The role of Government and its agencies in Nigeria’s Electricity Supply Industry (NESI) has, since 2013 when the sector was mostly privatized, rightly shifted to making policies intended to encourage the development of the sector. The sector is experiencing several challenges now. Therefore, it is important that Government takes steps to establish and implement policies aimed at addressing these challenges and get the sector performing at its optimal potential.

This newsletter highlights some of these recent policies and actions, and their potential impact on the industry.

- **The Minor Review of the Multi-Year Tariff Order (MYTO), 2015**

  The Nigerian Electricity Regulatory Commission (NERC) recently announced the approval of the minor review for 2016 – 2018 of the Multi-Year Tariff Order (MYTO), which was issued in 2015.

  The MYTO 2015 specified the electricity distribution tariffs for the period 2015 to 2024 but had an effective commencement date of 1 February 2016. NERC was also required to carry out biannual minor reviews of the tariffs and vary it accordingly, taking into consideration changes in certain macroeconomic variables outside the control of electricity distribution companies (DISCOs) in line with the requirement of the MYTO Methodology. These variables include inflation rates, foreign exchange rates, gas prices and available generation capacity. Consequently, the NERC should have already conducted seven (7) minor reviews since the MYTO 2015’s effective date of February 2016. However, these minor biannual reviews did not take place. This resulted in DISCOs experiencing major tariff shortfalls within this period and which have impacted the liquidity position of the entire industry.

  The recent minor review for 2016 – 2018 of the MYTO 2015 was, therefore, a retrospective adjustment of the MYTO 2015 tariff regime to account for changes in the relevant macroeconomic indices for 2016, 2017 and 2018. A key objective of this adjustment is to determine the cost reflective tariffs for the relevant years and to ascertain revenue shortfall that has arisen as a result of the differential between such cost reflective tariffs and the actual end-user tariffs charged by the DISCOs during these years. The Minor Review Order also reiterates Government’s commitment to the Power Sector Recovery Plan (PSRP), which makes provision for all accrued liabilities arising from the tariff shortfall to be transferred from the financial records of the DISCOs and fully settled under the financing plan of the PSRP initiative.

  There are, however, concerns as to whether the tariff review is comprehensive enough as it may not have reflected the actual Aggregated Technical Commercial and Collection (ATC&C) losses incurred by the DISCOs during the period.

- **Competition Transition Charge: A Respite for DISCOs regarding the Eligible Customer Regulation**

  The Minister of Power, had in 2017, declared four (4) categories of customers eligible to buy power directly from generation companies (GENCOs) and other licensees other than the DISCOs. This directive was in exercise of the powers conferred on him by Section 27 of the Electric Power Sector Reform Act, 2005 (EPSR Act). Consequent to the declaration, NERC issued the Eligible Customer Regulations, under which eligible customers were authorized to purchase power directly from GENCOs, sidestepping the traditional intermediary role of the DISCOs in the power sector value chain. The DISCOs were expected to lose some of the large-scale customers on their network to the GENCOs and other power generating licensees, as a result of this policy directive.

  However, it appears that there may be some respite for the DISCOs as NERC plans to introduce a relief to offset losses that may be incurred by the DISCOs. In a Consultation Paper recently published by NERC, the Commission introduced the Competition Transition Charge (CTC), which should ensure that DISCOs do not suffer undue revenue gaps as a result of the exit of eligible customers from their license areas. The introduction of the CTC is in line with the provisions of Sections 28 and 29 of the EPSR Act. The NERC has been organizing stakeholder’s consultation workshops across several states in the country, as required by Section 30 of the EPSR Act, which mandates the Commission to hold public hearings to obtain
stakeholders’ views prior to establishing the amount of the CTC and arrangements for its collection and distribution.

According to NERC, “the CTC is the amount a distribution network operator (DISCO) is entitled to collect outside its normal tariff to cater for loss of revenue or its inability to earn permitted rates of return on its assets arising from the exit of an EC (eligible consumer) from its network.” A DISCO that intends to make a claim for a CTC would have to submit a loss of revenue claim, clearly indicating that, despite its efficient management, it will be unable to meet its revenue requirement due to the exit of an eligible customer. Such claims would also have to be submitted within a month of receipt of the prospective eligible consumers’ notice of intention to exit the DISCO’s network.

It would be interesting to see how the implementation of the above initiative progresses and whether DISCOs would be reimbursed as and when due.

- **Premium Power Initiative – A Game Changer?**

  In June 2019, the Federal Ministry of Power issued a document titled Power Sector Policy Directives and Timelines that incorporates directives to power sector regulators and players including NERC, Nigerian Bulk Electricity Trader (NBET), Transmission Company of Nigeria, Bureau of Public Enterprises (BPE). It addresses a wide-range of issues bothering on performance, collaboration, communications and capacity improvement. One such directive compels NERC to encourage and facilitate “willing-buyer willing-seller” transactions in the Nigeria Electricity Supply Industry (NESI) and for the grant of approvals that sanctions the tariffs agreed to by the buyers and sellers.

  It would appear that, with the above in mind and in addition to the provisions of the Eligible Customer Regulations, one of the largest DISCOs in the country, Ikeja Electric Plc, has partnered with Egbin Power Plc, a GENCO, to introduce a Premium Power Initiative (PPI) for eligible customers. The initiative is aimed at providing exclusive services to identified customers who are willing to pay for stable electricity supply at a premium price. It is described as the provision of electricity supply beyond the existing standards. Under the initiative, consumers are guaranteed optimum service performance levels by circumventing the feeder and grid limitations which are typically associated with regular power supply.

  Such initiatives could be the game changer for traditional power sector operators, who must find innovative ways of satisfying the ever-increasing demands of end users for constant electricity, while operating in an industry that continues to regulate electricity prices below market rates. It could also ensure that DISCOs are not completely left out of the value chain as a result of the Eligible Customer Regulations. On the other hand, electricity consumers, who are willing to pay for premium power under the initiative, would benefit from energy cost reductions when compared with the use of alternative energy sources such as diesel and petrol, which are more expensive than the price of the premium power.

However, there are concerns as to how the implementation of the above would impact the traditional power market, as customers who are unable to pay the premium price may be left behind in a dilapidating network with no one willing to make any investment in its upgrade.

- **Bridging the Electricity Metering Gap in Nigeria’s Electricity Supply Industry**

  NERC had, in March 2018, introduced the Meter Asset Provider (MAP) Regulation, in a bid to improve access to meters in the industry and ease the metering gap. The Regulation, which became effective on 3 April 2018, provides for the supply, installation and maintenance of electricity prepaid meters by approved third-parties, known as Meter Asset Providers (MAPs).

  The Regulation had mandated Discos to engage the services of MAPs by 1 August 2018, towards meeting their 3-year metering targets as specified by the NERC. This deadline was subsequently extended to the end of October 2018. Nonetheless, several delays in the engagement contracting and procurement processes resulted in NERC only commencing the issuance of permits to the successful MAPs in 2019. The Commission subsequently directed that the rollout of meters should commence no later than 1 May 2019.

  It was expected that that there would be significant deployment of meters from this date, given the increased demand for prepaid meters in Nigeria, especially with the House of Representatives going as far as initiating a Bill for an Act to prohibit and criminalize estimated billing in the electricity supply industry. However, NERC recently raised concerns on the low level of implementation of the rollout process by the Discos and MAPs. In a communiqué issued at the end of the 6th meeting of the NERC with Nesi stakeholders held in Lagos State in September 2019, the NERC noted that only 26,000 meters had been installed under the MAP Scheme since its inception on 1 May 2019.

  This is a far cry from about 5 million meters that are required to close the metering gap, as provided in the MAP Regulations. The NERC thereafter reiterated that it is the responsibility of the Discos to meter their customers and directed that the Discos take appropriate measures, including calling up the Performance Bonds entered with MAPs in order to ensure that their metering targets are met. It is, therefore, expected that the implementation of the rollout process would intensify in the coming months.

- **Electrification Roadmap for Nigeria**

  In July 2019, the Federal Government of Nigeria and Siemens AG, the German energy technology giant, signed an implementation agreement for the Nigeria Electrification Roadmap (“the Roadmap”). The Roadmap was conceived subsequent to the meeting between the President of the Federal Republic of Nigeria, President Muhammadu Buhari and the German Chancellor, Angela Merkel, in August 2018.
It is common knowledge that Nigeria’s power system has an unfortunate imbalance between power generation and consumption, given that, despite more than 13,000 megawatts (MW) of power generation capacity in the country, only an average of 3,400 MW reliably reaches the electricity consumers.

The objective of the Roadmap is to resolve existing challenges in the power sector and expand the capacity for the future power needs of the country. It aims to fix the sector’s unreliable electricity grid and increase the volume for future power needs in Nigeria to about 25,000 megawatts (MW) by 2025.

It is expected that the project execution, which has a six-year implementation period, will occur in three (3) phases:

- Phase 1 will focus on essential and quick-win measures to increase the system’s end-to-end operational capacity to 7,000 MW;
- Phase 2 will target remaining network bottlenecks to enable full use of existing generation and distribution capacities, bringing the systems operational capacity to 11,000 MW; and
- Phase 3 will develop the system up to 25,000 MW in the long-term. This includes upgrades and expansions in both generation, transmission and distribution systems.

This agreement should go a long way in developing the country’s power sector by the rehabilitation, upgrade and expansion of transmission and distribution networks as well as the power generation systems in the country.

Conclusion

The role of Government and industry regulator, NERC, cannot be overemphasized in the development of the power sector. This is given the continuous need for policy development as well as the establishment and implementation of regulations that will lead to incremental improvements in the power sector which will, in turn, advance the economic development and attract investment opportunities for the country. However, there is an urgent need to ensure timely and proper implementation of these policies to instill confidence in the sector.

For further enquiries on the above and information on how KPMG can assist you, please contact:

Chibuzor Anyanechi  
Partner and Head  
Energy Line of Business  
KPMG in Nigeria  
T: +234 803 402 0965  
E: chibuzor.anyanechi@ng.kpmg.com

Adewale Ajayi  
Partner  
Tax, Regulatory & People Services  
KPMG in Nigeria  
T: +234 803 402 1014  
E: adewale.ajayi@ng.kpmg.com

Segun Sowande  
Partner and Head  
Management Consulting  
KPMG in Nigeria  
T: +234 803 402 0994  
E: segun.sowande@ng.kpmg.com