

## **TERMS OF REFERENCE (TOR)**

### **Study to evolve an appropriate model for Distribution Margin**

#### **1.0 Introduction:**

The Tariff Policy issued by the Ministry of Power, Government of India, on January 6, 2006, stipulates as follows:

#### ***“5.0 General Approach to Tariff***

...

*5.3 Tariff policy lays down following framework for performance based cost of service regulation in respect of aspects common to generation, transmission as well as distribution...*

#### *a) Return on Investment*

...

*The State Commission may consider ‘distribution margin’ as basis for allowing returns in distribution business at an appropriate time. The Forum of Regulators should evolve a comprehensive approach on “distribution margin” within one year. The considerations while preparing such an approach would, inter-alia, include issues such as reduction in Aggregate Technical and Commercial losses, improving the standards of performance and reduction in cost of supply...” (emphasis added)*

Accordingly, a FOR Group was formed in April, 2006 to give its recommendations on distribution margin, as provided for in the Tariff Policy. The Group examined the distribution margin concept as a restructuring model and felt that the model (as originally proposed in Karnataka during 2001-02) could not be adopted inter-alia because of the pre-suppositions of the model (e.g. continuation of single buyer model) being inconsistent with the provisions of the Electricity Act, 2003. The Group however devised an MYT framework by incorporating some essential features of distribution margin approach.

Subsequently, another Working Group was formed in June 2008 on MYT Framework for Distribution Business and Distribution Margin. The issues for consideration were inter-alia:

- To examine the need and feasibility for implementing ‘Distribution Margin’ as basis for allowing returns in distribution business

During the first meeting of the Working Group in July, 2008, it was decided that a Study should be conducted to examine the need and feasibility for implementing 'Distribution Margin' as the basis for allowing returns in distribution business and to formulate an appropriate model for Distribution Margin.

## **2.0 Objectives:**

- To examine the need for implementing Distribution Margin as a basis for allowing returns in distribution business.
- To examine the feasibility of implementing Distribution Margin as a basis for allowing returns in distribution business, in place of the existing basis of Return on Equity (ROE) and Return on Capital Employed (ROCE) and the time frame for implementation of the same.
- To formulate an appropriate model for implementing the Distribution Margin concept, in case found feasible, which could serve as guiding principles for determination of tariff for distribution business by State Commissions in terms of Section 61 of the Electricity Act, 2003 and the Tariff Policy.

## **3.0 Scope of work:**

3.1 To develop and recommend appropriate model for implementation of distribution margin as a basis for providing returns to distribution licensees, based on study and analysis of various issues which inter-alia, would include the following:

- 1 Study of existing approaches to giving returns to investor:
  - (i) RoE – merits and demerits
  - (ii) ROCE – merits and demerits
- 2 Need for implementing any other approach for giving returns to investors.
- 3 Detailing principles of Distribution Margin concept.
- 4 Merits and demerits of using Distribution Margin as a basis for giving returns to investors.
- 5 Method to determine minimum revenue collection.
- 6 Method to specify incentive charge for revenue collection above minimum revenue collection. Whether any limit be specified on incentive charge to distribution licensee? If so, the limit and basis for arriving at the same.
- 7 Whether change in revenue collection due to changes in consumption mix be normalized? If so, rationale and basis for normalisation?
- 8 Treatment of capital expenditure incurred by the Distribution Licensee under the Distribution Margin approach.
- 9 International experiences where Distribution Margin concept has been used to give returns and learning from such experiences.
- 10 Applicability and appropriateness of Distribution Margin concept for existing licensees vs. competitive bidding situation.

- 11 Feasibility of implementing Distribution Margin for distribution licensee and distribution franchisee.
- 12 Formulation of methodology for allowing returns under the Distribution Margin concept.

#### **4.0 Deliverables and Duration of Assignment:**

The following are the deliverables:

- a) The study shall be completed within a period of 4 months from the date of award of consultancy;
- b) The consultant will be required to submit
  - Inception Report at the end of one month;
  - Draft Report at the end of three months from the date of commencement of the assignment;
  - Final Report at the end of four months from the date of commencement of the assignment, after incorporating the comments of FOR Working Group.
  - Periodic presentations on status of assignment and key findings at the end of each month

#### **5.0 Qualification Criteria:**

The Consultant should have completed at least two assignments in last three years of assisting State Electricity Regulatory Commission in two different States in analysis of tariff petition filed by SEB/Utility and determination of tariff including at least one multi-year tariff filing. The proposed team for the assignment should have at least one expert on distribution margin methodology.

#### **6.0 Application and Evaluation Criteria:**

6.1 The format of application is at Annexure-I and Annexure-II.

6.2 The Consultant is required **to submit separate bids for Technical and Financial Offers, duly sealed in separate envelopes.**

**6.3 Technical** component will carry 70% weightage and **Financial** component 30% weightage.

- Within the Technical component, weights will be assigned in the following manner for different technical parameters :-

<b>Technical Parameters</b>	<b>Weights</b>
The Consultants relevant experience for the assignment	0.3
The quality of the methodology proposed	0.3
The qualifications and experience of the key staff proposed	0.4

- Weight for Financial parameters :- Proposal with the lowest cost will be given a financial score of 100 and other proposals given financial scores that are inversely proportional to their prices.

- **The total score will be obtained by weighting the Technical and Financial scores and adding them.**

\*\*\*\*\*

**DETAILED PROPOSAL FOR STUDY**

**( TECHNICAL )**

Four copies of the proposal along with project summary to be submitted to Secretary, CERC/FOR.

**I. GENERAL INFORMATION :**

01. Title of the Proposed Study :
02. Name and address of the Organization/  
Institution :
03. Name & Designation of the Key Person :
04. Contact address of the Key Person  
(e-mail/fax/telephone) :
05. Net-worth/Turnover of the Organization/  
Institution :

**II. TECHNICAL SPECIFICATIONS :**

06. i. Department(s) of the organization/Institution(s) where the study will be carried out  
  
ii. Other department(s), if any, which will collaborate in this study
07. Brief review of the state-of-art in the field (National and International)
08. Detailed Approach & Methodology for undertaking the assignment

09. Facilities available for the proposed work in the applicant's organization/institution

10. Previous experience of the proposer in this or related field

11. Biographical sketch of the Study Team

(i) Name

(ii) Designation

(iii) Date of Birth

(iv) Education and Experience

(a) Academic Qualifications

Degree	University	Field(s)	Year

(b) Experience

Institution	Topic of work done	Period

(v) Field of major interest

(vi) Additional information (if any)

12. Capacity to impart training/transfer of knowledge

**DETAILED PROPOSAL FOR STUDY**

( FINANCIAL )

**I. GENERAL INFORMATION :**

01. Title of the Proposed Study :
  
02. Name and address of the Organization/  
Institution :
  
03. Name & Designation of the Key Person :
  
04. Contact address of the Key Person :  
(e-mail/fax/telephone)
  
05. Net-worth/Turnover of the Organization/  
Institution :
  
06. Certificate of authorization in case of Institutes/other organizations (Format enclosed at **Appendix-‘A’**).

**II. FINANCIAL SUPPORT :**

07. Amount of grant proposed for \_\_\_\_\_ :

<b>Components</b>	<b>Basis</b>	<b>Amount (in Rs.)</b>
(I) Consultant Charges -  (a) Consulting services fees  (b) Consultants' Travel & Per Diem  (c) Publication Costs		
(II) Misc./Others (if any)		
<b>Total</b>		

(RUPEES \_\_\_\_\_)

Signature of the Principal Investigator/  
Head of the Study Team



**CERTIFICATE**

The undersigned agree to abide by the conditions of the grants and certify that available facilities for proposed work shall be extended to the investigator/study team.

Signature of Executive Authority  
of the Organisation

Signature of the Principal Investigator/  
Head of the Study Team

Name and Designation  
Date

Name and Designation  
Date

Signature of Co-investigator  
Name and Designation  
Date

Official stamp of University/  
Organization/Institution