



ORDER NO: NERC/198/2020

BEFORE THE NIGERIAN ELECTRICITY REGULATORY COMMISSION
IN THE MATTER OF PUBLIC HEARINGS ON THE CONSIDERATION OF APPLICATIONS FILED FOR EXTRAORDINARY TARIFF REVIEW BY SUCCESSOR DISTRIBUTION LICENSEES IN THE NIGERIAN ELECTRICITY SUPPLY INDUSTRY AND ORDER ON THE TRANSITION TO FULL REVENUE RECOVERY FOR SUCCESSOR DISTRIBUTION LICENSEES IN THE NIGERIAN ELECTRICITY SUPPLY INDUSTRY

Title

1. This regulatory instrument may be cited as the **"ORDER ON THE TRANSITION TO COST REFLECTIVE TARIFFS IN THE NIGERIAN ELECTRICITY SUPPLY INDUSTRY"**.

Commencement and Repeal

2. This Order shall take effect from 1 April 2020 and shall cease to have effect on the issuance of a new Order on the same subject matter by the Nigerian Electricity Regulatory Commission ("NERC" or the "Commission").

Context

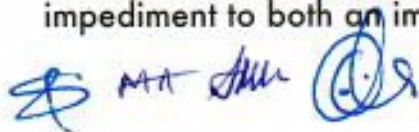
3. The 11 successor electricity distribution companies ("DisCos") submitted Performance Improvement Plans ("PIPs") to the Commission in accordance with the requirements of the Power Sector Recovery Program ("PSRP") approved by the Federal Government of Nigeria.
4. The PIPs outlined each DisCo's plan for improvement of service to end-use customers in the Nigerian Electricity Supply Industry ("NESI").
5. All DisCos also filed applications with the Commission for a review of their respective end-user tariffs, as part of a path to financial sustainability with

only tariff support for the less privileged lifeline end-use customers, pursuant to the NERC Regulations on Procedure for Electricity Tariff Reviews in the NESI 2014 ("Tariff Review Regulations").

6. Section 18(a) of the Tariff Review Regulations provides that "the Commission shall conduct the hearing of an application for extraordinary tariff review in panels of three (3) Commissioners, one of whom shall serve as the Chairman appointed by the Commission". Section 19(a) of the Tariff Review Regulations provides that "the panel shall conduct the hearing of the application not later than sixty (60) days from the expiration of the day fixed in the notice for receipt of comments from the public".
7. The Commission held public hearings to consider the applications in compliance with sections 45 and 47 of the Electric Power Sector Reform Act 2004 ("EPSRA"), Business Rules of the Commission and the Tariff Review Regulations.
8. The public hearings to consider the applications filed by DisCos were held at different locations within the franchise areas of the respective DisCos from 25 February to 9 March 2020.
9. A public hearing was further held on 11 March 2020 at the Commission's headquarters in Abuja for the consideration of the application filed by the Transmission Company of Nigeria Plc ("TCN") on the review of rates payable to generation companies that provide the Ancillary Service of Spinning Reserve.

Summary of Findings

10. A detailed report on the public hearings shall be published on the Commission's website (www.nerc.gov.ng) in due course. The Commission has reached the following conclusions from presentations made at the public hearings and feedback from customers of the respective DisCos –
 - a. End-use customers of the 11 DisCos are willing to pay appropriate rates for services rendered by the DisCos, but this willingness is conditioned on guaranteed hours of service, quality of power and adequate metering; and **NOT** on improvement promises (that were never implemented) that characterised previous reviews.
 - b. The wide metering gap in NESI, currently at about 60%, is a major impediment to both an immediate tariff review and revenue protection



for DisCos. The consideration of customer complaints was not placed on the agenda as the hearings were for a defined purpose; the Commission however observed that end-use customers used the opportunity to provide feedback on their dissatisfaction with the quality of service provided by DisCos and bitter feedback was also provided on the practice of estimated (and sometimes arbitrary) billing. The recent Order of the Commission (Order No: NERC/197/2020) repealing the extant "Regulation on Estimated Billing Methodology" and capping the energy billed for unmetered customers, was issued as a transitional measure to address this specific concern.

- c. The current global COVID - 19 pandemic has significantly impacted on the availability of imported components for local assembly of meters for supply to end-use customers under the Meter Asset Provider ("MAP") Regulations and the roll out plan for the existing stock. The Commission is currently in discussion with DisCos and MAPs on the revision of the standards/expectations prescribed in the MAP Regulations and the service level agreements executed between the contracting parties.
- d. The Commission acknowledges the adverse effects of the COVID - 19 pandemic on global economy and the consequential impact on the average Nigerian.
- e. A firm improvement in supply by DisCos would require investments in reinforcing feeders, transformers and protection equipment. TCN shall be directed to align and prioritise its investments towards resolving transmission/distribution interface bottlenecks and reducing the high incidence of tripping at 132/33kV substations.
- f. The operational performance of TCN shall be anchored on firm agreements with DisCos with key performance indicators and financial remedies for non-performance by either party.
- g. The Commission acknowledges that the service provided by DisCos is a composite that is defined by a number of parameters which include "hours of supply" as indicated by availability, "reliability" as defined by frequency and duration of interruptions and "quality" as measured by voltage and operating frequency prescribed in governing industry codes.

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THE COMMISSION HEREBY ORDERS as follows –

- A. The Orders of the Commission (Order No NERC/GL/184/2019 TO NERC/GL/184/2019) titled "THE DECEMBER 2019 MINOR REVIEW OF MULTI YEAR TARIFF ORDER (MYTO) 2015 AND MINIMUM REMITTANCE ORDER FOR THE YEAR 2020" shall remain in force until 30 June 2020 when a new Minor Review Order shall be issued by the Commission.
- B. **THERE SHALL BE NO INCREASE IN TARIFFS OF END-USE CUSTOMERS ON 1 APRIL 2020.**
- C. All DisCos are hereby directed to submit a detailed plan for the attainment of full recovery of prudent costs and allowed return on capital (Revenue Requirement) by 30 June 2021. The revenue recovery and financial sustainability plans shall be submitted to the Commission no later than 21 April 2020. The plans shall include a path, with timelines, for transiting customers to higher quality of service.
- D. All DisCos are hereby directed to submit, no later than 21 April 2020, revised Performance Improvement Plans based on the key objective of improvement in service for end-use customers and transiting to full revenue recovery. The approved plans shall form the basis for future tariff reviews and full cost recovery.
- E. All future tariff reviews shall be on the basis of consultations between the DisCo and customer clusters with firm commitments on rates and quality of service. The service level compact shall include a compensation mechanism for end-use customers to address the DisCo's failure events to deliver on performance targets.
- F. All DisCos shall be required to disaggregate their respective service areas and/or customers in accordance with quality of service and supported by a proposal for "service reflective" tariff classes that shall be graduated by quality of service.
- G. All DisCos are hereby directed to, no later than 30 June 2020, provide smart meters at 11kV and 33kV feeders level with the capability of sending real time or near real time data to the Commission.
- H. The Federal Government of Nigeria ("FGN") shall provide tariff support during the transitional period to full revenue recovery ending on June 30, 2021 based on the under-recovery of the revenue requirement determined



by the Commission but only within the context of funding available under the PSRP Financing Plan. For the purpose of the transition to full revenue recovery and application of tariff support, the Commission shall consider a DisCo to have earned its revenue targets on the basis of the approved roll out plans.

1. The FGN is committed to resolving the encumbrances on the financial records of all DisCos arising from tariff-related deficits as represented by payables to the Nigerian Bulk Electricity Trading Plc and Market Operator. In the short/medium term, all DisCos are expected to raise financing for the associated investment required to improve service by leveraging on, amongst several options, an escrow of the revenues for the ring-fenced service areas and the opportunities of sub-franchising and embedded generation.

Dated this 31st day of March 2020



James A. Momoh
Chairman



Dafe C. Akpeneye
Commissioner
Legal, Licensing & Compliance

