

# Nigeria's Electricity Supply Industry Highlights

Power Sector Watch | Edition 2021 – Q1

KPMG in Nigeria | February 2021



**There have been continued collaborations by the Federal Government of Nigeria (FG or “the Government”) and other stakeholders in the power sector, in a bid to improve the sector optimize its capacity.**

**This newsletter highlights some of the recent developments and their impact on the industry.**

- **Metering**

The Nigerian Electricity Regulatory Commission (NERC) in a report issued in November 2020, stated that a total of 525,120 meters were deployed and installed in the premises of power users under the various franchise areas of the eleven (11) power distribution companies (Discos) between January 2019 and November 2020.

Liquidity has remained a critical issue in the distribution sector and Discos continue to struggle to pay for the power received from the power generation companies (Gencos). The Government rolled out several initiatives, including Meter Asset Provider (MAP) Regulation and the National Mass Metering Programme (NMMP), to increase the number of metered electricity users, cut down on estimated billings to customers and reduce non-technical losses. The MAP and NMMP were launched to replace the erstwhile Credited Advanced Payment for Metering Implementation (CAPMI) Scheme and provide a sustainable strategy to address mass metering of Nigerians, encourage the development of independent and competitive metering services and enhance revenue assurance in the Nigerian Electricity Supply Industry (NESI). Based on the NERC's report, the Discos contracted 7,588,972 meters under the NMMP during the period. Of the available 1,000,000 meters rolled out in the first phase of the NMMP, only 16,308 meters have been installed in the premises of customers while 983,692 were warehoused in Discos' offices.

Further, the NERC has directed that electricity customers who paid for meters under the MAP scheme should be refunded following the FG's announcement that six million meters would be distributed at no cost to customers under the NMMP.

Notwithstanding the progress made in closing the country's metering gap by the NNMP, customers have continued to experience challenges in getting meters due to manpower constraints and logistic challenges which manufacturers have to grapple with at the ports. We however expect to see an increased drive for mass metering of customers in the next quarter.

- **Increase in Power Generation by 93%**

The Gencos were reported to have achieved a 93% increase in generation over the past seven years, despite the challenges in the sector since privatisation. The Gencos however, bemoaned the lack of infrastructure to evacuate all the available capacity. The Association of Power Generation Companies (APGC) reports that the available generation capacity of 4,214.32MW has increased by 93.27% to 8,145MW, however, due to system constraints, generated power is rejected or forced to be reduced. The idle capacity represents non-performing capital investments which may impact the Gencos' ability to service loans used in developing power plants and undermines their performance.

Although, the Gencos have forecasted a bleak performance in 2021, there appears to be a positive outlook for the renewable segment of the generation sector during the year, especially with the amounts earmarked by the FG for the development of renewables and off-grid solutions in the 2021 budget. However, the FG may need to intervene to address the critical liquidity challenges which may address Genco concerns regarding the future of the sector.



- **Cashflow Challenges in the Power Sector**

The Nigerian power sector continues to struggle under heavy debt despite the interventions of the Central Bank of Nigeria (CBN) and the NERC to address the liquidity crisis which bedevils the sector.

In 2020, NERC had set a minimum market remittance threshold payable by the DisCos across the country and mandated the DisCos to make remittances to the Transmission Company of Nigeria's (TCN) Market Operator in line with the threshold, repay loans to CBN and remit some percentage to Nigerian Bulk Electricity Trading Company (NBET) monthly. In addition, CBN directed money deposit banks to take charge of the collection of electricity bill payments. This was in a bid to ensure that payments are made into a dedicated account and disbursed depending on priority, beginning with loan repayment and service charge to TCN. It was also expected to lead to cash flow management discipline in the NESI.

However, the Discos failed in remitting ₦416.94 billion between January and September 2020, according to data published by NBET. The cumulative revenue lost by the power sector in 2020 is estimated at ₦645.15billion<sup>1</sup>. This shortfall in funding has resulted in little or nothing left for capital improvements of the distribution network. The lack of significant capital investment in the distribution sector makes it difficult for the sector to cope with generation and transmission capacity. The FG has demonstrated fresh impetus in its efforts to invest in the sector by allocating ₦1.5billion for the distribution expansion programme projects to utilize the stranded power from the grid. However, it would be interesting to see how the cost of these FG led distribution expansion projects would be treated in the books of the Discos: whether as equity or as a payable to the FG given that the programme is expected to be driven by the private sector.

- **FG delays the implementation of the tariff adjustment following the December 2020 Minor Review**

The Minister of Power has directed the NERC to inform all Discos to stay action on the implementation of the newly adjusted tariffs, following the Minor Review conducted in December 2020.

In December 2020, the NERC approved tariff modulations which were to come into effect on 1 January 2021. The new tariffs expected to supersede the previous NERC Order on electricity tariff adjustments. The NERC noted that in approving the new tariff, it considered the rise in inflation rate (14.9% as at November 2020), the foreign exchange (₦379.4/\$1 as of 29 December 2020), available generation capacity, US inflation rate (1.22%) and the Capital Expenditure of the power firms.

However, electricity consumers raised concerns over the tariff despite the FG's earlier pledge not to modulate rates until July 1, 2021. Specifically, the Manufacturers Association of Nigeria (MAN) noted that top on the list of challenges confronting its members is inadequate electricity supply. Therefore, a new tariff may further increase its operational cost of about ₦70billion on self-generated electricity which will negatively impact its already lackluster performance, decrease its forex earnings and ultimately, reduce the government's tax revenue.

The adjustment in the implementation of the regulatory framework for the service-based cost-recovery tariffs may negatively impact the cashflow projections of the players in the NESI for the 2021 financial year. The implementation of the new tariff was envisaged to improve the liquidity challenges of the sector and attract additional investments which will provide funding for capital investments and network expansion projects required to improve performance in the NESI.

- **Addressing the Infrastructure Challenges in the Power sector**

Based on the Advisory Power Team Trend for 2020<sup>2</sup>, Nigeria's average generation and transmission were 4,000 Mega Watts (MW) (although the generation occasionally hit the 5,000MW mark), with an average of 3,000MW being distributed to electricity consumers across the country. This performance was mainly impacted by infrastructure deficits in the electricity value chain. Industry players believe that the current electricity capacity is grossly inadequate to cater for the power needs of Nigeria's growing population.

The FG in its budget breakdown for 2021 has sought to address some of the issues faced in the power sector by allocating ₦206.746billion (inclusive of ₦160.83 billion for multilateral and bilateral funded projects) to the Ministry of Power (MoP) for capital expenditure in the year 2021. A significant portion of the MoP's allocation will be spent on counterpart funding needed to complete the construction of the hydro power projects and other renewable energy solutions, expansion of the transmission lines and rehabilitation of the existing infrastructure for the second successive year. The FG has also earmarked ₦160.83billion for the expansion and rehabilitation of the country's transmission network. Other notable projects include the ₦1.5billion allocated for the distribution expansion programme projects to utilize the stranded power from the grid and approval of the counter-part funding for the Siemens AG Power Agreement which is expected to increase the distribution capacity to 7000MW by the end of 2021.

<sup>1</sup> <https://www.energymixreport.com/44068mw-stranded-as-nigerias-power-sector-loses-n645-15bn/>

<sup>2</sup> Power Sector 2021 Trend (google.com)

- **Conclusion**

The Power sector will continue to be under the spotlight in 2021. However, the key to unlocking the potential in the sector and positively impact final customers is to address the issues around infrastructure deficits in the transmission, distribution subsectors and overall sector governance. It is expected that the NERC will continue to develop policies that will improve regulatory certainty and work with all stakeholders to address the key challenges of the sector. It is also hoped that the Government's planned interventions in 2021 will focus on attracting significant private sector capital that will help to address the financial, technical and infrastructural challenges of the sector.

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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](mailto: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](mailto: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](mailto:segun.sowande@ng.kpmg.com)

**Martins Arogie**

Partner  
Tax, Regulatory & People Services  
KPMG in Nigeria  
T: +234 703 403 6318  
E: [martins.arogie@ng.kpmg.com](mailto:martins.arogie@ng.kpmg.com)

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