



Ref No: AEDC/MD&CEO/CFO/03/2023

July 5, 2023

The Chairman  
 Nigerian Electricity Regulatory Commission  
 Plot 1387, Cadastral Zone A00,  
 Central Business District, Abuja, FCT

Attn: Market Competition and Rates

Dear Sir,

**RE: FILING OF APPLICATION FOR RATE CASE BY ABUJA ELECTRICITY DISTRIBUTION PLC**

With reference to your letter dated June 21, 2023 on the above subject, we hereby submit our application for rate filling with due consideration to the under-listed:

- I. AEDC's Operating Expenses (OPEX)
- II. AEDC's Return on Investment (ROI)
- III. Exchange Rate
- IV. Inflation
- V. Other Considerations

**AEDC's OPEX:**

- I. AEDC, on several occasions, has expressed concerns over the inadequacy of its allocated OPEX and how the cost recognized does not align with AEDC's actual OPEX requirement. This has continued to affect the performance of the business as the monthly allowed OPEX does not cover AEDC's operational needs such as repairs, procurement of fast-moving materials for fault clearing, fueling vehicles for revenue protection activities, payment of payroll and statutory deductions, etc. In 2019 and 2020, the company submitted its Performance Improvement Plan (PIP) and Revised PIP respectively, with an adjusted OPEX that reflects the business realities and plan, but this was not considered.

Further to the above, the business requires adequate funds to carry out its operations as it transitions into a technology-driven utility because the current situation where the company still predominantly carry out operational activities manually such as the detection of energy theft by monitoring meters from house to house is no longer sustainable. Also, the current economic indices such as inflationary pressure, the removal of subsidy on PMS, recent floating of the foreign exchange rate and its resultant increase in the general price level continue to weigh down on the company's performance.

Confronted by these challenges, there is a need for a holistic review of AEDC OPEX allowance as a sine qua non for business continuity and sustainability.

## II. AEDC's Return on Investment (ROI):

In computing AEDC's ROI on the MYTO model, 11% Weighted Average Cost of Capital (WACC) has been adopted since inception to derive the annual ROI for AEDC. However, given that the current 28.59%<sup>1</sup> lending rate is way higher than the WACC on the MYTO model, AEDC's proposed 35% is a closer reflection of the cost of debt and equity.

## III. Exchange Rate:

AEDC understands that the Commission adopts CBN rate + 1% instead of the actual CBN rates that were initially used in the first few years of the MYTO implementation. However, in July 2023 Minor Review draft presentation, an exchange rate of ₦639 was adopted, which still did not reflect the current weighted average rate on the Investors & Exporters FX window which ranges from ₦750 to ₦800. Also, in the recently received energy invoice for May 2023 from the Nigerian Bulk Electricity Trading Plc, AEDC noticed that the exchange rate used has increased from ₦461 to ₦743. Based on the exchange rate as of July 4, 2023, on CBN's website, an exchange rate of ₦756.6 has been adopted for the rate filing.

## IV. Inflation Rate:

The inflation rate included for the rate review at 30% aligns with a recent KPMG report that put June 2023 inflation projection at 30%.<sup>1</sup> As a result, the table below illustrates AEDC's full-year 2022 operating expense and other variables that have been incorporated to reflect actual reality.

			Actual
A.	AEDC OPEX	Projected 2023 (₦)	Mgt Acct. 2022
	Fixed Costs		
	External Audit	120,000,000	61,750,000
	Professional Services	269,121,286	207,016,374
	Board of Directors Expenses	217,807,188	167,543,991
	Management Expenses	772,658,825	594,352,942
	Consultancy Services Expenses	1,500,000,000	813,533,807
	Motor Vehicle Expenses	337,615,442	259,704,186
	Repair And Maintenance	2,500,000,000	272,966,673

<sup>1</sup> <https://www.arise.tv/94365-2/>

Electricity Bills - Office Accommodations	150,000,000	67,139,025
Total Fixed Cost	5,867,202,741	2,444,006,998
Admin costs (fixed)		
Staff Cost	14,478,025,864	11,136,942,972
Total Admin Cost	14,478,025,864	11,136,942,972
Variable costs		
Commission on Sales	3,127,385,988	2,405,681,529
Other Direct Expenses	2,282,025,146	1,755,403,959
General Expenses	6,442,308,526	4,955,621,943
O&M Expenses	3,637,044,747	2,797,726,728
Impairment Loss	25,000,000,000	8,530,713,779
Total Admin Cost	40,488,764,407	20,445,147,938
		-
Total Disco Cost	60,833,993,012	34,026,097,908
Monthly OPEX ->>>	5,069,499,418	2,835,508,159

Table 1: AEDC's Actual 2022 OPEX.

<sup>1</sup><https://www.cbn.gov.ng/rates/mnymktind.asp>

B. AEDC OPEX							
				RC No: 638681			PLC
	2023 (Jul - Dec)	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	
<b>Technical CAPEX</b>							
Network Expansion	1,892,500,000	11,355,000,000	9,462,500,000	7,570,000,000	3,785,000,000	3,785,000,000	
Network Reconfiguration	567,500,000	3,405,000,000	2,837,500,000	2,270,000,000	1,135,000,000	1,135,000,000	
Network Rehabilitation	820,000,000	4,920,000,000	4,100,000,000	3,280,000,000	1,640,000,000	1,640,000,000	
Network Upgrade	1,012,500,000	6,075,000,000	5,062,500,000	4,050,000,000	2,025,000,000	2,025,000,000	
SCADA		2,750,000,000	2,500,000,000	2,500,000,000	2,500,000,000		
DT Energy meters		3,967,460,000	2,975,595,000	2,975,595,000			
33kV HV Outdoor VTCT HV meters		313,200,000	234,900,000	234,900,000			
11kV metering Panel		458,737,760	344,053,320	344,053,320			
Accuracy test on site equipment		227,148,000	170,361,000	170,361,000			
AMI Infrastructure	678,453,330						
Clamp On meters (Multimeters)		27,144,374	20,358,281	20,358,281			
AMI Operations		196,116,000	196,116,000	196,116,000	196,116,000	196,116,000	
<b>Total Technical CAPEX</b>	<b>4,970,953,330</b>	<b>33,694,806,134</b>	<b>27,903,883,601</b>	<b>23,611,383,601</b>	<b>11,281,116,000</b>	<b>8,781,116,000</b>	
<b>Commercial CAPEX</b>							
Restructuring of Business Hubs	15,000,000						
Data clean-up cost/Enumeration	8,000,000	13,000,000	5,000,000				
Buying Sim cards to smart enabled meters	24,700,000						
RPU's Tools (Toolbox, Smartphones, Clamp)	18,155,000						
Setting efficient dashboard	1,500,000						
Replacement of obsolete meters - 226,000	18,203,170,000	9,101,585,000	9,101,585,000				
Meter ALL Unmetered Customers	16,117,537,770	16,117,537,770	16,117,537,770	16,117,537,770			
DT Energy meters		9,918,650,000					
Vehicles - 351	1,897,000,000	3,794,000,000	1,897,000,000				

Source code for the billing platform		22,500,000				
Total Commercial CAPEX	36,285,062,770	38,967,272,770	27,121,122,770	16,117,537,770	-	-
Other Investments						
HSSE		929,789,099	1,032,065,900	1,145,593,149	1,271,608,395	1,411,485,319
Customer Centric Plan	111,000,000	40,000,000	40,000,000	40,000,000	40,000,000	40,000,000
Miscellaneous	150,000,000	30,000,000	30,000,000	30,000,000	30,000,000	30,000,000
Total Other CAPEX	261,000,000	999,789,099	1,102,065,900	1,215,593,149	1,341,608,395	1,481,485,319
Grand Total	41,517,016,100	73,661,868,004	56,127,072,271	40,944,514,520	12,622,724,395	10,262,601,319

**C. OTHERS**

AEDC's Return on Investment (ROI) - WACC	35.0%
Exchange Rate: (NGN/USD)	756.0
Inflation Rate:	30%
US Inflation (CPI) per annum	5.8%
Naira Change	71%
Real PreTax	30%

Table 2: AEDC's Revised Average End-user Tariff for 2023

	2023	2023	2023
Details	Metrics - Before	Metrics - After	Variance
Opex	32,313	61,219	28,906
RO Investment	21,088	47,506	26,418
Depreciation	9,501	11,600	2,098
<u>Debt Repayment</u>	9,133	9,133	-
Disco -	72,036	129,458	57,422
			0
Generation Cost (N/KWh)	40.9032	48.4657	7.5624
Transmission Cost (N/KWh)	5.2048	5.9454	0.7406
SO Cost (N/KWh)	0.7452	0.7552	0.0100
MO Cost (N/KWh)	0.0826	0.0833	0.0007
Ancillary Services (N/KWh)	0.1348	0.1436	0.0088
Abuja Tarrif (N/KWh)	13.3944	24.0715	10.6771
Transco Loss (N/KWh)	5.2936	6.9569	1.6634
Disco Loss (N/KWh)	15.6919	20.6227	4.9308
Total Tariff (N/KWh)	81.4504	107.0443	25.5939
Average Tariff (N/KWh)	81.45	107.04	25.59

Based on the above tables, AEDC requests that the Commission take into account the amended end-user rate since it represents business realities for continuity and sustainability.

Attached to this letter is the MYTO Model with the changes enumerated above.

#### V. Other Considerations:

Aside from the variables considered for the rate case above, AEDC has other concerns for the Commission's consideration. These are explained below.

i. Loss Target on the Model:

AEDC committed to reducing ATC&C losses to 19.27% in its PIP Plan. However, due to various technical and commercial challenges confronting the business, ranging from lack of investment as a result of the late release of PIP CAPEX funding for the business, to other issues such as energy theft, vandalism, and weak network infrastructure, the company currently operates with an average loss level of 44.5%. This huge disparity between the committed and actual loss levels has adversely impacted AEDC's operational efficiency over the years. We hereby propose a rebasing of the ATC&C loss target to 35% which is more reflective of our current reality. We believe this adjustment will enable the business to achieve its objectives and meet all regulatory KPIs, including loss reduction target.

ii. Extension of the Performance Improvement Plan (PIP) CAPEX Timeline:

AEDC requests that the Commission extend the PIP deployment timeline to 2027 as projects that will significantly reduce losses are already underway, and AEDC is only assured of the immediate deployment of projects totaling ₦11.7bn funded by CBN's NEMSF 2 facility, of which only ₦3.4 billion has been received so far. To implement the rest of the projects amounting to ₦63.3bn, AEDC is awaiting the disbursement of other expected facilities, such as World Bank's DISREP and AFDB funds. The proposed timeline is crucial to accommodate the procurement process after the disbursement of these facilities.

iii. Revaluation of Pre-reform Assets:

AEDC recently conducted a revaluation exercise on its pre-reformed assets and is requesting an update on the model as this will impact on the company's depreciation component of the tariff.

iv. Naira Change:

The devaluation rate of 5% was changed to 70.8% based on the recent floating of the foreign exchange rates and subsequent naira devaluation. Fixed O&M was also amended to 30% from 4% based on the inflation rate already explained above.

v. Tax changes in the Finance Act:

Based on the recent changes in the Finance Act, the Tertiary Education Tax has increased from 2% to 2.5% of accessible profit, a Nigerian Police Trust Fund Levy of 0.05% of net profit has been introduced while the Company Income Tax (CIT) is still 30%. This should therefore change from 30% to 32.55. The recently enacted Electricity Act 2023 (S.95 (2)) introduced a possible pass-through of HYPPADEC Genco Tax of 10% of revenue payable by hydro generation companies in any member state of HPRRADEC.



In light of the foregoing, AEDC requests the Commission to consider and approve its rate case application as it is fundamental to the sustainability of the business.

We are available to provide any clarifications where required and if there is a need for any adjustment, we will notify the Commission accordingly.

Please accept the assurances of our highest regards whilst we anticipate your approval.

Yours faithfully,

FOR: ABUJA ELECTRICITY DISTRIBUTION PLC

A handwritten signature in dark ink, appearing to read 'Adeoye'.

Engr. Adeoye Fadeyibi, FNSE  
MD/CEO