

ATTACHED TECHNICAL ASSISTANCE

A. Introduction

1. The technical assistance (TA) responds to the request of the Government of Nauru to support tariff reform for its national electric utility, Nauru Utilities Corporation (NUC), and supports the proposed Nauru Electricity Supply Security and Sustainability Project. The TA was discussed with the government during fact-finding for the project, and will complement the project's investments in NUC's generation facilities and support achievement of long-term sustainability and viability of NUC as an electric utility.

2. The TA will develop policy options for ensuring that NUC's revenues from power sales are sufficient to cover the cost of power service to its customers. The TA will build on previous TA projects provided by ADB (TA for Regulatory and Governance Reform for Improved Water and Electricity Supply)¹, which developed an asset registry for NUC; and TA for Institutional Strengthening of the Nauru Utilities Corporation², approved on 1 April 2014, which will support the NUC in (i) developing and implementing an asset management and maintenance plan; (ii) improving accounting systems through integration of the asset registry and the financial management information system; (iii) implementing performance management systems for lower level NUC staff; and (iv) reviewing the corporate governance of the organization. The TA for institutional strengthening of NUC is scheduled to commence in Q4 2014.

B. Outputs and Key Activities

3. The TA will be implemented over about 6 months from July 2015 to December 2015 (estimated), following the delivery of outputs of the TA for institutional strengthening of NUC. Analysis and recommendations will be consistent with the outputs delivered under the TA for regulatory and governance reform and the TA for institutional strengthening of NUC, in particular as relates to projected costs of implementing the recommendations for asset management and maintenance to be developed under the TA for institutional strengthening of NUC.

4. The TA will (i) analyze and confirm NUC's long-run marginal cost of electricity service, consistent with established best practices for determining a utility's rate-based fixed costs (including prudent maintenance and reinvestment costs) and marginal operating costs (e.g., fuel); (ii) identify and value all existing subsidies provided to NUC from the government; between and among NUC's distinct operations (power, water, and fuel-tank management operations); and to and among different classes of electricity customers; (iii) propose options for rebalanced power tariffs that provide for revenue sufficient to recover NUC's power operations costs and that eliminate embedded cross-subsidies between consumer classes and between NUC's distinct areas of operations (e.g., power and water); and (iv) propose options for provision of a subsidy to residential customers to provide for basic power service on a means-tested or proxy-means-tested basis, for which means-testing approaches will be elaborated and assessed for practicality of implementation.

5. The TA will identify and allocate all of NUC's power operations costs across identified discrete cost centers and present these in a regulatory chart of accounts based on NUC's

¹ ADB. 2011. *Regulatory and Governance Reform for Improved Water and Electricity Supply in Nauru*. Manila. (TA 7873-NAU)

² ADB. 2014. *Institutional Strengthening of the Nauru Utilities Corporation*. Manila. (TA 8631-NAU)

existing financial reporting practices. Where modification to NUC's financial reporting is necessary for proper cost identification and allocation, the TA will propose this.

6. The TA will make use of previous tariff and subsidy reform investigations, including community and stakeholder consultations conducted by consultants under the TA for Electricity Supply Security and Sustainability; and conduct supplemental surveys and review of existing government social welfare policies and programs to identify qualification criteria for government assistance to indigent Nauru households.³

7. Tariff and subsidy policy recommendations will be designed to be minimally distortionary, providing adequate safety net coverage for needy Nauru households at least cost to the government. Tariff and subsidy recommendations must not maintain, or introduce, subsidies that are not explicitly identified, valued, and recovered in NUC's revenues (whether from collections or direct government payment for the explicit purpose of reimbursing NUC for the cost of delivery of subsidized electricity service).

C. Cost and Financing

8. The TA is estimated to cost \$225,000, which will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-V).

Table 1: Cost Estimates and Financing Plan
(\$'000)

Item	Amount
Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	120.0
ii. National consultants	20.0
b. International and local travel	40.0
c. Reports, seminars, and communications	10.0
2. Surveys	3.0
3. Miscellaneous administration and support costs ^b	10.0
4. Contingencies	22.0
Total	225.0

Note: The technical assistance (TA) is estimated to cost \$225,000, of which contributions from the Asian Development Bank are presented in the table above. The government will provide counterpart support in the form of counterpart staff, office accommodation, secretarial assistance, domestic transportation, and other in-kind contributions. The value of government contribution is estimated to account for 10% of the total TA cost.

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-V).

Source: Asian Development Bank estimates.

9. The government will provide counterpart support in the form of counterpart staff, office accommodation, secretarial assistance, domestic transportation, and other in-kind contributions.

D. Implementation Arrangements

³ ADB. 2013. *Project Preparatory TA for Electricity Supply Security and Sustainability*. Manila. (TA 8524-NAU).

10. The TA will be implemented over about 6 months from July 2015 to December 2015. The government will provide counterpart support for the review of existing tariff and social welfare policies, and NUC for analysis of its cost of electricity service.

11. The TA will be implemented through the use of international consultants. Two international consultants will be mobilized, supported by local consultants to assist with research on Nauru policies and community and stakeholder surveys and consultations.

12. **Tariff design expert** (team leader, international, 3 person-months). The expert will hold an advanced degree in economics or a related discipline or possess a professional accounting qualification (such as Chartered Accountant or Certified Public Accountant); and will have a minimum of 10 years of experience in a regulated utility environment, preferably including significant experience in the context of transition from state-operated utilities operations to corporatized and commercialized utility sectors. The expert should have experience in the design of power tariffs in a regulated utility environment; and in preparation of tariff applications on behalf of regulated power utilities, or in the evaluation of such tariff applications as part of the tariff-approving authority or agency (e.g., a utilities regulator). The expert's tasks will include:

- (i) analyze NUC's existing tariff structure;
- (ii) assess and evaluate the adequacy of NUC's accounting practices for the purpose of identifying and representing its cost structure;
- (iii) assess the adequacy of the current valuation of NUC's regulatory asset base, and identify assets whose book value should be restated;
- (iv) value and present all costs associated with NUC's power service;
- (v) allocate NUC's power service costs across NUC's customer base and across customer classes;
- (vi) identify, value, and present (a) cross-subsidies within NUC's existing tariff structure; (b) embedded or in-kind subsidies provided to NUC from the government; and (c) subsidies across NUC's areas of operations, e.g., between power and water service;
- (vii) propose a revised tariff structure and schedule of power tariffs, consistent with the non-distortionary principles described above; and
- (viii) prepare and present outputs in seminars for Nauru stakeholders (tailored to audiences) and in a report detailing the findings of concluded analyses and recommendations.

13. **Social safety net design expert** (international, 3 person-months). The expert will hold an advanced degree in economics, public policy, or other relevant discipline, and have at least 10 years of experience in the design and implementation of social assistance delivery programs employing means-tested or proxy-means-tested qualification criteria. The expert will

- (i) assess existing government social welfare programs or other forms of subsidy delivery benefiting (or purporting to benefit) low-income Nauru households;
- (ii) review and document qualification criteria for eligibility for existing social welfare or subsidy schemes;
- (iii) identify the existing government definition of household income poverty; where no such definition exists, propose a definition appropriate to Nauru's economic conditions;
- (iv) assess the level of effectiveness of existing social welfare and subsidy schemes in terms of coverage and leakage;
- (v) propose options for means-tested or proxy-means-tested eligibility determination for social welfare and subsidy;

- (vi) specific to NUC's power service, propose options for delivery of subsidized service to households deemed eligible based on means-tested or proxy-means-tested bases (subsidy should be explicit and funded directly through government transfer to NUC);
- (vii) as an alternative, propose a minimally distortionary residential tariff structure providing a lifeline rate, with cross-subsidy to be limited to within the customer class (i.e., no cross-subsidy of industry or commercial customers in favor of residential customers); and
- (viii) in collaboration with the tariff design expert, prepare seminars, workshops, and reports for presentation of analyses and recommendations.

14. **Community liaison and outreach expert** (national, 3 person-months). The expert will have a university-level degree and will support the international experts in soliciting and summarizing inputs from affected stakeholders, through means such as structured and ad hoc consultations, and surveys, as directed by the international experts; and assist in organizing in-country consultations for international experts and presentation to stakeholders of outputs of the consultancy (including through workshops and/or seminars to be held in Nauru).

15. An overview of the required consulting services is summarized in Table 2.

Table 2: Summary of Consulting Services

Area of Expertise	Duration (person-months)
A. International	
1. Tariff design expert – team leader	3
2. Social safety net design expert	3
Subtotal (A)	6
B. National	
1. Community liaison and outreach expert	3
Subtotal (B)	3
Total (A+B)	9

Source: Asian Development Bank.

16. The consultants will be engaged by ADB in accordance with its Guidelines on the Use of Consultants (2013, as amended from time to time).

E. Outputs

17. Within 2 weeks of the notice to proceed, the consultants will prepare an inception report with a proposed updated implementation plan for the consultancy, for the review and approval of ADB and the government. A written midterm report will coincide with a presentation, in seminar and/or workshop form, to stakeholders of the analyses undertaken and preliminary recommendations developed by the respective international experts. A final report will summarize the outcome of consultations with stakeholders, refined analyses, and final recommendations for policy adoption and practical implementation actions and schedule. The guidelines for outputs and deliverables are:

- (i) **Inception report:** within 2 weeks of the notice to proceed, summary of the implementation plan for the TA, including data requirements, plans for data collection, and identification of anticipated data gaps and proposed remedies (including requests for government or NUC intervention to resolve data gaps).

- (ii) **Midterm report and presentation (workshop and/or seminar):** within 3 months of the notice to proceed, presenting current policy and practice of tariff formulation, subsidy delivery, and economic and financial assessment of current regime; presentation of policy options and international best practice, and recommendations for transition to best practice models for Nauru. Merits of best practice approaches should be presented, juxtaposed with current policy and practices and their outcomes.
- (iii) **Final report:** within 5 months of the notice to proceed, proposed language for adoption into a government policy decision for revision of tariff and subsidy policies, with corresponding language for implementation instruction for NUC and other affected institutions (e.g., relevant government ministries) and a schedule of concrete actions for adoption and implementation of the proposed revised policy.