



ORDER NO: NERC/232/2020

**BEFORE THE NIGERIAN ELECTRICITY REGULATORY COMMISSION
IN THE MATTER OF THE DECEMBER 2020 MINOR REVIEW OF MULTI YEAR TARIFF
ORDER 2020 FOR THE TRANSMISSION COMPANY OF NIGERIA PLC**

TITLE

1. This regulatory instrument may be cited as the December 2020 Minor Review of Multi Year Tariff Order ("MYTO") for the Transmission Company of Nigeria Plc ("TCN").

COMMENCEMENT AND TERMINATION

2. This Order supersedes Order/NERC/GL/195/2019 and shall take effect from 1 January 2021 and shall cease to have effect on the issuance of a new Minor Review Order or an Extraordinary Tariff Review Order by the Nigerian Electricity Regulatory Commission ("NERC" or the "Commission").

CONTEXT

3. The Commission, pursuant to sections 32 and 76 of the Electric Power Sector Reform Act ("EPSRA"), issued the Revised MYTO – 2020 Tariff Order in November 2020 to address, amongst other objectives, the introduction of Service-Based Tariffs ("SBT") in order to improve customer service experience as well as ensuring financial sustainability of the Nigerian Electricity Supply Industry ("NESI").
4. In line with the Regulations on Procedure for Electricity Tariff Review in the Nigerian Electricity Supply Industry and MYTO Methodology (Amended), this Minor Review of the Revised MYTO – 2020 considered changes in inflation rates (Nigeria and USA), foreign exchange rate (NGN/USD), gas prices, available generation capacity and material variances to the accompanying CAPEX and OPEX required for the evacuation of available generation capacity by TCN.
5. Accordingly, this Order is issued to reflect the impact of changes in the Minor Review variables as indicated in section 7 of this Order and used relevant projections based on best available information in the determination of cost reflective tariffs (CRT) for the year 2021. The Order further prescribes an Economic Merit Order Dispatch ("EMOD") with the objective of ensuring a cost-efficient deployment of generation plants in consideration of technical limitations of the network and the requirements for grid stability.

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OBJECTIVES

6. The objectives of this Order are to –
- a. Reflect the impact of changes in the Minor Review variables for the period January to December 2021 for the determination of CRT for transmission services.
 - b. Establish the interim payment arrangements and flow of funds from DisCos to the Market Operator (“MO”).
 - c. Steer the market to gradual transitioning to cost reflective tariffs (“CRT”) and activation of market contracts in line with the requirements of the Transitional Electricity Market (“TEM”).
 - d. Reaffirm the obligation of the System Operations (“SO”) Division of TCN to comply with EMOD prescribed in this Order towards ensuring compliance with the projected least generation cost also prescribed in this Order.
 - e. Reaffirm the obligation of the Transmission System Provider (“TSP”) under TCN for the payment of “generation capacity charge” and “loss of revenue” to DisCos based on deviation between energy delivered to a DisCo and the MYTO allocation arising from TCN’s inability to deliver power to the affected DisCo.
 - f. Reaffirm the obligation of DisCos for the payment of “loss of revenue” in favour of TCN in accordance with the terms of the Service Level Agreement.

REVIEWED INDICES

7. In line with the subsisting MYTO methodology, the following indices with potential impact on rates were considered:
- a. Nigerian Inflation Rate: The actual average monthly inflation rate of 13.1% for the period January to November 2020 was used for review of the year 2020 tariffs, while the November 2020 inflation rate of 14.9% as obtained from the NBS was adopted to project Nigerian inflation rates for 2021 and beyond.
 - b. Exchange Rate: In line with the MYTO Methodology, the CBN official exchange rates plus a premium of 1% were used for the retroactive review of the year 2020. Accordingly, average NGN/USD exchange rate (+1%) for the period 1 January 2020 to 15 December 2020 of ₦360.8 was used to review the year 2020 tariffs. The NAFEX closing NGN/USD exchange rate (+1%) of ₦397.44 as at 29 December 2020 was adopted to project NGN/USD exchange rate for 2021 and beyond.
 - c. US rate of inflation: The actual average monthly inflation rate of 1.2% for the period January to November 2020 was used for review of the year 2020 tariffs, while the November 2020 inflation rate of 1.22% as obtained from the website of the US Bureau of Labor Statistics (<http://www.bls.gov>) was adopted to project the US inflation rates for 2021 and beyond.

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- d. Available Generation Capacity: The projection of available generation for the first half (Jan-Jun) of 2021 was maintained at the same estimates for the year 2020 to account for delay in the implementation of MYTO-2020.
- e. Gas Price: Benchmark gas price of US\$2.50/MMBTU, gas transportation cost of US\$0.80/MMBTU and prices outside the regulated prices for GenCos with effective Gas Sale Agreements ("GSAs") were maintained.
- f. CAPEX Adjustment: In line with the requirements of section 7(a) of Regulations on Procedure for Electricity Tariff Reviews in the NESI, adjustments were made to TCN CAPEX provisions to account for material variances between actual CAPEX utilized and MYTO-CAPEX provisions for the period 2015 – 2018.

SUMMARY OF TARIFF ASSUMPTIONS AND RESULTS

8. Table 1 below provides a summary of the minor review parameters and corresponding generation and transmission tariffs for 2020 and 2021. Appendix – 1 provides details of the transmission and administrative charges per Disco.

Table 1: Actual and Projected Minor Review Indices

Parameter	Unit	2020	2021
Nigerian Inflation	%	13.1%	14.9%
US Inflation	%	1.2%	1.2%
Exchange Rate N/\$	₦	360.8	397.4
Energy Delivered to DisCo	GWh	30,884	35,049
Energy Delivered to DisCo	MWh/h	3,526	4,001
Average Generation Cost	₦/kWh	24.8	27.1
Transmission & Admin Cost	₦/kWh	4.9	6.77

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ECONOMIC MERIT ORDER DISPATCH

9. TCN shall be held responsible for deviations from the economic merit dispatch order that adversely impact on the base weighted average wholesale cost of energy. A review of the deviation from the economic merit order dispatch of generation capacity prescribed in Order No: NERC/GL/195/2019 for the year 2020 is indicated in Table 2. In accordance with the Order, the TCN shall defray the financial burden suffered by DisCos in the sums indicated. The amounts payable shall be amortised in six (6) instalments over the billing period of January to June 2021.

Table – 2 Compensation Due to Discos on Economic Merit Order Dispatch for 2020

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Actual Price N/kWh	22.06	22.25	21.96	27.60	26.31	25.26	27.96	25.67	25.95	24.97	26.12	26.12	
EMOD Price N/kWh	21.58	21.58	25.03	25.03	25.03	25.03	25.03	25.03	26.05	26.05	26.05	26.05	
Penalty N/kWh	0.48	0.68	(3.07)	2.56	1.27	0.23	2.93	0.63	(0.09)	(1.08)	0.07	0.07	
DISCO	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
	Nm	Nm	Nm	Nm	Nm	Nm	Nm	Nm	Nm	Nm	Nm	Nm	Nm
ABUJA	149	208	(1,052)	865	420	66	864	188	(27)	(351)	20	20	1,371
BENIN	99	141	(585)	511	274	44	632	151	(20)	(239)	15	15	1,039
EKO	141	198	(841)	761	400	59	807	184	(25)	(334)	19	19	1,388
ENUGU	95	134	(565)	412	219	37	530	143	(19)	(240)	14	14	775
IBADAN	167	204	(972)	838	432	69	997	225	(28)	(378)	23	23	1,599
IKEJA	169	229	(1,135)	939	497	79	1,075	220	(29)	(341)	23	23	1,748
JOS	55	79	(345)	307	143	23	331	75	(12)	(132)	8	8	540
KADUNA	65	114	(618)	577	302	42	570	123	(17)	(232)	13	13	953
KANO	72	92	(426)	457	240	30	413	100	(14)	(180)	10	10	804
PH	83	117	(503)	382	232	35	451	102	(13)	(190)	11	11	716
YOLA	44	63	(319)	276	136	20	270	62	(9)	(106)	6	6	451
Total	1,139	1,578	(7,360)	6,325	3,295	504	6,939	1,573	(213)	(2,725)	164	164	11,383



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10. The Economic Merit Order Dispatch prescribed for the period January – June, 2021 is indicated in Table 3 and shall form the basis for the review of dispatch by the System Operator at the next minor review of MYTO 2020.

Table – 3: Economic Merit Order Generation Dispatch - 2021

S/N	Genco	Average Available Generation Capacity (MWh/h)	Average Dispatched Generation (MWh/h)	Average Available Generation Capacity	Average Dispatched Generation
1	Hydro	998	959	19%	21%
2	OKPAI	472	353	9%	8%
3	AFAM VI	450	376	9%	8%
4	AZURA	454	378	9%	8%
5	Omotosho & Olorunsogo	372	292	7%	6%
6	NIPP	866	812	17%	17%
7	Successor Thermal	1,301	1,250	25%	27%
8	Other IPPs	235	226	5%	5%
	Total	5,148	4,646	100%	100%

CAPACITY PAYMENT

11. The average tariff for DisCos was determined considering their projected energy offtake and load allocations in the Vesting Contract. NBET shall continue to invoice DisCos for capacity charge and energy based on their load allocation and metered energy respectively. Where it is established that TCN is unable to deliver any DisCo's load allocation, TCN shall be liable to pay for the associated capacity charge. Where a DisCo fails to take its entire load allocation due to constraints in its own network, the DisCo shall be liable to pay the capacity charge as allocated in its Vesting Contract.

LOSS OF REVENUE

12. TCN is obligated to deliver power at DisCos' trading points in accordance with DisCos' day ahead nomination, load allocation under the vesting contract between the NBET and the DisCos, and the Service Level Agreements (SLA) signed between TCN and the DisCos. Where it is established that TCN is unable to deliver the load allocation to a DisCo due to constraints in TCN's network, TCN shall be liable to compensate the DisCo for the associated loss of revenue. Where a DisCo fails to offtake its load allocation due to constraints in its own network, the company is obligated to compensate TCN for loss of revenue arising from the stranded capacity.

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MINIMUM REMITTANCE REQUIREMENT

13. The Power Sector Recovery Plan ("PSRP") provides for a gradual transition to cost-reflective tariffs with safeguards for the less privileged in the society. The Federal Government, under the PSRP Financing Plan, has committed to fund the revenue gap arising from the difference between cost reflective tariffs determined by the Commission and the actual end-user tariffs during the transition to cost-reflective tariffs. The waterfall of market revenues during the transitional period shall be –
- a. All DisCos are obligated to settle their market invoices in full as adjusted and netted off by applicable tariff shortfall.
 - b. All DisCos shall be availed the opportunity to earn their approved revenue requirement only upon fully meeting the following obligations and subject to efficient operations:
 - i. Repayment of CBN-NEMS facility;
 - ii. 100% settlement of MO invoice issued on the basis of tariffs approved in this Order.
 - iii. Full settlement of NBET's monthly invoices as adjusted and netted off by applicable tariff shortfall being the minimum remittance threshold prescribed in this Order.
 - c. All DisCos shall be held liable for relevant penalties/sanctions where they fail to meet the minimum remittance requirement in any payment cycle in accordance with their obligations to the MO and NBET.
 - d. All DisCos shall provide and maintain an adequate, unconditional, unencumbered and irrevocable standby letter of credit covering three (3) months invoice based on the minimum payment obligations to the MO and NBET.

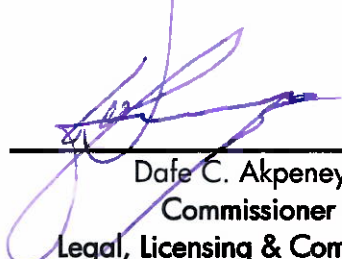
EFFECTIVE DATE

14. This Order shall be effective from 1st January 2021.

Dated this 31st day of December 2020.



Sanusi Garba
Chairman



Dafe C. Akpeneye
Commissioner
Legal, Licensing & Compliance

Appendix – 1: Breakdown of TCN and Admin Charges

DisCo	TSP	SO	MO	Ancillary	Regulatory	Bulk Trader	Total
	₦/kWh	₦/kWh	₦/kWh	₦/kWh	₦/kWh	₦/kWh	₦/kWh
ABUJA	5.13	0.73	0.08	0.10	0.67	0.05	6.76
BENIN	5.13	0.73	0.08	0.10	0.67	0.05	6.77
EKO	5.13	0.73	0.08	0.10	0.67	0.05	6.77
ENUGU	5.13	0.73	0.08	0.10	0.67	0.05	6.76
IBADAN	5.13	0.73	0.08	0.10	0.70	0.05	6.80
IKEJA	5.13	0.73	0.08	0.10	0.64	0.05	6.74
JOS	5.13	0.73	0.08	0.10	0.69	0.05	6.79
KADUNA	5.13	0.73	0.08	0.10	0.68	0.05	6.77
KANO	5.13	0.73	0.08	0.10	0.66	0.05	6.75
PORT HARCOURT	5.13	0.73	0.08	0.10	0.68	0.05	6.77
YOLA	5.13	0.73	0.08	0.10	0.69	0.05	6.79