliers, potential new entrant suppliers, power procurement and transmission services providers, Government Departments and public sector authorities (such as those responsible for energy policy, competition and consumer protection);
- a revised Blueprint taking into account feedback received during the consultation exercise at least one week before the end of the project.

The Authority is not obliged to accept the lowest cost bid, but will appoint the Consultant whose proposal offers value for money, in terms of relevant experience, an acceptable methodology, and cost.

The Authority will assess bids on the basis of a 70% weighting for the technical proposal and a 30% weighting for the financial proposal.

It is intended that the consultation exercise should be led by experienced consultant team members, supported by the staff of the Authority's Executive Director's Office and the Economic and Financial Affairs Directorate. The Consultant should demonstrate in its proposal how it intends to support the knowledge transfer process.

All reports will be prepared for the benefit of the Authority, but it must be assumed that the draft and revised Blueprint will be shared with relevant stakeholders as part of the consultation process and they should therefore be prepared accordingly. It should be

expected that the Blueprint will be required to be presented to the Authority's Executive Director and to the other Members of the Authority before project completion.

The assessment methodology should be agreed in advance with the Authority. Whilst there will be a need for face to face meetings it is not anticipated that the consultant will need a significant presence in Oman, though some travel will clearly be necessary, for example in order to support the consultation exercise.

All costs related to the consultation exercise such as meeting rooms and refreshments will be managed by the Authority.

As indicated above the Authority will provide all relevant and available information.

2.1 Timescales

The Authority expects to be able to confirm its intention to award a contract by 16 June 2017. The Consultant shall commence the assignment by mid-July 2017, the specific date to be mutually agreed with the Authority.

The commencement of work will include a kick off meeting, review of documents and agreement of methodology. The Stakeholder Consultation is expected to be conducted during the period September to October 2017.

The project should be completed by 30 November 2017.

Any timetable extension would require the prior written consent of the Authority.

The time schedule should allow time for the Authority to review draft reports (two weeks). Final reports will incorporate the Authority's comments (if any) on the draft reports.

2.2 Information to be provided by the Client

The Authority will assist the Consultant with all organisational aspects of the assignment, including provision of the following information prior to commencement of the assignment:

- Copies of documents clarifying the present regulatory framework including the Sector Law, Licences, Permitted and Cost Reflective Tariffs, revenue control documentation, draft regulatory accounting guidelines, etc;
- The Grid Code, Distribution Code and draft Omani wholesale/spot Market Rules;
- Copies of KPI performance reports received by the Authority in relation to the output performance targets during 2015 – 2017.

The Consultant shall identify in their proposal a list of additional information they would require to be provided prior to commencement of the assignment.

Throughout the assignment the Consultant will be expected to work closely with the Authority's counterpart team and to maximise knowledge transfer to the counterpart team. The Authority will provide all reasonable guidance and clarification as requested by the Consultant.

The project sponsor will be Ian Benfield, the Authority's Senior Strategy and Policy Adviser.

3 SUBMISSION OF PROPOSAL

The consultant shall submit an electronic copy of their assignment proposal by email before 9am Oman time (GMT+4) on Wednesday 31 May 2017 to:

E-mail: ian.benfield@aer-oman.org

If the consultant would like to also submit a hard copy of their proposal, this should be submitted by the same time to

Ian Benfield

Senior Strategy and Policy Adviser

Authority for Electricity Regulation, Oman

P.O.Box 954

PC 133

Al-Khuwair

Sultanate of Oman

We will be pleased to provide clarification of matters covered by the RFP prior to the submission of proposals. To assist the AER with evaluation the Consultant shall separate the proposals into technical and financial proposals.

The technical proposal (which shall account for 70% of the evaluation marks) shall include:

1. A description of the methodology proposed by the Consultant for each part of the assignment described in the scope of work, and timescales for the submission of project deliverables;

2. Details of the Consultant's experience of similar assignments, including contact details of previous/existing clients;
3. Details of the Consultant's project team (including the CVs of each team member) and a description of each team member's relevant experience and their expected contribution to specific parts of the assignment;
4. Written examples of assessment reports prepared by or supervised by the proposed Project Manager;
5. Details of the proposals for ensuring knowledge transfer to the AER Counterpart Team.

The financial proposal (which shall account for 30% of the evaluation marks) shall include:

6. A total cost of the assignment, showing separately:
 - a) Fees; including details of the fee of each team member (the hourly/daily fee and the expected contribution in terms of hours/days of each team member), and
 - b) Expenses including flights, hotel costs, and other items;
7. Bid letter in the form provided in Annex B to this Request for Proposal;
8. A bid Bond in the Amount of not less than two percent (2%) of the Bid value valid for forty five (45) days obtained from a locally registered Bank in the wording of the Bid Bond shall be as per the prescribed "Form of Bid Bond" in Annex B to this Request for Proposal. Any extension to the provision of a bid Bond must be agreed by the Authority before the tender submission date;

The Consultant shall also provide a statement relating to potential conflicts of interest that will or are likely to arise during the execution of the project.

ANNEX A: FORM OF BID

AUTHORITY FOR ELECTRICITY REGULATION, OMAN

P.O BOX 954, PC 133

MUSCAT

SULTANATE OF OMAN

After compliments,

We have examined the Invitation to Submit a Proposal for Consultancy Services and the Contract Conditions for performance of the Works as described therein. We, the undersigned, offer to perform the assignment in accordance with the bid documents and as stated in the appendices attached, in the sum of:

Rials Omani (in words)

R.O..... (in figures), being the Bid Value.

We agree to abide by this bid for a period of forty five (45) days from the date fixed for receiving the same and it shall remain binding upon us and may be accepted at any time before the expiration of that period. Our Bid Bond is enclosed.

[Name of Bidder] will be in a position to commence work with a fully available team as stipulated in section 2.1 (Timescales) of the Request for Proposals provided we are notified of the success of this Bid at least fourteen (14) days in advance.

[Name of Bidder] will be able to undertake the work and complete the project within the period stipulated in section 2.1 (Timescales) of the Request for Proposals.

In the event of our Bid being accepted and until a formal Agreement is prepared and executed, this Bid, together with your written acceptance thereof, shall constitute a binding obligation upon us.

We understand that you are not bound to accept the lowest or any Bid you may receive.

All relevant materials will be provided in accessible electronic format such as Word, Excel or another pre-agreed format

Dated the _____ day of _____ 2017

Capacity in which signing: _____

Signed: _____ Witnessed by: _____

For: _____

ANNEX B: FORM OF BID BOND

AUTHORITY FOR ELECTRICITY REGULATION, OMAN

P.O BOX 954, PC 133

MUSCAT

SULTANATE OF OMAN

After compliments,

BID BOND NO: _____

By this bond, we _____ whose
address is _____ hereby
guarantee Messrs. _____ of
_____ and hold
at your disposal the sum of R.O. _____ (Rials Omani _____
_____ being
two (2) percent of the Bid Value from _____ until _____ a total
period of forty five (45) calendar days.

This bond shall be free of interest and payable in cash on your first written demand in the event of the Bidder either withdrawing his Bid within a period of forty five (45) calendar days from the date of receipt of Bids or failing to commence work within

fourteen (14) days of acceptance of the Bid, whichever date is earlier, without any reference to or contestation on behalf of the Bidder.

This bond should be returned to us upon its expiry or upon fulfilment of our undertaking whichever is the earlier.

Authorized signatories

(To be issued by a locally registered Bank)

ANNEX C: CONTRACT TERMS AND CONDITIONS

The Authority's standard Contract Terms and Conditions may be obtained through the following link:

<http://www.aer-oman.org/images/rfpcontract.pdf>