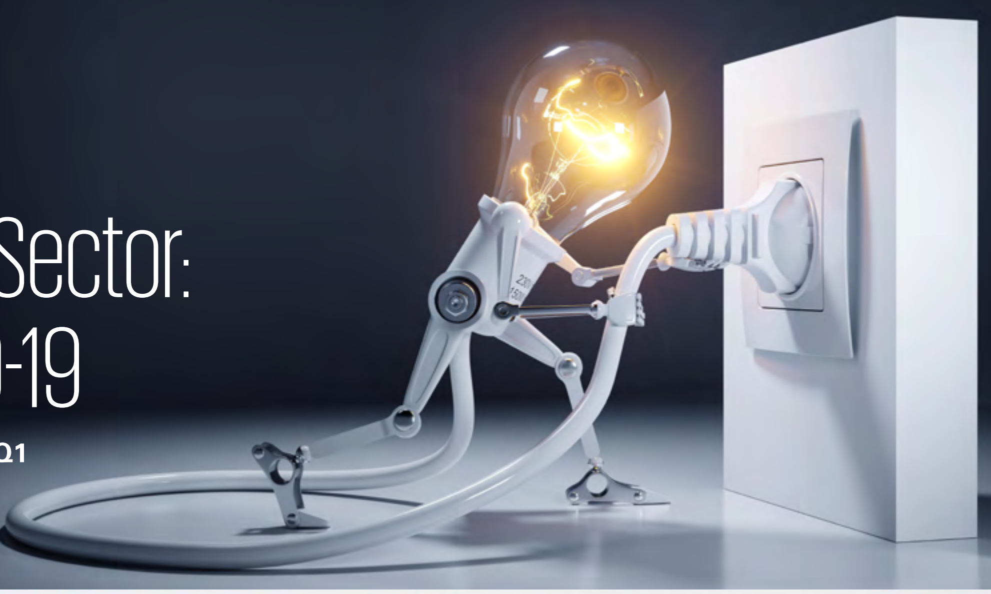

Nigeria's Power Sector: Impact Of COVID-19

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The COVID-19 pandemic has presented a severe health challenge for countries across the globe. Every country has been impacted in one way or the other as the world struggles to come to terms with it. Unfortunately, the impact has extended beyond the health sector to every facet of our lives. The world is on the throes of a recession with all aspects of the global economy impacted.

Nigeria is not immune from all of these, with the power sector also affected. This newsletter focuses on the potential impact the global crisis may have on the power sector in Nigeria.

- **Significant Reduction in Revenue and Cash Inflows**

  Commercial customers and Government & its Agencies constitute a significant customer base for the power sector. The majority of these organisations are currently on full or partial lockdown, which would impact the value of energy consumed. The energy may be diverted to residential customers, whose consumption would obviously have increased due to the stay at home order. However, the tariff payable by this group is less than that payable by industrial consumers. Consequently, Distribution Companies (DisCos) should expect to receive less revenue for the same amount of power distributed during the lockdown.

  There is also the issue of collection losses, which are typically higher amongst residental consumers than with industrial customers. Government and its Agencies may pay late but the chances are that the bills will eventually be settled rather than be totally lost as is the case with many residental customers. DisCos will, therefore, have to deal with the twin issues of reduced revenue and lower collections.

  The collection issue may be worsened by the closure of banks and other financial institutions in some states and reduced operations in others. Most residential customers make payments for energy consumed through designated banks or at the DisCos' designated agents that may also be closed or inaccessible as a result of the lock down. This may impact the ability of customers to quickly settle established bills, even when they have the resources.

  The availability of resources to settle electricity bills is also a significant issue as this may not be the priority for a population that may already be struggling with the harsh economic realities brought about by pandemic and the actions instituted to control it.

The deployment of meters may, arguably, resolve the collection losses issue but the continued implementation of the Meter Asset Provider (MAP) scheme has also been impacted by the lockdown.

There are ongoing discussions between the DisCos and the Federal Government of Nigeria (FGN) on the grant of palliatives to cushion the effect of the lockdown on Nigerians. This may, in the short term, be beneficial for the DisCos provided Government undertakes to pay the cost. This will address the issue of reduced revenue and collection losses for the DisCos and ensure that both Nigerians and the struggling sector survive this turbulent period with minimal impact.

- **Proposed Electricity Palliatives - Potential Constraints in Meeting Operating Costs Obligations in the Electricity Sector**

  Free supply of electricity for two (2) months to residential customers is one of the issues under consideration by the Government as a palliative to Nigerians. The DisCos, through their umbrella body, Association of Nigerian Electricity Distributors (ANED) have announced their support to the above proposal. However, there are a few concerns.

  One concern is who will bear the cost and which cost? For instance, the generating companies (GenCos) would continue to incur fuel costs, salaries, and other fixed generation costs, while the DisCos would also have salaries, fixed transmission and market operator costs, and other operating costs. With cashflow dwindling as a result of the lockdown, the DisCos may be better served to transfer all collection lossess to the Government provided they agree to fund the scheme. The Government may also question why it has to bear all the cost given that the DisCos also stand to benefit from the savings in implementing collection from the large number of residential customers, which may be huge.

  There is also the issue of Government's ability to fund the scheme given its own situation which has been worsened by the fall in oil prices.

  Notwithstanding, the successful implementation of the scheme will gain a lot of commendation from the populace. Undoubtedly, there are incentives for both parties to make this work. It will, however, require compromise on both sides.

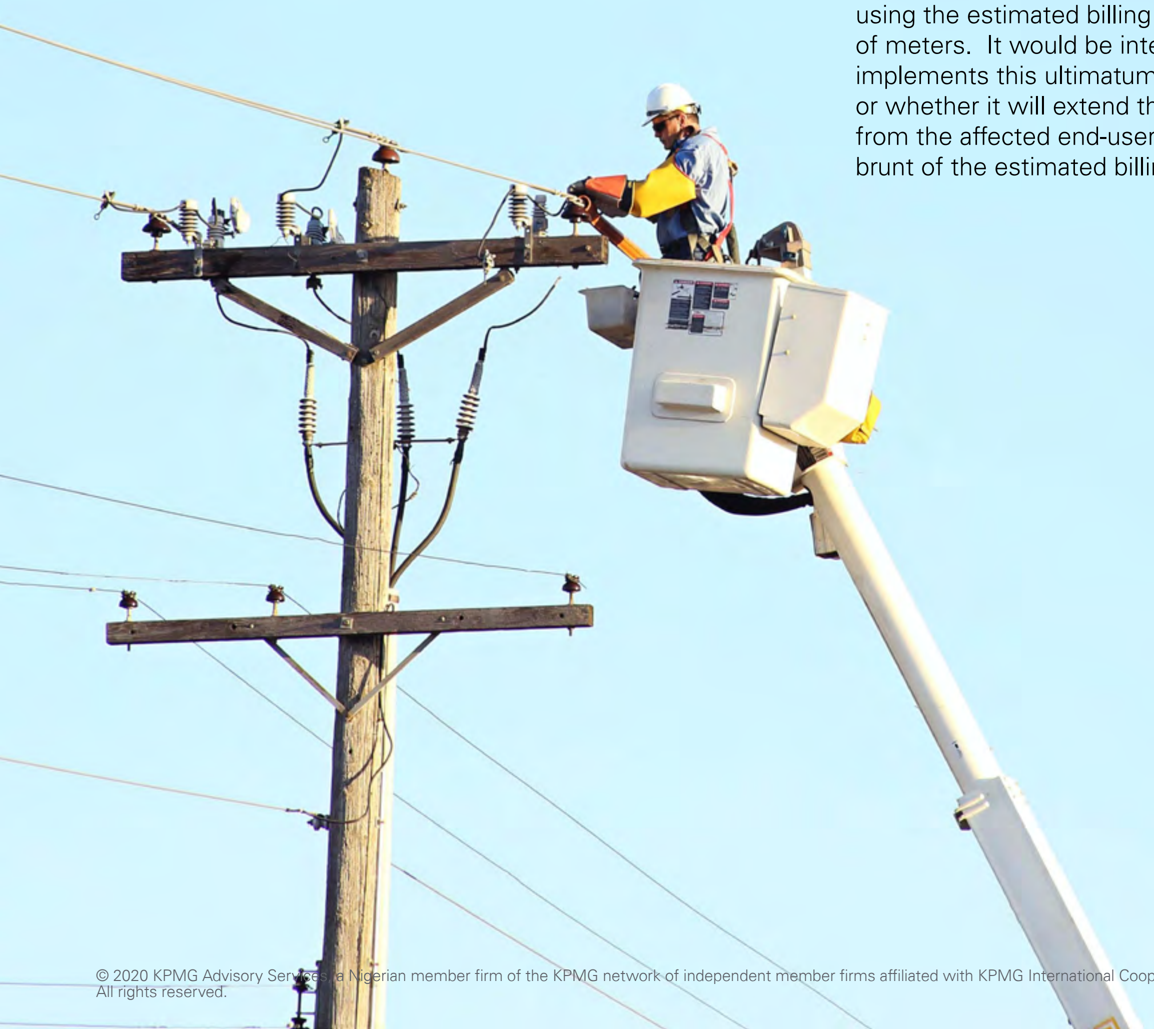
- **Delay in Planned Infrastructure Upgrade**

  The problem of Nigeria's power sector cannot be discussed without consideration for the infrastructural challenge. The sector has, over the years, suffered from a lack of investment in infrastructure, an issue that the Government and the players in the sector are earnestly looking to address. One such initiative to address this was the Agreement entered into with Siemens on the Nigerian Electrification Road Map. The Agreement, which anticipates that the the country would have a generation capacity of about 25,000 MegaWatts of electricity by 2025, is due to be implemented in three phases, starting from 2020. Nigeria is billed to spend over a trillion Naira over the course of the project with about 61 billion Naira in 2020.

  It is debatable if this project can proceed as scheduled because of the lockdown and also because of Government's reduced financial capacity at the moment. Siemens is also headquartered in Germany which has been badly hit by the pandemic.

  There is also the issue of the MAPs. Many of the accredited MAPs have technical agreements with Chinese companies for the manufacture of these meters and subsequent domestication of the technology in country. It is, therefore, conceivable that the importation of the equipment (meters, capacitors, etc.) ordered from China may be impacted due to border closure and restrictions. MAPs, which are already manufacturing in Nigeria, may also experience some setbacks due to constraints occasioned by the lockdown.

  The Nigerian Electricity Regulatory Commission (NERC) had earlier, in the year, issued an ultimatum to the DisCos to ensure all customers are metered and placed a restriction on how long high-end users could be billed using the estimated billing system without the provision of meters. It would be interesting to see how the NERC implements this ultimatum given the current pandemic or whether it will extend the deadline and risk backlash from the affected end-users who currently bear the brunt of the estimated billings.



- **Postponement of the Minor Review Order to July 2020**

  The proposed adjustment in electricity tariff by the DisCos, which was slated to come into effect in April 2020, has now been delayed for three months; until July 2020. Interestingly, the tariff adjustment was initially slated for January, but was later moved to April 2020 to allow for public and stakeholder consultations.

  One of the issues that have bedeviled the sector is that of liquidity and this has not been helped by the fact that the sector has been unable to charge cost-reflective tariffs to its customers. The minor review of the tariffs is to reflect the current economic realities and reduce the amount of Government subsidy in the sector. NERC had stated that the proposed adjustment took into consideration the actual changes in relevant macroeconomic variables and available generation capacity as at October 2019.

  Prior to the pandemic, there were concerns by industry players about the reasonability of some of the macro-economic indices contained in the tariff computation. One of such is the exchange rate that NERC had adopted (i.e. ₦309 as against the market rate of ₦360 at the time). These players argued that they were more likely to obtain foreign exchange to purchase network infrastructure at ₦360 rather than ₦309. With the advent of COVID-19 and its fall out, it is now even debatable if ₦360 would still be considered a fair rate for the review. There is also inflation rate, which will increase due to the COVID-19 pandemic and its fall out. NERC may, therefore, come under increased pressure to review those parameters again.

  There is also the issue of the pronouncement by both NERC and the Minister of Power on conditions precedent for the tariif adjustment to come into effect. NERC had indicated that all the DisCos would have to submit updated performance improvement plans while the Minister was quoted to have stated that improved access to metering would be key to any tariff adjustment.

  It is unlikely that significant progress would be made on either of the above "condition precedent" during the lockdown. This may put the effective date for the tariff adjustment under a cloud.

  Notwithstanding, it is accepted that for the long term stability of the sector, there has to be a well-articulated plan to move to cost reflective tariffs. This is even more so as Government's ability to continue to provide any form of subsidy or intervention is now in severe doubt given the challenges in the oil sector, which remains the major source of Government's revenue.

Conclusion

These are interesting times and the entire world is still struggling to come to terms with the times as well as put in place structure to better manage its impact. Nigeria and its power sector are not alone but the key is understanding the issues and ensuring that all hands are on deck to formulate a robust response that guarantees the long term stability of the sector post the Covid-19 pandemic.

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