**TERMS OF REFERENCE (TOR) FOR CONSULTANCY SERVICES**

**CONSULTATION FOR DSO TARIFF STUDY, FINANCIAL SUSTAINABILITY AND SUPPLY SECURITY OF KOSOVO ENERGY SECTOR**

Post Title: Consultant

Project Title: Consultation for DSO tariff study, financial sustainability and supply security of Kosovo Energy Sector

Organization: Kosovo Electricity Distribution Company (KEDS)

Completion Time: 6 months

Deadline to bid: 20.05.2022

1. TERMS OF REFERENCE (TOR)
2. **Background**

KEDS j.s.c., registered as commercial company under the Business Registration Agency in the Republic of Kosovo, is licensed from Energy Regulatory Office (ERO) in Kosovo through License no. ZRRE/Li/Tr\_06/17 to perform distribution activities as specified in Article 28 of the Law on Electricity no. 05/L-085, and territory covered by the license is the entire territory of the Republic of Kosovo.

KEDS as Distribution System Operator (DSO) shall operate, maintain and develop the distribution system in efficient, economical and coordinated manner, with the aim of providing electricity distribution in safe, reliable and long-term manner. It shall ensure long-term availability of system and facilitate connection and use of system in a non-discriminatory manner. DSO’s activities among others are meter reading and providing data from commercial metering points to suppliers for final payment calculation (billing). It should also take all reasonable measures to identify and prevent unauthorized use of electricity, damage to any equipment or meter and other offenses specified in Article 39 of the Law on Electricity.

The energy sector in Kosovo is governed by four main laws: Law on Energy, Law on Electricity, Law on Energy Regulator and Law on Energy Efficiency. The secondary legislation is prepared by Ministry of Economy (ME) and by the Energy Regulatory Office (ERO).

DSO is regulated business, and is entitled to bill and collect its remuneration due to it under the contracts for use of its system and for all other services provided. In determining the income and charges for Distribution of electricity, ERO allows a predetermined level of technical and commercial losses, which are determined for a regulatory period of 5 years. The Distribution Use of System Charges (DUOS), and charges for other services shall be established in a non-discriminatory and cost-reflective way, conform Rule on Maximum Allowed Revenues of Distribution System Operator (DSO Pricing Rule).

The Principles on Determination of Distribution Use of System Tariffs and Connection Taxes defines that Tariff Determination Methodology should enable users of the system to make a reasonable estimate of applicable DUOS tariffs and should among other also include the basis on which tariffs for use of the distribution system will be calculated. In determining the use of system tariffs, the DSO should take into account the medium-term costs of maintaining a safe, secure and reliable system so as to enhance the predictability and stability and cost-reflectivity of prices in the long term.

The Rule on Maximum Allowed Revenues of Distribution System Operator determines that Maximum Allowed Revenues shall be set at such a level that enables the DSO to recover the reasonable costs of providing Distribution System Services, to the extent that those costs are justified and prudently asserted. In determining reasonable costs, the Regulator shall refer to, but is not bound by or limited to past and projected volume, cost and service quality information relating to the DSO; as well as make a comparison with similar utilities and with the costs of similar activities in Kosovo and in countries elsewhere in Europe, taking account of the similarities between the electricity industry in those countries and that of Kosovo.

Conform DSO Pricing Rules; the Maximum Allowed Revenues of the DSO are set for a Regulatory period, which is equal to 5 years. While during the regular Adjustments process, on yearly basis are allowed the adjustments of inflation for allowed operating and maintenance costs, allowed depreciation and return on capital , updates for allowed cost of losses forecast, and any under or over-recovery of the allowed cost of losses in the current, the input values are determined and remain unchanged for 5 years period. Input values are comprised of Lifespan of assets, Weighted Average Cost of Capital, Allowed level of losses, Loss Sharing Factor, Efficiency factor, Savings Sharing Factor applicable to the savings that exceed Efficiency Factor, and any other input parameter that the Regulator may deem necessary.

To this end, KEDS will engage a consultant to analyze, review and propose proper parameters with the aim of enhancing distribution services by ensuring financial sustainability and encouraging efficiency.

1. **Contract Objectives and Expected Results**
2. **Objective**

The overall objective is to create a propose reasonable parameters that ensure financial sustainability, enhance distribution services and encourage efficiency in order to reduce the fee paid by electricity customers.

1. **Purpose**

The purpose of this contract is to support KEDS to propose reasonable parameters that would encourage efficiency but would also address the following challenges:

Financial viability – that is severely affected by electricity tariffs set below cost recovery. Without sufficient revenues to recover costs incurred, the distribution system operator heavily relies on foreign and budgetary loans, which are evaluating such actions risky.

Energy Security is not sustainable due to inherited and continues aging assets, increasing domestic demand, and regional trade needs, requiring development of new generation capacity in the short to medium term.

Operational performance compromised by noteworthy commercial losses, which given the legislation in power are beurocratic court procedures are becoming hard to be fought. This means that a part the electricity generated and/or purchased does not translate to revenues, with dire consequences for investors to recover their investment costs in the sector.

1. **Scope of Work and Expected Outputs**

The scope of work and expected outputs/deliverables will be the following:

* Collect, review and analyze all the necessary regulation and regulatory documents
* Develop the Cost of service analysis (2023-2027). Develop electricity demand and supply forecasts based on reasonable assumptions about demand growth, improvement in service (and reduction in losses and other important assumptions. The forecast will be provided under three scenarios: optimistic scenario case, base/realistic scenario and pessimistic scenario.
* Estimate future capacity and investments needed, conform expected demand
* Based on the findings of the above task, estimate revenue requirements. Assess the purchase costs for losses; operating and maintenance expenses in the distribution segment; non-operating revenue and expenses; interest costs; cost of debt service (and other), to estimate the revenue requirement for 5 years period (2023-2027).
* Develop an economic and financial model that will allow for the determination of a cost-recovering tariffs
* Include the possibility to parameterize different scenarios of operational, financial and commercial efficiency
* Propose a Cost Recovery parameters needed to ensure financial stability and eliminating possible risk for under recovered tariffs
* Produce a well written and comprehensive general reports, with specified chapters on each parameter. Emphasize challenges and risks for the company
* Conduct a workshop to present the findings

1. **Payment Schedule and Duration of the Work**
2. **Duration**

The report shall be completed within a period 6 months from the signing of the agreement.

The Consultant will be required to submit the inception report, draft report and final report, as per schedule defined in table below.

1. **Payments**

The payments will be made in installments based upon outputs/deliverables specified in this TOR and upon certification of satisfactory work as per work plan and endorsed by KEDS.

10% of the professional fee as advance of the total fee of the study at the time of signing agreement.

Consultant shall provide an irrevocable Performance Bank Guarantee of 10% of amount stipulated in the agreement at the time of signing the agreement to be valid till 8 (six) months. Performance Bank Guarantee will be kept as performance security and can be invoked to appropriate against breach of any terms of this Agreement or for non-performance.

If advance is not requested by the Consultant, 10% of the fee can be claimed at the end of the contract period on submission of the final report

1. **Deliverables and payments schedule**

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| --- | --- | --- |
| Deliverables | Payment Amount | Submission Deadline |
| Prepayment/or at the end | 10% | Signing the contract/Delivering the Final Report |
| Submission of the inception report | 10% | 2 weeks after signing the contract |
| Submission of first Draft Report | 30% | 15 August 2022 |
| Submission of Final Report | 40% | 15 September 2022 |
| Presentation and defending | 10% | October 2022 |

The timelines for deliverables is to be strictly adhered to. The individual tasks should be completed in phased manner. In case of delay, the penalty damages will be applicable on the consultant. Penalties include 8% interest rate per delayed days, which will be decreased from the next payment sum.

1. **Required expertise and qualifications**

The consultant should mobilize a team of international/national experts with expertise in fields such as tariff setting, financial analysis, energy economics, and power planning and modelling.

Team leader should have minimum 10 years of experience with relevant to the project of international experience, referable in cost of service/tariff studies in the electricity sector, and at least 3 studies carried out within the past five years.

Team shall consist of:

* + Engineers with at least 7 years professional experience relevant to the project, preferable in distribution system;
  + Economics with at least 7 years professional experience relevant to the project, preferably in in cost of service studies in the electricity distribution system, and corporate finance, preferably in the energy sector.
  + Regulatory specialist – with at least 5 years’ experience of relevant work in regulatory aspects of electricity sector, including tariff-setting and sector planning.

The consultant will have access to existing documents from KEDS which must be treated with confidentiality. The consultant is expected to mobilize its own resources to create defendable assumptions and obtain the data required for the execution of the work.

In order to evaluate the skills of the expert team that will be part of the technical and financial proposal, it is required for the consulting firms to provide detailed CVs.

Key staff must be fluent in English. Additional preferences is knowing Turkish and Albanian language, however this will not be taken into consideration for the shortlisting/evaluation criteria.

1. **Criteria for Selection of the Best Offer**
2. **Eligibility Criteria**

The bidder is required to submit the sealed in an envelope. The envelops should be clearly marked as Bidding for Consultancy services for Enhancing distribution services by ensuring financial sustainability and encouraging efficiency

The Consultant should have completed at least 10 (ten) assignments in the last 5 (five) years of assisting the Electricity Regulatory Commissions and/or Electricity Distribution Entities on matters involving consumer tariff, business plan, and/ or financial planning for Distribution companies.

The bidder is expected to have complete knowledge of Electricity policies, Rules, Regulations and guidelines issued under EU Directive, preferably Kosovo.

The Consultant should have legal and financial background.

The organization of consultant should not have been blacklisted/debarred for conducting studies or consultancy services, within last three years nor is there any pending dispute in this regard

The Turnover and Net Worth of the Consultant as per the Audited Annual Account for

the FY 2020/2021 should be a minimum of 1 million €

The bidders who fulfill all of the above criteria shall be termed as eligible bidder

1. **B. Evaluation Criteria**

The evaluation of the consultant will be based on Combined Scoring method – where the qualifications and methodology is given 70% weightage and financial offer with be given 30% weightage. Only consultant meeting a minimum of 50 points under technical evaluation will considered for the financial evaluation. Following specific criteria would be assessed:

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| --- | --- |
| Evaluation Parameters | Marks |
| The Consultant’s relevant experience for the assignment | 30 |
| Understanding of the issues and approach to be followed | 30 |
| The qualifications and experience of the key staff (who would actually be working on the project) proposed | 40 |

1. **Bidding deadline and application**

The bids need to be submitted by 20th of May 2022 up to 4.00 PM. The address for submission of

the proposal and seeking any clarification (within the due date of submission of the bids) is

given below:

To: Procurement Department

Kosovo Distribution Company, KEDS

St. Bill Cliton

10000 Prishtina

Republic of Kosovo

Subject: X1/04-2022