GUIDELINE ON TARIFF REVIEW FOR THE DISTRIBUTION COMPANIES

INTRODUCTION

1. Following the implementation of the MYTO 2.1 (amended) the eleven (11) Distribution Companies (DisCos) raised the concern that the tariff was no longer cost reflective. Some DisCos followed their complaints with filing notices of force majeure, claiming that the resultant effect of the amended MYTO 2.1, which removed the collection losses component, would lead to a breach of their Performance Agreements, bankruptcy and market collapse.

2. It is a fact that during the Interim Rules Period (IRP) and the present Transitional Electricity Market (TEM) stage, many DisCos did not and are not meeting their upstream obligations in full contrary to requirements of a functional market. According to the DisCos and other stakeholders a credible and cost reflective tariff will address these concerns and restore confidence in the market. As a result, the Commission is ready to consider tariff review at this time to address all issues and ensure a workable cost reflective tariff in line with the EPSR Act 2005.

3. Stakeholder engagement is considered a vital aspect of any tariff review exercise. A public consultation procedure has been developed and all DisCos are expected to consult with all relevant stakeholders before submitting their tariff application to the Commission.

4. This guideline provides clarity on the treatment of various areas of contention on the issues and assumptions contained in the MYTO 2.1 (amended). To ensure an effective, timely and hitch free process, the Commission enjoins all DisCos to strictly abide by this guideline in preparing their tariff proposals.

TARIFF METHODOLOGY

5. For consistency and given the urgency to have a tariff review as soon as possible, the existing Tariff Methodology will be maintained

MYTO FINANCIAL MODEL

6. The existing MYTO model shall be maintained and relevant adjustments made in line with this guideline.

RATE DESIGN

1. DisCos are required to determine their customer classification and forward same to NERC in their respective tariff applications. The decision on how to recover the revenue requirement (who pays what) is the responsibility of DisCos.

TEN (10) YEAR TARIFF PLAN

2. DisCos shall prepare their tariff applications based on a 10-year tariff path with periodic minor and major reviews. A minor review shall be carried out bi-annually and major review every five years in line with the MYTO methodology. The 5 year review will consider the under-recovery and over recovery during that period to ensure that all allowable revenue is recovered going forward.

GENERATION CAPACITY

3. The Commission, in consultation with NIPP, Success Gencos and serious IPPs shall realistically project the quantity of additional generation capacity that could be available in the short, medium and long term. For the current tariff preparations the same MYTO projections for generation should be maintained, which can be adjusted in the minor review process.

NIPP ASSETS

4. NIPP assets shall not be included in this tariff review. The DisCos may request for a tariff review in line with the Rate Review Regulation to take cognizance of the new assets after the valuation by the Commission is completed.

SMOOTHENING THE TARIFF

5. While considering the DisCos tariff proposals, the Commission shall work with the DisCos to minimize the disparity in tariff between the tariff classes amongst the eleven Distribution companies.

ATCC LOSS REDUCTION

6. In submitting their tariff applications, DisCos shall consider the following as it relates to the issue of Aggregate Technical, commercial and Collection Losses:

   a. DisCos may request a review of the level of its collection losses by the Commission provided that adequate consultation is carried out with its customers on the issue and sufficient justification adduced;

   b. The final aggregate loss level will be dependent on the Commission's decision on any application made for the review of collection losses by a Disco as stated in paragraph 6(a) above; and

   c. The loss reduction trajectory will commence in 2015.

BEGINNING Vs END OF YEAR LOSS REDUCTION IN THE MYTO

7. The loss reduction will be applied at the end of the year.

FIXED CHARGE

8. In filling their tariff applications DisCos shall reduce fixed charge from customer bills by increasing the energy charge (KW/h). The reduction in fixed charge shall not adversely impact on the generation and transmission components of the fixed charge.

CUSTOMER NUMBERS

9. Customer number and the percentage growth rate as determined by the Commission shall be maintained and 5% growth rate applied from the 6^{th} year until a study to prove otherwise is provided by the DisCos. There shall be a zero growth in customer size for two (2) years (2015-2016) for Yola Disco. This was considered due to the insecurity in the North-East part of the country which gave rise to high migration rate from Yola Disco area to neighbouring Niger, Cameroun, Chad and other parts of the country.

UNFREEZING THE R2 TARIFF

10. The R2 Tariff shall remain frozen until a new credible tariff as may be determined by the DisCos is approved. However, any under recovery as a result of the freeze will be captured in DisCos tariff submission and subsequent minor review of the tariff and spread over the 10 year tariff period. DisCos could create new sub classes in existing customers' tariff categories and present them at their tariff submission to the Commission.

REBALANCING LOAD ALLOCATION BETWEEN CUSTOMER CLASSES

11. Rebalancing shall be allowed where approval is obtained from the Commission. To avoid discrimination in load rebalancing by the DisCos, the Commission requires any Disco that wishes to rebalance its load to submit the following for approval:

    a. Energy demand from each tariff class;
    b. Data on the revenue from all class; and
    c. DisCos proposed new load allocation to the various class of customers.

12. **CAPEX IN 2014**

The unspent CAPEX provided for the DisCos in year 2014 shall be removed from the tariff given that the DisCos will commence loss reduction in January 2015. The resulting CAPEX for 4 years will now be spread over 5 years in the tariff.

INCREASE IN CAPEX AND OPEX

13. Concerned DisCos could apply for CAPEX adjustment in subsequent rate case application to the Commission in line with the Commission's Rate Review

Regulation. However, DisCos are allowed to adjust already provided CAPEX and OPEX over the period to match their respective investment and financing plans with their 5 year Business Plans.

DOCUMENTATION

14. DisCos are required to submit their tariff applications in line with relevant provisions of the Commission's regulation on rate review. In this vein, the application shall be submitted with Audited Financial Statements (for the years ended 31 December 2013 and 2014) and other relevant documentations stated in the said regulation. Where a disco is unable to provide the Audited Financial Statement a plausible reason should be provided to the commission with a schedule of when the document will be provided

OTHER CHARGES

15. DisCos may propose charging for KVA and Max Demand in their tariff application.

GUIDELINES FOR TARIFF CONSULTATION BY THE DISCOS

16. Before filling rate application, the DisCos shall carry out consultations with their customers in line with the Tariff Consultation Guidelines attached as Annex 1.

TIMETABLE FOR THE TARIFF REVIEW

17. Attached as Annex 2 to this guideline is an indicative Timetable to guide the DisCos on the consultation process with its stakeholders. DisCos are encouraged to comply with the timetable to minimize the revenue shortfall that may result between the periods MYTO 2.1 (amended) became effective and when the new tariff will be implemented). Notwithstanding the attached schedule, the Commission shall review each DisCos rate application and approve same as they are submitted