NIGERIAN ELECTRICITY REGULATORY COMMISSION

Appropriate Pricing and the Future of the Nigerian Electricity Supply Industry

NESG Policy Dialogue with NERC
13th June 2012

Multi-Year Tariff Order

- MYTO: tariff methodology that establishes the electricity tariffs paid by all Nigerian residents

- Consumers pay ALL efficient costs of providing electricity

MY Set 5 years in advance

T Prices paid by the consumers

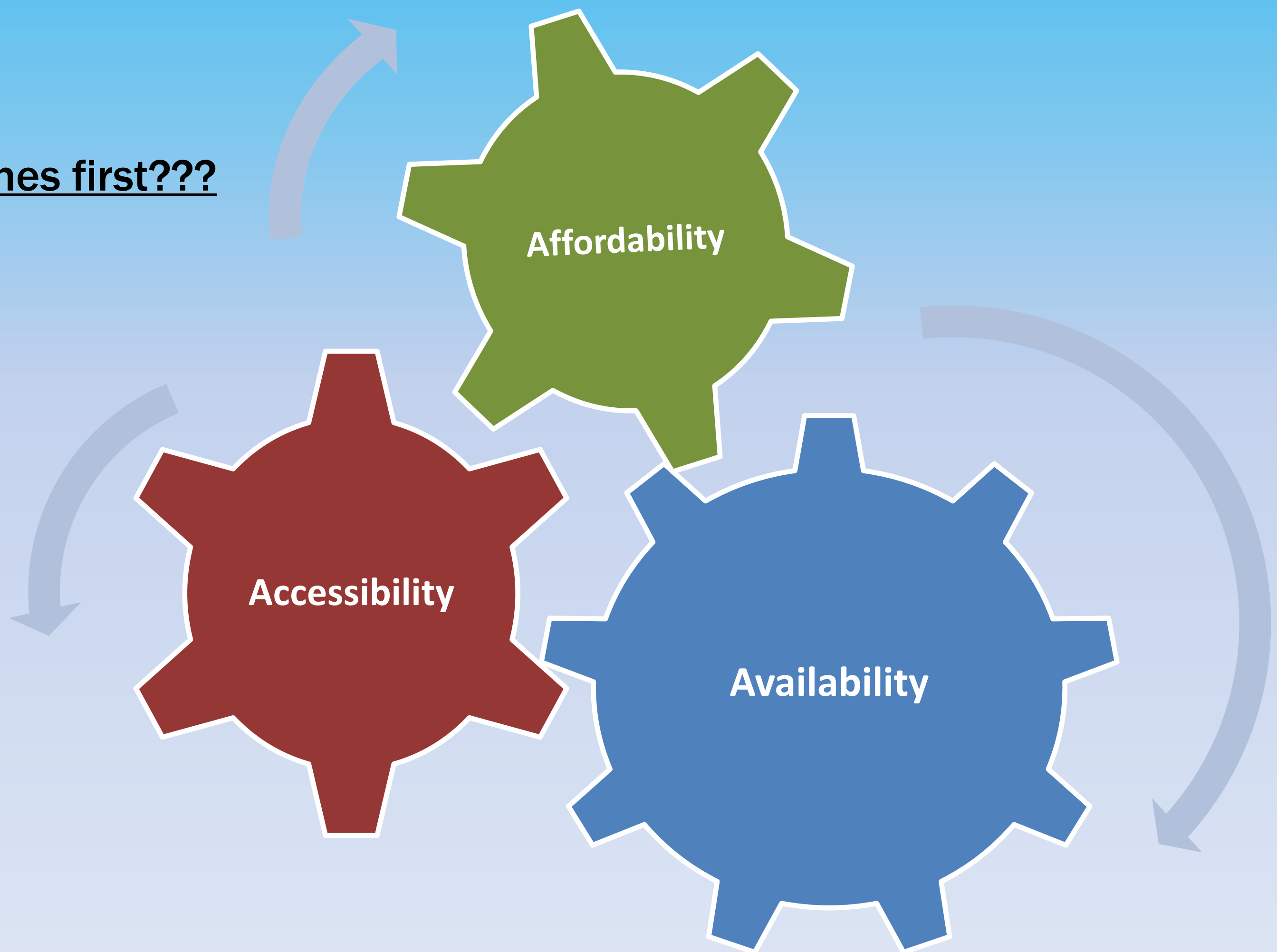
O Based on Regulatory Orders or decisions made by the Commission

Tariff Principles

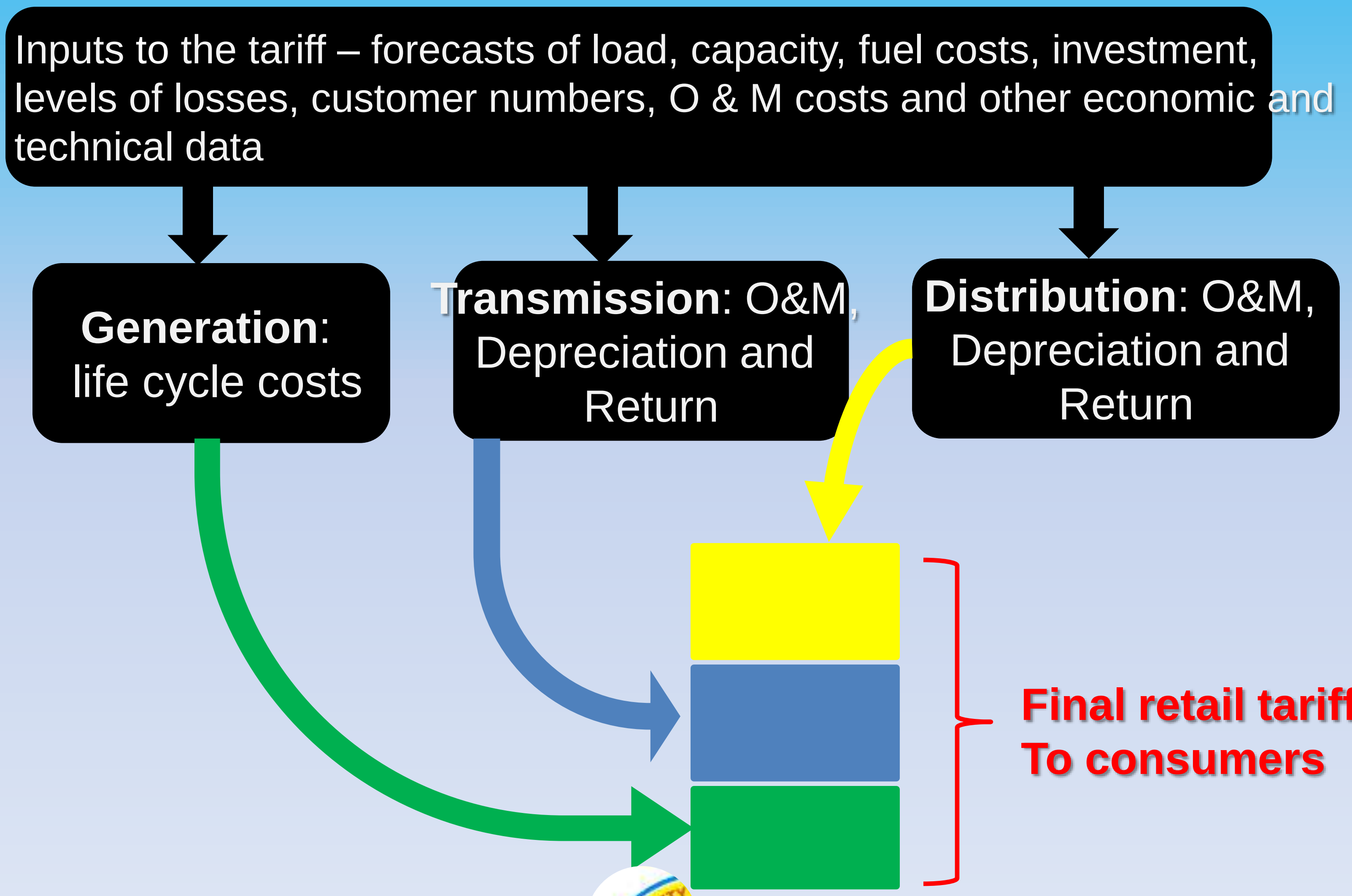
- MYTO sets tariffs for the three electricity sectors based on certain principles and assumptions, namely:
  - **Cost recovery/financial viability** – licensees recover efficient costs, including a reasonable return on capital
  - **Signals for investment** – tariffs should encourage an efficient level and nature of investment (e.g., location)
  - **Certainty and stability** of the tariff framework enables private sector investment
  - **Efficient use of the network** – tariffs should reflect the marginal costs that users impose on the system, influence efficient use and reduce cross-subsidies
  - **Allocation of risk** – the tariff framework should allocate risks efficiently to those best placed to manage them

The Popular Question: Why can't power improve first?

Which comes first???



MYTO Methodology-
Assumptions for Retail Tariff Calculation



Rationale for the Price Increase-Cost-Reflective Tariff

- Full efficient cost recovery is mandated by the S.76, EPSR Act, 2005
- Without a **cost-reflective tariff**, no utility provider will enter any market, however large the market
- The absence of a cost-reflective tariff is a key reason for the failure of the power sector to serve Nigerians for the past three decades
- The FG alone cannot invest in filling in the investment gap that has widened astronomically in the last 3 decades - to match our peers (RSA, Brazil, Egypt) we should have at least 100GW today – that means a $300bn investment

Rationale for the Price Increase

- Wrong projections in MYTO 1, especially load projections, e.g., 16,000 MW in 2011
- Increase in natural gas supply and transport prices
- Inclusion of feed-in tariffs (wind, solar, biomass and small hydro)
- Inclusion of a tariff for coal-fired generation
- Need to incentivise the private sector into investing in removing key challenges:
  - Corruption and poor management
  - Absence of consistent project finance
  - Low penetration of meters and incidence of estimated billing
  - Low rate of access to supply
  - Near absence of customer care

The Next Decade….

- A lot more supply capacity in the NESI
- A lot more investment – by 2017, the NESI will average $20bn invested per annum (7,500MW) excluding domestic gas investments
- Competitive entry for embedded and on-grid generation
- A huge amount of project planning, engineering, construction and financing work will be generated (do we have the HR capacity?)
- A lot more disputes within daily operations and in the rest of the market generally

The Next Decade cont'd…

- Cross – sectional disaggregation

  - Discos will break up along local lines

  - Regional power pools with their own independent SO's will evolve

  - Regulatory capacity will be more wide spread

  - State Govts will have to develop capacity to regulate market operations carried on purely within their boundaries

- NERC must evolve into developing capacity to identify, anticipate and eliminate potential harm through industry panels and committees and the judicious use of its portfolio of regulatory instruments

Challenges to the Vision

- Lack of symmetric reform in the domestic gas market
- Lack of understanding of reform imperatives by the domestic banking sector
- Inconsistency in political will
- Development of the rule of law and respect by stakeholders, especially politicians for institutions created to provide certainty in the industry

THANK YOU

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