
TERMS OF REFERENCE FOR THE APPOINTMENT OF A SERVICE PROVIDER TO INVESTIGATE AND MAKE RECOMMENDATIONS ON THE APPLICATION OF ALL THE ELEMENTS APPLIED IN THE WEIGHTED AVERAGE COST OF CAPITAL (WACC) CALCULATIONS TO SET MARGINS FOR (a) A BENCHMARK SERVICE STATION (BSS); (b) SECONDARY STORAGE; (c) SECONDARY DISTRIBUTION; (d) AND WHOLESALE ACTIVITIES FOR A PERIOD OF THREE (3) MONTHS

1. BACKGROUND

- 1.1 Bates White Consultants recommended to the Department of Energy (DoE) that the activities ex-refinery gate be ring-fenced and that margins be set into regulated petrol price structures to make provision for a return on assets and for the cost-recovery of operational expenditure. The DoE appointed the Institute for Petroleum Strategy and Research (IPSR) to conclude a Regulatory Accounts System (RAS) to set these ring-fenced margins on an annual basis.
- 1.2 In order to determine the ROA of each-ring-fenced activity, IPSR, amongst others, determined the WACC to be applied for each ring-fenced activity. The IPSR utilized local and international proxy companies to determine the unlevered and delevered beta-value and debt/equity ratio. Furthermore, a South African consulting firm was tasked by IPSR to determine the manner in which the (i) Risk-free rate; (ii) Market Risk Premium; (iii) Small Stock Premium; and (iv) Liquidity/Marketability Premium should be included in the WACC calculations.
- 1.3 The WACC's for each ring-fenced activity recommended by IPSR were utilized by the DoE in 2011 and 2012 to set margins. The application of the WACC calculations utilized by the DoE to set ring-fenced activity margins came under severe scrutiny due to the different in applications when compared with NERSA methodology.

2. SCOPE OF WORK

- 2.1 The Service Provider must scrutinize the WACC application for each of the ring-fenced activities currently utilized by the DoE to set margins compared to the WACC application utilized by NERSA to set pipeline transport tariffs; and
- 2.2 If necessary, recommend changes that should be made to the WACC of each ring-fenced activity and give reasons on which these recommendations are based.

3. PROJECT OUTPUT AND / OUTCOMES

The following project outputs and outcomes must be achieved:

- 3.1 Appropriate WACC determination template for each of the ring-fenced activities in Excel format;
- 3.2 Appropriate methodologies to determine each of the WACC elements on an annual basis;
- 3.3 A written report on (a) the findings; (b) recommendations; and (c) the reason for each of the findings

4. REPORTING REQUIREMENT

- 4.1 Two (2) written reports in hard copies and one report in electronic format must be submitted to Mr Robert Maake, Director – Fuel Price Mechanism, who will manage the project on behalf of the Department.
- 4.2 The service provider would be required to submit monthly progress reports to the Department.

5 INTELLECTUAL PROPERTY

- 5.1 All the information, documents and reports that would be compiled for this project would become the property of the Department of Energy and must be handed over to the Department before the final payment is made.

6 DURATION OF THE PROJECT

- 6.1 The project must be completed within three (3) months from the date of signing the contract with the successful service provider.

7 COMPULSORY INFORMATION SESSION

- 7.1 A compulsory information / briefing session will be held on **20th August 2013** at **10H00** at the Department of Energy – 192 Visagie Street, Pretoria.

8. EVALUATION METHODOLOGY

8.1. Cost

- 8.1.1 The service provider will be required to provide a quote regarding the work to be undertaken for this project. The total cost must be VAT inclusive and should be quoted in South African currency (i.e.Rands). A detailed breakdown of the total bid must be attached.

8.2 Broad-Based Black Economic Empowerment (B-BBEE)

- 8.2.1 Provisions of the Preferential Procurement Policy Framework Act (PPPFA) 2011 and its regulation will apply in terms of awarding points.
- 8.2.2 Bidders are required to submit original and valid B-BBEE status level Verification to substantiate their B-BBEE rating claims.
- 8.2.3 Bidders who do not submit their B-BBEE status level verification certificates or are non-compliant contributors to B-BBEE will not qualify for preference points for B-BBEE.
- 8.2.4 In a case of Exempted Micro Enterprise (EMSs), AO/AA must ensure that the B-BBEE Status Level Verification Certificates submitted are issued by the following agencies:
- Verification agencies accredited by SANAS
 - Registered auditors approved by IRBA

8.2.5 The table below depicts the B-BBEE status level of contribution:

B-BBEE Status Level of Contributor	Number of points (80/20 system)
1	20
2	18
3	16
4	12
5	8
6	6
7	4
8	2
Non-compliant contributor	0

8.3 Company Experience

8.3.1 The company must have at least ten (10) years' experience in the corporate finance arena, providing WACC computations and CAPM services and should provide proof accompanied by correspondence from three (3) contactable referees indicating that such project was executed.

8.4 Team Leader and Members Experience

8.4.1 The team leader /member/consultant should have at least 5 years of both practical and theoretical experience in the corporate finance arena, with exposure to financial modeling, structural finance, WACC computations, and CAPM applications. Exposure to the petroleum or oil industry will be an added advantage.

8.4.2 The CV's of the Team leader and Team members must be attached to the technical proposal as proof.

8.5 Registration with Professional Bodies

8.5.1 A company must be registered with South African Institute of Chartered Accountants (SAICA) and the team leader must be a registered Chartered Accountant (CA). Proof must be provided with the proposal, failure to submit bidders will forfeit functionality points.

8.6 Qualification

8.6.1 The Team Leader must be a registered Chartered Accountant. The other team members (in any) should be qualified Accountants or have qualifications in the relevant field, such as B.Com.

8.6.2 Copy of certified certificates must be attached. Failure to attach a copy of certificate/s will lead to forfeiture of functionality points.

8.7 Project Plan

8.7.1 Project plan with intermediate and final outputs and identified timeframes/milestones.

8.7.2 Proposed Methodology.

8.7.3 Management of the project.

8.7.4 The successful service provider will be required to present their Project Execution Plan.

9. EVALUATION CRITERIA

9.1 Bids will be evaluated on 80/20 point system as outlined in the PPPFA of

9.2 The proposals will be evaluated in two phases:

Phase 1:

Bidders will be evaluated based on functionality. The minimum threshold for functionality is **70 out of 100 points**. Bidders who fail to meet minimum threshold will be disqualified and will not be evaluated further for price and preference points.

No.	Criteria	Weights
1.	<p>Company Experience:</p> <ul style="list-style-type: none"> ❖ The company must have at least ten (10) years' experience in the corporate finance arena, providing WACC computations and CAPM services. ❖ Proof accompanied by correspondence from three (3) contactable referees indicating that such project was executed. 	<p>30</p> <p>25</p> <p>5</p>
2.	<p>Team Leader and Members Experience:</p> <ul style="list-style-type: none"> ❖ The team leader / member /consultant should have at least 5 years of both practical and theoretical experience in the corporate finance arena, with exposure to financial modeling, structural finance, WACC computations, and CAPM applications. Exposure to the petroleum or oil industry will be an added advantage. ❖ CV's of the Team leader and Team members must be attached to the technical proposal as proof. 	<p>20</p> <p>15</p> <p>5</p>
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3.	<p>Qualification</p> <ul style="list-style-type: none"> ❖ The Team Leader must be a registered Chartered Accountant. The other team members (in any) should be qualified Accountants or have qualifications in the relevant field, such as B.Com. ❖ Copy of certified certificates must be attached. Failure to attach a copy of certificate/s will lead to forfeiture of functionality points. 	<p>10</p>

4.	Project Plan:	20
	❖ Project plan with intermediate and final outputs and identified timeframes/milestones.	5
	❖ Proposed Methodology.	10
	❖ Management of the project.	5
	Total	100

For purpose of evaluating functionality, the following values will be applicable:

0=	Very Poor	Do not meet the requirements
1=	Poor	Will not be able to fulfil the requirements
2=	Average	Will partially fulfil the requirements
3=	Good	Will be able to fulfil the requirements
4=	Very Good	Will be able to fulfil better in terms of the requirements adequately
5=	Excellent	Will fulfil the requirements exceptionally

Phase 2:

Bidders will be evaluated on price and B-BBEE compliance

Price	80
B-BBEE compliance	20

10. FORMAT AND SUBMISSION OF THE PROPOSAL

- 10.1 All the standard bidding documents (SBD) that are included in the bid document must be completed in all respects by bidders. Failure to comply will invalidate a bid.
- 10.2 Bidders are requested to submit two (2) copies: 1 original plus copy of the proposal and bid documents.

11. CLOSING DATE

Proposals must be submitted by **28th August 2013 at 11H00** at 192 Visagie Street, Pretoria in the bid box marked Department of Energy. **No late bids will be accepted.**

12. ENQUIRIES

All general enquiries relating to bid documents should be directed to:

Rachel Moerane/Daisy Maraba

Tel No: (012) 406 7747 / 7748

E-mail: Rachel.Moerane@energy.gov.za/Daisy.Maraba@energy.gov.za

Technical enquiries can be directed to:

Mr H Baak

Tel: 012 406-7854

E-mail: Hein.Baak@energy.gov.za