



*We Exist to Ensure that the Price of the Electricity is Fair to the Consumers; to Tonga Power;
to the Government and to Guarantee Safety and Reliability of Supply*

TERM OF REFERENCE (TOR) FOR REVIEW OF TPL TARIFF PRICING AND OPERATIONAL COST STRUCTURE

The Tonga Energy Commission (TEC) would like to invite an interested qualified individual, organization or firm to submit an expression of interest (EOI) along with the required documents including a proposed rate to carry out the above -mentioned tasks in a duration of 30 days. The interested party may submit the EOI based on the following:

1. EOI required documents are requested to be submitted according to the specific tasks as outlined in the Terms of Reference (Annex I).
2. TEC reserves the right at the time of the award of contract to vary the quantity of services and goods specified in the RFP without any change in price or other terms and conditions.
3. TEC reserves the right to accept or reject any Proposal and to annul the solicitation process and reject all Proposals at any time prior to award of contract, without thereby incurring any liability to the affected Bidder(s) or any obligation to inform the affected bidder(s) of the grounds for the Purchasers action.
4. All prices quoted shall be in USD and be inclusive of all costs related to the delivery of the services to TEC and any applicable taxes.
5. This RFP has been advertised externally, and quotations will be assessed based on both assessed abilities to achieve the outcomes, and cost. Queries or questions may be emailed to s.latu@tongaec.to.
6. Please email your quotation using the Technical Submission Form in Annex II and the Financial Submission Form in Annex III to s.latu@tongaec.to by **4:00pm, Tonga time on Friday 28 February 2025**.

**TERM OF REFERENCE (TOR) FOR REVIEW OF TPL TARIFF
PRICING AND OPERATIONAL COST STRUCTURE**

| | |
|----------------------|---------------------------------|
| Title | Technical Assistance -TA |
| Duty Station | Tongatapu, Tonga |
| Contract Type | Lump Sum Contract |
| Duration | 30 days |
| Reporting to | TEC |

Background

The Tonga Energy Commission (TEC) with the support from Asia Development Bank (ADB) and DLA Piper/Macquarie University Law School intends to tender for technical assistance to support its forthcoming Regulatory Reset in July 2025 as per the Electricity Concession Contract (ECC)

The TEC was established in July 2008 by the Electricity Act 2007 to regulate the electricity sector. Its role was recently expanded under the Energy Act 2021 to include the petroleum, gas and renewable energy sectors. The Commission has the responsibility to discharge the following functions under Section 25 of the Energy Act 2021:

- a. Ensuring the safety, affordability and security of supply of electricity, petroleum, gas, renewable energy and any other energy sources in the Kingdom;
- b. Negotiate and enter into a concession contract on behalf of the Government;
- c. Monitor and enforce a concession contract on behalf of the Government;
- d. Monitor and enforce standards and regulations;
- e. Administer, issue, suspend or cancel individual contractor licenses;
- f. Regulate price and quality of energy sector goods and services;
- g. Administer and maintain energy assets;
- h. Establish and collect fees, Levies and charges;
- i. Develop and recommend energy assets;
- j. Conduct or initiate investigation into or in relation to any energy-related disaster;
- k. Conduct or initiate capacity building training for energy sector stakeholders; and
- l. Do all things necessary for the performance of its functions and for the exercise of its powers under this Act.

Tonga Power Limited (TPL) is a 100% state-owned enterprise providing reliable, safe and affordable electricity as its core service around Tonga and it operates under a strict regulatory framework through an Electricity Concession Contract (ECC) in which tariffs, operational efficiency benchmarks, consumer service standards and penalties are regulated by the TEC.

The Concession Contact (CC) comprises two parts. The Agreement, which is perpetual and is signed by the GOT, TEC and TPL, and the Concession Contract Regulatory Addendum (CCRA) which is signed by TEC and TPL. The CCRA has gone through two iterations, and the current period begun on the 1st January 2021, ends on the 30th of June 2025.

A) Introduction

In the context of energy pricing and the Energy Commission preparing for the next "RESET" exercise, the Energy Commission is faced with the significant task of improving the energy pricing framework and ensuring industry stability.

Although the meaning and implementation of RESET is yet to be defined by the Energy Commission

within the context of Tonga's regulatory environment, the key aspects associated with RESET initiatives include:

1. **Review and Adjustment:** RESET processes involve reviewing existing energy tariffs and regulations to adapt to new market conditions, technologies, and consumer needs.
2. **Stakeholder Engagement:** Engagement of stakeholders is key to gather insights and foster collaboration.
3. **Efficiency and Sustainability:** RESET initiatives aim to promote energy efficiency, reduce waste and support the transition to sustainable energy sources.
4. **Market Stability:** By resetting tariffs and pricing mechanisms, these initiatives seek to enhance the stability of the energy market, ensuring fair pricing for consumers while providing adequate returns for energy providers.
5. **Policy/ Legislative Alignment:** Ensuring that energy pricing aligns with broader government policies on energy security, environmental sustainability, and economic growth.

B) Proposed Framework for the ToR

With the above introduction in mind, the following is a proposed framework for the ToR the Energy Commission may consider outsourcing the work (through open bidding) to a consultant to complete:

1. Background

- a) **Context:** Explain the role of the Energy Commission, past developments, current energy landscape, including fuel distribution practices, market structure, and regulatory environment.
- b) **Purpose:** State the need for tariff review, highlighting economic factors, consumer protection, and industry sustainability. Summarize the importance of conducting the tariff review, emphasizing the intended outcomes for consumers, the market, and the regulatory framework.

2. Objectives

- a) **Primary Objective:** To assess and recommend appropriate tariff structures for fuel and non-fuel distribution, and renewable energy technologies to reduce reliance on fuel, to ensure fair pricing, affordability, energy sustainability, and market stability.
- b) **Specific Objectives**
 - 1) Analyse current tariff structures and their implications for consumers and distributors.
 - 2) Evaluate operational costs, efficiency, and competitiveness in the fuel distribution sector.
 - 3) Appraise the implementation of renewable energy technology and its continuing reduction of diesel energy costs.
 - 4) Investigate consumer behaviour and demand patterns.
 - 5) Assess current policy and legislation to ensure it empowers sustainable price structures; efficient energy distribution; and effective energy supply.

3. Scope of Work

- a) **Data Collection:** Gather quantitative and qualitative data on tariff pricing, operational costs, sales volumes, and market dynamics.
- b) **Stakeholder Engagement:** Conduct consultations with relevant stakeholders, including fuel distributors, consumers, government agencies, and industry experts.
- c) **Comparative Analysis:** Review tariff frameworks from similar developing countries to identify the best practices and benchmarks. Review of the existing tariff design for thermal generation, transmission and renewable generation taking into account the current market scenario including renewable energy generation. Review of the existing approach of return on investment taking into account domestic market. Review of the existing approach for allowing depreciation on electricity producing assets adequate compensation for the

production and sell of electricity.

- d) **Assess.** Assess each component of the tariff parameters and whether their basis are still practical and are in accordance with Laws and Regulations in Tonga as well as best practices in the industry. Assess the existing and need for standards on electrical safety and assess the process and policies regarding licensing of electricians.
- e) **Risk Assessment:** Identify risks associated with proposed tariff changes and their potential impact on the market and consumers.

4. Methodology

- a) **Approach:** Outline the methods to be used for data collection, analysis, and stakeholder engagement (e.g., surveys, interviews, workshops).
- b) **Analysis Techniques:** Specify analytical tools and frameworks to be employed (e.g., cost-benefit analysis, economic modelling).
- c) **Timeline:** Provide a timeline for each phase of the review process, including milestones and deadlines.

5. Deliverables

- a) **Interim Report:** Present preliminary findings, key issues, and initial recommendations.
- b) **Final Report:** Comprehensive report detailing analysis, stakeholder feedback, recommendations for tariff structures, and a proposed implementation plan.
- c) **Presentation:** Prepare a presentation for stakeholders, outlining findings and recommendations.

6. Governance and Oversight

- a) **Steering Committee:** Establish a committee to oversee the review process, comprising representatives from relevant government departments, consumer advocacy groups, and industry stakeholders.
- b) **Reporting Structure:** Define how findings and updates will be reported to the Electricity Commission.

7. Budget and Resources

- a) **Funding:** Outline sources of funding for the review process.
- b) **Resource Allocation:** Specify the human and technical resources required for the successful completion of the project.

8. Confidentiality and Ethical Considerations

- a) **Confidentiality Agreements:** Ensure that sensitive information gathered during the review is kept confidential.
- b) **Ethical Standards:** Adhere to ethical guidelines in stakeholder engagements and data handling.

9. Review and Approval Process

- a) **Feedback Loop:** Establish a process for incorporating feedback from stakeholders throughout the review.
- b) **Approval:** Define the process for final approval of the recommendations by the Energy Regulator.

10. Public Relations

- a) **Transparent Communication:** It's essential to clearly communicate the rationale behind the review of the tariff, the process involved, and the expected outcomes. This includes providing information on how tariffs are set, the factors influencing changes, and the benefits or impacts on consumers and the energy sector. Regular updates and accessible materials (e.g., FAQs, reports) help demystify the process and build trust with the public.
- b) **Stakeholder Engagement:** Actively involving stakeholders—such as consumers, industry representatives, and government officials—is critical. This engagement not only helps address concerns but also fosters a sense of ownership and collaboration, leading to more informed and accepted tariff decisions.

C) Duty Station

The Consultant is expected to do most of the work remotely but shall be in the country for a period of 15 days for face-to-face meetings and trainings. There shall be at least two trips to the country, one preferably at the start of the assignment and the other towards the end of the assignment to present the full findings and recommendations.

D) Key Consideration

In conducting this exercise, the TA will be guided primarily by key principles such as:

- affordability of electricity for all Tongan citizens by minimizing the overall cost of electricity generation,
- reliability of electricity generation and distribution in the CC,
- transparency of electricity costs and those passed on to and drivers in the CC
- public safety,
- ensure that is a formal procedure for engaging Independent Power Producer in the Concession Contract.

Furthermore, the TA will also take into account the Government's vision and strategies that relate to the energy sector, in particular:

- Government target of 70% renewable energy generation by 2025 and 100% by 2035,
- Organizational Outcome 1.3 of Tonga's Strategic Development Framework: 2015-2025, Strengthened enabling environment for business, encouraging broad-based investment and more sustainable and inclusive employment and profits, while protecting the rights of the consumer and being sensitivity to the environment,
- Organizational Outcome 4.1 of Tonga's Strategic Development Framework: 2015-2025. More reliable, safe, affordable and widely available energy services built on an appropriate energy mix moving towards increased use of renewable energy.

E. Remuneration

The TA will be remunerated according to the key deliverables below after the contracting agency (ADB), TEC is satisfied with each deliverable and an invoice stating the task which has been delivered.

| Key Deliverables | Duration | Percentage of payment |
|--|-----------------|------------------------------|
| An inception report accepted by ADB and TEC based on a desk study of the situation outlining the actual activities to be conducted under this TA plus the draft report structure | 2 weeks | 20% |
| A draft TA report with the results of the analysis and recommendations | 3 weeks | 40% |
| A final report accepted by ADB and TEC that incorporates comments from all keys stakeholders | 2 weeks | 20% |
| A report accepted by ADB and TEC on the training activities conducted as part of this TA | 1 week | 20% |

Note that regardless of the allocated timeframe, the above conditions must be met before any payment is made.

F) Commencement

Given the urgency of the work, the assignment must commence by March 2025 and must be completed no later than June 2025.

G) Contract Extension

This contract is fixed to 30 days. Contract variation shall be agreed between the consultant and TEC.

H) Criteria

The following criteria will be used to identify the most suitable and qualified amongst the candidates:

- Minimum of a Master degree in economics, financial management or a related subject
- At least 15 years in utility (electricity) regulations, power tariff reviews and analysis in the SIDS or other developing countries,
- Experience in programme formulation especially in project planning, budgeting, monitoring and evaluation,
- Wider (international) experience on IPP's and PPA's would be a plus,
- Excellent leadership, analytical and evaluation skills, sound judgment, coordination, communication and facilitation skills are essential,
- Demonstrate commitment to work and experience in working in a multicultural environment, high level *inter* and intra-personal and communication skills
- Excellent verbal and written skills in English.

I) Evaluation Criteria

- The bidders shall quote the rate in the financial bid exclusive of taxes,
- Technical and financial components will carry a weightage of 70% and 30% respectively, minimum qualifying marks shall be 70% for technical components.
- The technical proposal shall be evaluated based on the following criteria.

| Technical Parameters | Weightage |
|---|-----------|
| Qualifications of the Consultants | 25% |
| Relevant Experience of the consultant/s | 50% |
| The quality of the methodology proposed | 25% |

- Proposals with the lowest cost will be given a score of 100 for financial component while other proposals will be given scores that are inversely proportional to prices quoted by them.

J) Appendix A: Key Stakeholders

TEC
Department of Energy
TPL Existing Independent Power Producers (IPPs)
PCREEE
Private Entrepreneurs
Ministry of Finance and Treasury
Prime Minister's Office
District and Town Officers
Donor Partners
Palace Office

Technical Proposal Submission Form

Term of Reference (ToR) Framework for Review of TPL Tariff Pricing and Operational Cost Structure

PART A - Background

| CRITERIA | RESPONSE BY BIDDER |
|--|--------------------|
| Name: | |
| Physical Address: | |
| Postal Address: | |
| Telephone Contact: | |
| Email: | |
| Two contacts of referees/references: Attach additional details as applicable. | |

PART B - Qualification

| CRITERIA | RESPONSE BY BIDDER |
|---|--------------------|
| Minimum of a Master degree in economics, financial management or a related subject. | |

PART C - Knowledge/Experience

| CRITERIA | RESPONSE BY BIDDER |
|---|--------------------|
| At least 15 years in utility (electricity) regulations, power tariff reviews and analysis in the SIDS or other developing countries | |
| Experience in programme formulation especially in project planning, budgeting, monitoring and evaluation | |
| Wider (international) experience on IPP's and PPA's would be a plus. | |
| Excellent leadership, analytical and evaluation skills, sound judgment, coordination, communication and facilitation skills are essential | |
| Demonstrate commitment to work and experience in working in a multicultural environment, high level <i>inter</i> and intra-personal and communication skills. | |
| Excellent verbal and written skills in English | |

**Financial Proposal Submission Form
Term of Reference (ToR) Framework for Review of TPL Tariff
Pricing and Operational Cost Structure**

PART A: Declaration

1. The undersigned contractor proposes and agrees if this proposal is accepted, to enter into an agreement with the Owner, to commence and to complete all the work specified or indicated in the contract documents.

In submitting this proposal, contractor represents that; he/she has examined all the RFQ documents to provide Technical Assistance to strengthen the capacity of the TEC in promoting private sector investment in Tonga's power sector.

2. Contractors agree to complete the services for the following price:

| Particulars | Amount (USD) |
|--|---------------------|
| Fees (daily rate) | |
| Costs related to travel | |
| Any other costs (provide description) | |
| Total financial offer (inclusive of all taxes) | |

.....
Print name and sign

.....
Date

Title: