



NIGERIAN ELECTRICITY REGULATORY COMMISSION

**GUIDELINES FOR IMPLEMENTATION OF ECONOMIC MERIT ORDER DISPATCH AND
OTHER RELATED MATTERS**

2020

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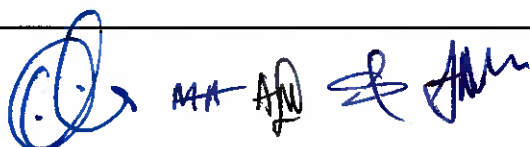
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1.0 TITLE

This regulatory instrument may be cited as **“Guidelines for Economic Merit Order Dispatch of Generation Capacity and related matters”**.

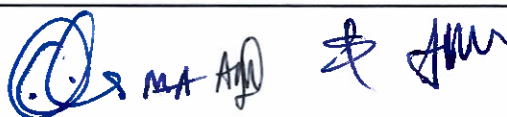
2.0 PURPOSE

This document seeks to provide guidance on the procedures for implementing Economic Merit Order Dispatch as provided for in the December 2019 Minor Review Order and subsequent Tariff Orders as may be issued by the Nigerian Electricity Regulatory Commission (“NERC” or the “Commission”).

3.0 CONTEXT

The Commission, pursuant to sections 32 and 76 of the Electric Power Sector Reform Act (“EPSRA”), issued **“THE DECEMBER 2019 MINOR REVIEW OF MULTI-YEAR TARIFF ORDER (“MYTO”) 2015 AND MINIMUM REMITTANCE ORDER FOR THE YEAR 2020” (“Order”)** to address, amongst other objectives, the enforcement of economic merit order dispatch of generation plants on the transmission grid; the alignment of invoicing for capacity charge/delivered energy with contracted load allocation and metered energy delivered; and the implementation of a framework for the settlement of imbalance between Electricity Distribution Companies (DisCos) and the Transmission Company of Nigeria Plc (“TCN”).

Section 10(c) of the Order states that “the Commission shall hold the TCN responsible for deviations from the economic merit dispatch order that adversely impact the base weighted average cost of wholesale of energy”. Section 11 of the Order further directs that “NBET shall hereafter invoice for capacity charge and energy to DisCos based on their load allocation and metered energy respectively”. Additionally, Section 12 of the Order concludes that “where it is established that TCN is unable to deliver a 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 network, the DisCo shall be liable to pay the capacity charge as allocated in its Vesting Contract”.



4.0 OBJECTIVE

The objective of these Guidelines is to:

- a. Implement a methodology to determine and hold TCN financially responsible for unfavourable deviations from the prescribed economic merit order dispatch of generation plants;
- b. Implement a methodology to determine and hold a DisCo financially responsible for failing to be available to distribute its contracted load allocation due to constraints in its network;
- c. Implement a methodology to determine and hold TCN accountable for failure to deliver to a DisCo's nominated trading points the DisCo's contracted load allocation due to constraints in its (TCN's) network;
- d. Implement a methodology to determine and hold DisCo accountable to failure to off-take its available contracted load allocation at its nomination points.
- e. Implement a mechanism to recognise only prudent energy costs during minor reviews of tariffs.

5.0 METHODOLOGY FOR DETERMINING AND ACCOUNTING FOR DEVIATIONS BY TCN FROM THE ECONOMIC MERIT ORDER DISPATCH

The following steps shall apply in the determination of deviations from the economic merit order dispatch by TCN:

- a. NBET shall invoice for capacity charge and energy to DisCos based on the monthly Settlement Statement issued by the Market Operator (MO);
- b. The MO shall rely on data provided by the System Operator (SO) regarding capacities made available and energy dispatched every hour from each generating plant in producing the monthly Settlement Statement;
- c. Where the average dispatch by SO for a month results in a higher average cost of wholesale energy under NBET's Vesting Contracts relative to the Economic Merit Order Price (EMOP) realizable under the Economic Merit Order Dispatch, the TCN shall be deemed to have deviated from the economic merit order dispatch subject to an allowable variation of +1.75%;

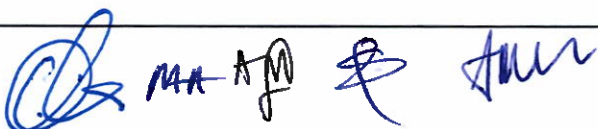


- d. The Commission shall determine the Economic Merit Order Price (EMOP) for every billing period (hourly/daily/monthly) using the information provided by the SO regarding capacities made available and energy dispatched every hour from each generating plant for the period.
- e. The MO shall surcharge TCN the excessive component of the wholesale energy cost when issuing invoices to DisCos in the next billing cycle.

6.0 METHODOLOGY FOR DETERMINING AND ACCOUNTING FOR TCN'S FAILURE TO DELIVER AVAILABLE GENERATION TO DISCOS AND DISCOS' FAILURE TO OFF-TAKE CONTRACTED LOAD ALLOCATION

The following steps shall be applicable in the determination of failure to be available to deliver or off-take contracted load allocations by TCN and Discos respectively:

- a. NBET shall invoice for capacity charge and energy to DisCos based on their load allocation and metered energy respectively;
- b. The SO shall enforce the provisions of Grid Code regarding hourly day-ahead declaration by GenCos and nominations by DisCos;
- c. DisCos shall nominate a minimum of their load allocation based on hourly capacity declared by generating plants operating under NBET's Power Purchase Agreements;
- d. Where a DisCo's average energy offtake at the end of a monthly market settlement period is lower than its load allocation based on 6.0(c) above, the DisCo shall be liable to pay capacity charges in line with its load allocation and energy charge based on metered energy intake in the month;
- e. Where it is established that a DisCo's average energy off-take from the transmission is lower than its load allocation based on 6.0(c) above, the DisCo shall be liable to pay TCN liquidated damages (LD) based on the approved tariff (N/kWh) of TCN;
- f. Where a DisCo's average energy off-take over a period of one month has exceeded its load allocation as in 6.0(c) above, the DisCo shall only be liable to pay capacity charges based on its load allocation and energy cost based on metered energy off-take in the month;

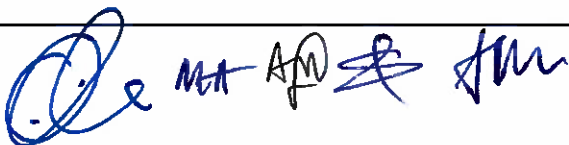


- g. Settlement of any disputes between TCN and DisCos on excess capacity charges shall be finalized within one billing cycle of the market settlement;
- h. Where it is established that TCN was unable to deliver a DisCo's load allocation during the billing cycle, TCN shall be liable to pay for the associated undelivered capacity charge and liquidated damages (LD) based on the approved tariff (N/kWh) of the affected DisCo;
- i. DisCos may file a claim associated with undelivered capacity charge and LD from TCN by disputing their MO's Monthly Invoices in line with the provisions of the Market Rules on Dispute Resolution;
- j. Where it is established by the MO or the Dispute Resolution Panel that TCN has failed to deliver a DisCo's load allocation during a billing period, the MO shall surcharge TCN the undelivered capacity charges in the MO's Invoices for the next billing cycle.
- k. If disputes on excess capacity charges remain unresolved at the end of a billing cycle, the DisCo shall be liable to pay the disputed capacity charges in line with its load allocation and energy charge based on metered energy off-take in the month;
- l. All dispute proceedings that remain unresolved beyond the monthly billing cycle shall be considered during the process of Minor Reviews undertaken by the Commission.

7.0 PROCEDURES FOR RECOGNISING PRUDENT ENERGY COSTS AND ADJUSTING FOR UNAVAILABLE DISTRIBUTION CAPACITY DURING MINOR REVIEWS OF TARIFFS

The following procedures shall be applicable to adjust for unavailable distribution capacity during Minor Reviews of tariffs:

- a. The Commission shall not consider the variance between capacity charges paid by a DisCo and delivered capacity as a pass-through cost in retrospectively determining cost-reflective tariffs for the period during MYTO Minor Reviews;
- b. The retroactive review of tariffs shall apply the monthly Economic Merit Order Price for the period under review and the MYTO load allocation for respective DisCos as provided in the operating Tariff Order for the period, for the



retroactive determination of the applicable cos-reflective tariffs during minor reviews. Allocation of risks (i.e., loss of revenue) arising from the DisCo's failure to distribute its expected load allocation shall be determined in line with Section 6.0(d, e, h & j) above. The Commission shall consider a holistic adjustment of the MYTO allocation where there is a recurring failure to deliver a DisCo's load arising from network constraints lasting over a period of twelve (12) months. Such adjustment to load allocation may include the review of the revenue requirements of the affected DisCo.

Dated this 15th day of February 2021



Sanusi Garba
Chairman



Dafe C. Akpeneye
Commissioner
Legal, Licensing & Compliance

